

SHINHAN FINANCIAL GROUP CO LTD  
Form 6-K  
February 21, 2017

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

**Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934**

**For the Month of February 2017**

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

**(Translation of registrant's name into English)**

**20, Sejong-daero 9-gil, Jung-gu, Seoul 04513, Korea**

**(Address of principal executive offices)**

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

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Form 20-F

Form 40-F

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Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If  Yes  is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- n/a.

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**Letter to the Shareholders**

Shinhan Financial Group

20, Sejong-daero 9-gil, Jung-gu,

Seoul 04513, Korea

February 21, 2017

Dear Shareholders,

The Board invites you to attend the Annual General Meeting of Shareholders( AGM ) to be held on **Thursday March 23<sup>rd</sup> Auditorium, 20th floor, Shinhan Bank, 20, Sejong-daero 9-gil, Jung-gu, Seoul 04513, Korea**. The AGM offers a valuable opportunity for you to meet the members of our Board and senior management and to ask questions on the operation, management and other issues relating to the Group.

The items of business to be considered at the AGM are described in detail in the notice of the AGM which follows this letter. **Your participation at the AGM is very important and you can exercise your right to vote whether you choose to attend the meeting or not.**

The Board believes sound corporate governance is crucial to our development in the long term and aspires to a high standard of governance. As part of our ongoing efforts to enhance our corporate governance and transparency, **we have provided in this circular background information to the resolutions to be proposed at the AGM including biographical details of the Directors standing for election/re-election explanatory statement for relevant proposals, and information on voting and other issues relating to the AGM** so that shareholders have a better understanding of their rights and can make an informed decision in relation to the subject matters of the AGM.

**The Board considers that all resolutions proposed for consideration and approval by the shareholders at the AGM are in the best interests of the Company and its shareholders as a whole.** Accordingly, the Board recommends the shareholders to vote in favour of the proposed resolutions.

We look forward to seeing you and answering your questions at the AGM.

Yours faithfully,

On behalf of the Board

Han Dongwoo

*Chairman & CEO of Shinhan Financial Group*

**Convocation Notice of the 16th Annual General Meeting of Shareholders**

Notice is hereby given that the 16th Annual General Meeting of Shareholders of Shinhan Financial Group will be held as described hereunder and your attendance is cordially requested.

**Meeting Description**

1. Date and Time: March 23, 2017 10 A.M. in Seoul time.

2. Place: Auditorium, 20th floor, Shinhan Bank, 20, Sejong-daero 9-gil, Jung-gu, Seoul 04513, Korea  
**Agendas to be voted on:**

1) Approval of Financial Statements (Including Statements of Appropriation of Retained Earnings) for fiscal year 2016 (January 1, 2016 ~ December 31, 2016)

2) Approval of Revision to Articles of Incorporation

3) Appointment of Directors (1 Executive Director, 1 Non-Executive Director & 6 Outside Directors)

3-1) Executive Director Candidate : Mr. Cho Yong-byoung

3-2) Non-Executive Director Candidate : Mr. Wi Sung-ho

3-3) Outside Director Candidate : Mr. Park Ansoon

3-4) Outside Director Candidate : Mr. Park Cheul

3-5) Outside Director Candidate : Mr. Lee Sang-kyung

3-6) Outside Director Candidate : Mr. Joo Jaeseong

3-7) Outside Director Candidate : Mr. Yuki Hirakawa

3-8) Outside Director Candidate : Mr. Philippe Avril

- 4) Appointment of Outside Director who will serve as Audit Committee Member
- Outside Director Candidate : Mr. Lee Manwoo

- 5) Appointment of Audit Committee Member (2 members)

5-1) Audit Committee Member Candidate: Mr. Lee Sang-kyung

5-2) Audit Committee Member Candidate: Mr. Lee Steven Sung-ryang

- 6) Approval of the Maximum Limit on Director Remuneration

**Meeting Agendas**

**Agenda Item No. 1** Approval of Financial Statements

(Separate Financial Statements & Consolidated Financial Statements for fiscal year 2016 (January 1, 2016 ~ December 31, 2016), Including Statements of Appropriation of Retained Earnings)

**Voting Item(s)**

Pursuant to Article 449 of the Commercial Act, we seek shareholders' approval during the Annual General Meeting of Shareholders on the Company's separate financial statements and consolidated financial statements for fiscal year 2016.

**Business Results for FY 2016 (stand-alone or separate basis)**

Shinhan Financial Group is a financial holding company established in accordance with the Financial Holding Company Acts and engages in the primary business of 1) controlling or managing companies that either provide financial services or are closely related to financial business through ownership of shares, 2) investing in or providing financial support to subsidiaries and to raise capital necessary for financial support, and 3) supporting the business of subsidiaries for joint development, marketing of new products and joint utilization of facilities and ICT systems and etc.

As of December 31, 2016, Shinhan Financial Group consists of 13 direct subsidiaries that include Shinhan Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance and Shinhan BNP Paribas Asset Management, and 24 indirect subsidiaries.

During the fiscal year of 2016, Shinhan Financial Group received annual dividend for FY 2015 from its subsidiaries that amounts KRW 1,646.1 billion in total. In addition, as the owner of Shinhan brand trademark, Shinhan Financial Group received brand fees from users of our brand and recognized brand fee income of total KRW 46.7 billion in 2016.

**Business Results of FY 2016 (consolidated basis)**

For the fiscal year 2016, Shinhan Financial Group recorded KRW 2,774.8 billion of consolidated net income attributable to equity shareholders.

Group net income increased by 17.2% year-on-year attributed to increase in earnings from bank subsidiaries.

Interest income increased by 7.7% year-on-year attributed to moderate loan growth coupled with well-protected NIM, whereas non-interest income decreased by 12.0% year-on-year due to decreased non-recurring sales gains from securities disposal and mortgage loans sell-off(Relief loan).

Group's accumulated provision for credit losses increased by 12.3% year-on-year to KRW 1,165.1 billion, mainly due to restructuring companies such as shipbuilding and shipping. However, Group recurring credit costs has consistently enter into improving trajectory attributed to consistent credit risk management and disciplined credit appetite.

**(Subsidiaries Income Reflecting**

SFG Ownership, in KRW bil.)	FY 2016	FY 2015	YoY %
<b>Bank (a)</b>	<b>1,957.6</b>	<b>1,503.0</b>	<b>30.2</b>
Shinhan Bank	1,940.3	1,489.7	30.2
Jeju Bank	17.3	13.4	29.7
<b>Non-Bank (b)</b>	<b>1,045.7</b>	<b>1,087.5</b>	<b>-3.8</b>
Shinhan Card	715.9	694.8	3.0
Shinhan Investment Corp.	115.4	215.5	-46.4
Shinhan Life Insurance	150.6	100.2	50.2
Shinhan BNPP AM	9.3	15.4	-39.5
Shinhan Capital	33.9	46.1	-26.5
Shinhan Savings Bank	12.5	8.0	56.0
Shinhan Data System	1.2	1.0	13.4
Shinhan AITAS	7.6	6.4	19.0
Shinhan Credit Information	-1.2	0.7	n.a.
Shinhan Private Equity	0.5	-0.6	n.a.
SFG (a+b)	3,003.3	2,590.5	15.9
<b>Consolidate Net Income</b>	<b>2,774.8</b>	<b>2,367.2</b>	<b>17.2</b>

Shinhan Bank reported net income of KRW 1,940.3 billion, increased by 30.2% from the previous year and Jeju Bank reported net income of KRW 17.3 billion, up by 29.7% from 2015.

Non-bank subsidiaries realized a combined net income of KRW 1,045.7 billion, decreased by 3.8% from 2015. Shinhan Card and Shinhan Life Insurance net profits increased by 3.0% and 50.2% year-on-year respectively, whereas Shinhan Investment Corp. and Shinhan BNPP AM decreased by 46.4% and 39.5% year-on-year.

The net income contribution from non-bank subsidiaries in 2016 decreased down to 35% from 42% in 2015.

Net profits reported by	Net Income Contribution
<b>Shinhan Bank</b>	65%
<b>Shinhan Card</b>	24%
<b>Shinhan Investment Corp.</b>	4%
<b>Shinhan Life Insurance</b>	5%
<b>Other Subsidiaries</b>	2%

### Dividend Distribution

We have been making efforts to increase shareholder value through consistent and sustainable shareholder return policy and in connection with this efforts, the BOD has proposed KRW 1,450 dividend per common share for FY2016 which is 20.8% increase from the previous year and the total dividend amount is KRW 688 bil. (payout ratio : FY2015 24.0% g FY2016 24.8%)

Dividend for Common Stocks	FY2016	FY2015	FY2014
<b>Dividend per Share</b>	KRW 1,450	KRW 1,200	KRW 950
<b>Total Amount of Dividend</b>	KRW 688 bil.	KRW 569 bil.	KRW 450 bil.
<b>Dividend Payout Ratio</b>	24.8%	24.0%	21.6%
<b>Dividend Yield</b>	3.1%	2.9%	2.0%

(Based on the Korea Exchange)

- Please refer to Appendix A for the separate financial statements and Consolidate financial statements of Shinhan Financial Group. For more detailed information of notes to financial statements, please refer to the audit report through a 6-K filing disclosure provisionally scheduled to be released on 8 March, 2017, allowing shareholders to view the financial statements at least two weeks to review prior to the Annual General Meeting.

**Agenda Item No. 2** Approval of Revisions to Articles of Incorporation

**Voting Item(s)**

Pursuant to Article 433 of the Commercial Act, we seek shareholders' approval during the Annual General Meeting of Shareholders on revision to the Articles of Incorporation. In particular articles 38, 39, 48 and 51. Outlined below are the articles as they stand, alongside the proposed amendments.

Current Provisions	Proposed Amendments	Rationale for Change
<b>Article 1 ~ 37</b>	[No change]	
<b>Article 38 (Term of Director)</b>	<b>Article 38 (Term of Director)</b>	To reflect the Article 6, Paragraph 1, Subparagraph 7 of the Act on Corporate Governance of Financial Companies
(1) The term of office of the Director shall be determined at the General Meeting of Shareholders to the extent not exceeding three years, and the Director may be re-appointed. Provided that, the term of office of the Outside Director shall be no more than two years (or, in the case of reappointment, no more than one year), and the Outside Director may not serve consecutive terms in excess of five years.	(1) The term of office of the Director shall be determined at the General Meeting of Shareholders to the extent not exceeding three years, and the Director may be re-appointed. Provided that, the term of office of the Outside Director shall be no more than two years (or, in the case of reappointment, no more than one year), and the Outside Director may not serve as an outside director of the Company for a total of more than six years, or as an outside director of the Company or any of its subsidiaries for a total of more than nine years.	
(2)	(2) [No change]	
<b>Article 39 (Eligibility of Outside Director)</b>	<b>Article 39 (Eligibility of Outside Director)</b>	To reflect the Article 8, Paragraph 4 of the Enforcement Decree of the Act on Corporate Governance of Financial Companies
(1) The Company shall appoint a person with expertise and general knowledge as an outside director considering the qualifications set forth in each of the following subparagraphs.	(1) The Company shall appoint a person with expertise and general knowledge as an outside director considering the qualifications set forth in each of the following subparagraphs.	
1. Whether such person possesses sufficient work experience or expert knowledge in relevant areas, such as finance, economy, business administration, accounting or legal affairs, to the extent necessary to perform	1. Whether such person possesses sufficient work experience or expert knowledge in relevant areas of financial businesses of financial institutions, such as finance, economy, business	

duties as an Outside Director;

administration, accounting, legal affairs, consumer protection or information technology, to the extent necessary to perform duties as an Outside Director;

2. ~ 4.

2. ~ 4. [No change]

(2)

(2) [No change]

**Article 40 ~ 47**

[No change]

Current Provisions	Proposed Amendments	Rationale for Change
<b>Article 48 (Committees under the Board of Directors)</b>	<b>Article 48 (Committees under the Board of Directors)</b>	This provision reflects each Subparagraph of Article 16, Paragraph 1 of the Act on Corporate Governance of Financial Companies.
(1) The Company shall maintain committees set forth in each of the following subparagraphs as its Committees under the Board of Directors on an ongoing basis.	(1) The Company shall maintain committees set forth in each of the following subparagraphs as its Committees under the Board of Directors on an ongoing basis.	
1. Governance and CEO Recommendation Committee;	1. Governance and CEO Recommendation Committee;	
2. Board Steering Committee;	2. Board Steering Committee;	
3. Audit Committee;	3. Audit Committee;	
4. Outside Director Recommendation Committee;	4. Outside Director Recommendation Committee;	
5. Risk Management Committee;	5. Risk Management Committee;	
6. Compensation Committee;	6. Remuneration Committee;	
7. Audit Committee Member Recommendation Committee; and	7. Audit Committee Member Recommendation Committee; and	
8. Corporate Social Responsibility Committee	8. Corporate Social Responsibility Committee	

(2~3)

**Article 49 ~ 50**

**Article 51 (Constitution of Audit Committee)**

(1) The Company shall have the Audit Committee, as prescribed by Article 41 Paragraph 1 of the Financial Holding Companies Act.

(2~3) [No change]

[No change]

**Article 51 (Constitution of Audit Committee)**

(1) The Company shall have the Audit Committee, as prescribed by article 41 paragraph 1 of the Act on Corporate Governance of Financial Companies.

This provision reflects Article 16, Paragraph 1, , Subparagraph 2 of the Act on Corporate Governance of Financial Companies.

(2~5)

**Article 52 ~ 61**

**Addenda(1) ~ Addenda(11)**

(2 ~ 5) [No change]

[No change]

**Addenda(1) ~ Addenda(11)**

[No change]

Addendum on the effective date has been newly added.

[Added]

Addenda (12)

Article 1 (Effective Date) These Articles of Incorporation shall become effective as of March 23, 2017.

**Agenda Item No. 3** Appointment of Directors

(1 Executive Director, 1 Non-Executive Director & 6 Outside Directors)

**Voting Item(s)**

Pursuant to Article 382 of the Commercial Act and Article 37 of the Company's Articles of Incorporation, we seek shareholders' approval during the Annual General Meeting of Shareholders on the appointment of directors.

At the 16th Annual General Meeting of Shareholders, the following 8 directors(1 Executive Director, 1 Non-Executive Director & 6 Outside Directors) will seek the approval of appointment from shareholders.

Agenda Item No. 3-1 Executive Director Candidate : Mr. Cho Yong-byoung

Agenda Item No. 3-2 Non-Executive Director Candidate : Mr. Wi Sung-ho

Agenda Item No. 3-3 Outside Director Candidate : Mr. Park Ansoon

Agenda Item No. 3-4 Outside Director Candidate : Mr. Park Cheul

Agenda Item No. 3-5 Outside Director Candidate : Mr. Lee Sang-kyung

Agenda Item No. 3-6 Outside Director Candidate : Mr. Joo Jaeseong

Agenda Item No. 3-7 Outside Director Candidate : Mr. Yuki Hirakawa

Agenda Item No. 3-8 Outside Director Candidate : Mr. Philippe Avril

**Overview**

The Board of Directors is currently composed of 12 directors, 1 executive director and 2 non-executive director and 9 outside directors. The terms of 1 executive director (Mr. Han Dongwoo), 2 non-executive directors (Messrs Cho Yong-byoung and Namkoong Hoon) and 6 outside directors (Messrs. Ko Boo-in, Park Cheul, Lee Manwoo, Lee Sang-kyung, Yuki Hirakawa, Philippe Avril) terms will be completed in March 2017 on the date of the Annual General Meeting of Shareholders.

In keeping with best practice the Company has established the Corporate Governance and CEO Recommendation committee, the Board Steering Committee and the Outside Director Recommendations committee under the Board of Directors who recommend, executive directors, non-executive directors and outside directors for the company respectively. In particular, the Outside Director Recommendations Committee is a committee under the Board of Directors and assesses the independence and ability of potential candidates for outside directors and recommends relevant candidates to the Board of Directors.

**Committee**

**Members**

Chair: Lee Sang-kyung (o)

**Corporate Governance and**

**CEO Recommendation Committee**

Members: Ko Boo-in (o), Park Cheul (o), Philippe Avril (o), Yuki Hirakawa (o),

Namkoong Hoon, Han Dongwoo

Chair: Han Dongwoo

**Board Steering Committee**

Members: Lee Sang-kyung (o), Lee Steven Sung-ryang (o), Yuki Hirakawa (o),

Namkoong Hoon

Chair: Lee Steven Sung-ryang (o)

**Outside Director Recommendation Committee**

Members: Lee Manwoo (o), Lee Jung-il (o), Lee Heun-ya (o), Han Dongwoo

*(o) Indicates outside directors*

**Director Recommendations**

The Corporate Governance and CEO Recommendation Committee recommended Mr. Cho Yong-byoung, the current CEO of Shinhan Bank, as a executive director for the Company. On February 21, 2017, the Board of Directors endorsed the nominee selected by the Corporate Governance and CEO Recommendation Committee.

The Board Steering Committee recommended Mr. Wi Sung-ho, the current CEO of Shinhan Card, as a non-executive director for the Company. On February 21, 2017, the Board of Directors endorsed the nominee selected by the Board Steering Committee.

The Outside Director Recommendation Committee under the Board of Directors recommended 6 outside directors, of which 4 directors, Messrs. Park Cheul, Lee Sang-kyung, Yuki Hirakawa and Philippe Avril are to renew their terms. Messrs. Park Ansoon and Joo Jaeseong have been newly nominated and recommended as an outside directors. On February 21, 2017, the Board of Directors endorsed the nominees selected by the Outside Director Recommendation Committee.

The Board of Directors recommends a vote FOR the election of the aforementioned candidates;

**Members of the Board of Directors after the 16<sup>th</sup> AGM**

Name	Director Classification	Gender	Date of Birth	Nationality	Professional	End of Tenure	Share Ownership	BoD Meeting Attendance Rate
<b>Cho Yong-byoung*</b>	Executive Director	Male	Jun. 30, 1957	Korea	Finance	FY2019 AGM	0.00%	n/a
<b>Wi Sung-ho*</b>	Non-Executive Director	Male	Jun. 12, 1958	Korea	Finance	FY2018 AGM	n/a	n/a
<b>Park Ansoon*</b>	Outside Director	Male	Jan. 24, 1945	Korea	Business Administration	FY2018 AGM	n/a	n/a
<b>Park Cheul</b>	Outside Director	Male	Apr. 27, 1946	Korea	Economics	FY2017 AGM		100%
<b>Lee Manwoo</b>	Outside Director	Male	Nov. 22, 1954	Korea	Accounting	FY2017 AGM		100%

Name	Director Classification	Gender	Date		Professional	End of Tenure	Share Ownership	BoD Meeting Attendance Rate
			of Birth	Nationality				
<b>Lee Sang-kyung</b>	Outside Director	Male	Sep. 20, 1945	Korea	Legal Affairs	FY2017 AGM		100%
<b>Lee Steven Sung-ryang</b>	Outside Director	Male	Aug. 30, 1955	U.S.A	Economics	FY2017 AGM		100%
<b>Lee Jung-il</b>	Outside Director	Male	Aug. 28, 1952	Korea	Business Administration	FY2017 AGM	0.06%	100%
<b>Lee Heun-ya</b>	Outside Director	Male	Sep. 10, 1959	Korea	Business Administration	FY2017 AGM	0.15%	100%
<b>Joo Jaeseong*</b>	Outside Director	Male	Jau. 17, 1956	Korea	Finance	FY2018 AGM	n/a	n/a
<b>Yuki Hirakawa</b>	Outside Director	Male	Oct. 21, 1960	Japan	Business Administration	FY2017 AGM	0.00%	100%
<b>Philippe Avril</b>	Outside Director	Male	Apr. 27, 1960	France	Finance	FY2017 AGM		75%

\* (Newly appointed)

Please refer to the *Additional information* section provided at the end of this document for information on the a) Members of the Board of Directors after the 16th Annual General Meeting of Shareholders and b) Committees of Board of Directors.

## Agenda Item No.3-1 Executive Director Candidate

Mr. Cho Yong-byoung

1. Date of Birth	June 30, 1957
2. Nominator	The Corporate Governance and CEO Recommendation Committee
3. Relation to the largest shareholder	None
4. Business transaction with SFG during the last 3 years	None
5. Term of Office	From Mar. 23, 2017 until the 19 <sup>th</sup> AGM  (3 years)
6. Current Position	President and CEO of Shinhan Bank
7. New Appointment	Yes
7-1 If incumbent, prior year BoD meeting attendance rate	N.A.
8. Education	B.A. in Law, Korea University
9. Main Work Experience	
2015 - current	President and CEO, Shinhan Bank
2013 - 2015	CEO, Shinhan BNP Paribas Asset Management
2011 - 2013	Deputy President of Retail Business Development Group, Shinhan Bank
2010 - 2011	Executive Vice President of Management Support Group, Shinhan Bank
2009 - 2010	Executive Vice President of Global Business Group, Shinhan Bank

**Reasons for recommendation**

Mr. Cho is a seasoned executive and has been nominated to serve on the Board because of his extensive experience and expertise in the financial services industry. Through his role as Chief Executive Officer of Shinhan Bank, his prior experience as CEO of Shinhan BNP Asset management and various other leadership roles across Shinhan Bank, Mr. Cho has garnered strong operating experience across all of Shinhan's businesses, including global business, consumer banking, corporate and investment banking, and securities and trading. His leadership, knowledge of the industry and familiarity with the Company's operations will prove to be an asset as the Company continues on its path to strong growth. Mr. Cho received B.A. in Law from Korea University. The committee newly nominated and recommended him as an executive director as he is expected to further contribute to the activities of the Board of Directors, and in turn, the development of the Company.

## Agenda Item No.3-2 Non-Executive Director Candidate

Mr. Wi Sung-ho

1. Date of Birth	June 12, 1958
2. Nominator	Board Steering Committee
3. Relation to the largest shareholder	None
4. Business transaction with SFG during the last 3 years	None
5. Term of Office	From Mar.23, 2017 until the 18 <sup>th</sup> AGM  (2 years)
6. Current Position	CEO, Shinhan Card
7. New Appointment	Yes
7-1 If incumbent, prior year BoD meeting attendance rate	N.A.
8. Education	B.A. in Economics, Korea University
9. Main Work Experience	
2013 - current	CEO, Shinhan Card
2011 - 2013	Deputy President and Head of WM Group, Shinhan Bank and Shinhan Investment Corp.(concurrent position)
2008 - 2011	Deputy President, Shinhan Financial Group

**Reasons for recommendation**

Mr. Wi is an experienced financial services executive and finance professional and has been nominated to serve on the Board because of his extensive experience and expertise in financial industry. Mr. Wi currently serves as the Chief Executive Officer of Shinhan Card. Prior to this role, Mr. Wi has held various leadership positions in the Company including Deputy President of Shinhan Bank and Shinhan Investment Corp.(concurrent position). Additionally, through his time with the Company, Mr. Wi has gained experience across all of Shinhan's business operations, including card business, global business, wealth management, consumer banking and trading etc. Mr. Wi's knowledge of the Company as well as the industry is highly valued and his expertise will be beneficial in all matters concerning the Board of Directors. Mr. Wi received B.A. in Economics from Korea University. The committee newly nominated him as a non-executive director as he is expected to further contribute to the activities of the Board of Directors, and in turn, the development of the Company.

## Agenda Item No.3-3 Outside Director Candidate

Mr. Park Ansoon

- |                                                          |                                                               |
|----------------------------------------------------------|---------------------------------------------------------------|
| 1. Date of Birth                                         | January 24, 1945                                              |
| 2. Nominator                                             | Outside Director Recommendation Committee                     |
| 3. Relation to the largest shareholder                   | None                                                          |
| 4. Business transaction with SFG during the last 3 years | None                                                          |
| 5. Term of Office                                        | From Mar.23, 2017 until the 18 <sup>th</sup> AGM<br>(2 years) |
| 6. Current Position                                      | Chairman, Taisei Group Co., Ltd.                              |
| 7. New Appointment                                       | Yes                                                           |
| 7-1 If incumbent, prior year BoD meeting attendance rate | N.A.                                                          |
| 8. Education                                             | B.A. in Philosophy, Waseda University                         |
| 9. Main Work Experience                                  |                                                               |
| 2010 - current                                           | Chairman, Taisei Group Co., Ltd.                              |
| 2012 - current                                           | Vice Chairman, the Korean Residents Union in Japan            |

**Reasons for recommendation**

Mr. Park is a successful Korean-Japanese entrepreneur and has been nominated to serve on the Board because of his expertise as an experienced executive in property related businesses for about 50 years in the industry. Mr. Park gained his extensive experience in the field in his roles as a CEO of Taisei and other executive positions at the company. Mr. Park received B.A. from Waseda University. The committee newly nominated and recommended him as an outside director as he is expected to further contribute to the activities of the Board of Directors, and in turn, the development of the Company.

## Agenda Item No.3-4 Outside Director Candidate

Mr. Park Cheul

1. Date of Birth	April 27, 1946
2. Nominator	Outside Director Recommendation Committee
3. Relation to the largest shareholder	None
4. Business transaction with SFG during the last 3 years	None
5. Term of Office	From Mar.23, 2017 until the 17 <sup>th</sup> AGM (1 year)
6. Current Position	Former) Chairman & CEO, Leading Investment & Securities Co. Ltd.
7. New Appointment	No
7-1 If incumbent, prior year BoD meeting attendance rate	100%.
8. Education	M.A. in Economics, New York University
9. Main Work Experience	
2006 - 2013	Chairman & CEO, Leading Investment & Securities Co. Ltd.
2004	Member of the committee, National Economy Advisory Council
2003 - 2006	Outside Director, Korea Development Bank
2000 - 2003	Senior Deputy Governor, Bank of Korea

**Reasons for recommendation**

Mr. Park is an expert in finance with a career as a Member of National Economy Advisory Council and served as a Senior Deputy Governor at Bank of Korea. The committee nominated and recommended him as an outside director as he is expected to further contribute to the activities of the Board of Directors, and in turn, the development of the Company.

## Agenda Item No.3-5 Outside Director Candidate

Mr. Lee Sang-kyung

- |                                                          |                                                              |
|----------------------------------------------------------|--------------------------------------------------------------|
| 1. Date of Birth                                         | September 20, 1945                                           |
| 2. Nominator                                             | Outside Director Recommendation Committee                    |
| 3. Relation to the largest shareholder                   | None                                                         |
| 4. Business transaction with SFG during the last 3 years | None                                                         |
| 5. Term of Office                                        | From Mar.23, 2017 until the 17 <sup>th</sup> AGM<br>(1 year) |
| 6. Current Position                                      | Representative Attorney, Law Firm Lee Sang Kyung             |
| 7. New Appointment                                       | No                                                           |
| 7-1 If incumbent, prior year BoD meeting attendance rate | 100%.                                                        |
| 8. Education                                             | B.A. in Law, Chung-Ang University                            |
| 9. Main Work Experience                                  |                                                              |

2014 - current	Representative Attorney, Law Firm Lee Sang Kyung
2010 - 2013	Representative Attorney, Law Firm WONJON
2009 - 2010	Lawyer, DW Partners Law Firm
2005 - 2009	Lawyer, Law Firm LEEWOO
2004 - 2005	Chief Judge, Constitutional Court of Korea
2002 - 2004	President, Busan High Court
2000 - 2002	President, Daegu District Court & Incheon District Court
2000 - 2000	Senior Presiding Judge, Patent Court of Korea
1992 - 2000	Senior Judge, Daegu High Court

**Reasons for recommendation**

Mr. Lee is a seasoned legal expert who honorably served as the Chief Judge of the Constitutional Court of Korea. The committee recommends Mr. Lee based on his renowned capacity and character as he is expected to contribute to the development of the Company.

## Agenda Item No.3-6 Outside Director Candidate

Mr. Joo Jaeseong

- |                                                          |                                                                                                                                                                                                                                                                |
|----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Date of Birth                                         | January 17, 1956                                                                                                                                                                                                                                               |
| 2. Nominator                                             | Outside Director Recommendation Committee                                                                                                                                                                                                                      |
| 3. Relation to the largest shareholder                   | None                                                                                                                                                                                                                                                           |
| 4. Business transaction with SFG during the last 3 years | Mr. Joo serves as an advisor to Kim & Chang, which we have retained as outside legal counsel from time to time in connection with certain legal matters. Mr. Joo has no direct relationship with and has not been involved in our engagement with Kim & Chang. |
| 5. Term of Office                                        | From Mar.23, 2017 until the 18 <sup>th</sup> AGM<br><br>(2 years)                                                                                                                                                                                              |
| 6. Current Position                                      | Senior Advisor, the law firm Kim & Chang                                                                                                                                                                                                                       |
| 7. New Appointment                                       | Yes                                                                                                                                                                                                                                                            |
| 7-1 If incumbent, prior year BoD meeting attendance rate | N.A.                                                                                                                                                                                                                                                           |
| 8. Education                                             | M.A. in Business Administration, University of Illinois Urbana Champaign                                                                                                                                                                                       |
| 9. Main Work Experience                                  |                                                                                                                                                                                                                                                                |
| 2016 - current                                           | Senior Advisor, the law firm, Kim & Chang                                                                                                                                                                                                                      |
| 2013 - 2016                                              | CEO, Woori Finance Research Institute                                                                                                                                                                                                                          |
| 2011 - 2013                                              | Senior Deputy Governor of Banking & Non-banking sector, Financial Supervisory Service                                                                                                                                                                          |

**Reasons for recommendation**

Mr. Joo is a senior advisor at the law firm Kim & Chang. He practices primarily in the area of banking industry and banking supervision. He has extensive experience in banking and non-banking supervision such as savings bank, credit card company, finance company and etc., Especially he had a very important role in overcoming various financial crisis including Korean liquidity(1998), Global Financial Crisis after Lehman Brothers Collapse(2008) and Korean Saving Company Failure(2011). In addition, he is an expert in international banking provision area so that he worked at the bank restructuring department in the World Bank(2001-2004) and had been actively involved the establishment of Basel II and Basel III accord as the member of Basel Committee in BIS. The committee newly nominated and recommended him as an outside director as he is expected to further contribute to the activities of the Board of Directors, and in turn, the development of the Company.

## Agenda Item No.3-7 Outside Director Candidate

Mr. Yuki Hirakawa

1. Date of Birth	October 21, 1960
2. Nominator	Outside Director Recommendation Committee
3. Relation to the largest shareholder	None
4. Business transaction with SFG during the last 3 years	None
5. Term of Office	From Mar.23, 2017 until the 17 <sup>th</sup> AGM (1 year)
6. Current Position	CEO, Level River Co., Ltd
7. New Appointment	No
7-1 If incumbent, prior year BoD meeting attendance rate	100%.
8. Education	B.A. in Spanish, Osaka University
9. Main Work Experience	
2013 - current	CEO, Level River Co., Ltd
1994 - 2012	CEO, Hirakawa Industry Development Co., Ltd

**Reasons for recommendation**

Mr. Hirakawa is a successful Korean-Japanese entrepreneur and expected to share his various experience and seasoned expertise as a businessman with approximately 30 years' experience in the field. The experience he has gained in his role as a CEO of Hirakawa Industry Development enables him to provide an important perspective to the Board's discussions on International business. Mr. Hirakawa received B.A. from Osaka University. The committee nominated and recommended him as an outside director as he is expected to further contribute to the activities of the Board of Directors, and in turn, the development of the Company.

## Agenda Item No.3-8 Outside Director Candidate

Mr. Philippe Avril

- |                                                          |                                                                                                                   |
|----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| 1. Date of Birth                                         | April 27, 1960                                                                                                    |
| 2. Nominator                                             | Outside Director Recommendation Committee                                                                         |
| 3. Relation to the largest shareholder                   | None                                                                                                              |
| 4. Business transaction with SFG during the last 3 years | None                                                                                                              |
| 5. Term of Office                                        | From Mar.23, 2017 until the 17 <sup>th</sup> AGM<br><br>(1 year)                                                  |
| 6. Current Position                                      | CEO & Representative Director BNP Paribas Securities(Japan) Ltd., Chief Country Officer BNP Paribas, Tokyo Branch |
| 7. New Appointment                                       | No                                                                                                                |
| 7-1 If incumbent, prior year BoD meeting attendance rate | 75%.                                                                                                              |
| 8. Education                                             | M.A. in Economics from Universite de Paris Dauphine                                                               |
| 9. Main Work Experience                                  |                                                                                                                   |
|                                                          | 2011 - current                      CEO & Representative Director BNP Paribas Securities(Japan) Ltd.              |
|                                                          | 2012 - current                      Chief Country Officer BNP Paribas, Tokyo Branch                               |

**Reasons for recommendation**

Mr. Avril is an expert in finance joining the industry as a derivatives trader in Paris in 1985. He has worked as a specialist of financial derivatives and as a member of general management at Banque Indosuez, Deutsche Bank, Dai-Ichi Kangyo Bank, Commerzbank and the Royal Bank of Scotland in offices including Paris, Tokyo, New York, Frankfurt and Hong Kong. The committee nominated and recommended him as an outside director as he is expected to further contribute to the activities of the Board of Directors, and in turn, the development of the Company.

**Agenda Item No. 4** Appointment of Outside Director who will serve as Audit Committee Member

**Voting Item(s)**

Pursuant to Article 382 of the Commercial Act, Article 19 of the Act on Corporate Governance of Financial Companies and Article 37 of the Company's Articles of Incorporation, we seek shareholders' approval during the Annual General Meeting of Shareholders on the appointment of directors.

At the 16th Annual General Meeting of Shareholders 1 outside director who will serve as audit committee member will seek the approval of appointment from shareholders.

**Agenda Item No. 4 Outside Director Candidate : Mr. Lee Manwoo**

We have separated the agenda to reflect Article 19 of the Act on Corporate Governance of Financial Companies entered into force on Aug. 1, 2016. Article 19, Paragraph 1, Subparagraph 5 of the Act on Corporate Governance of Financial Companies define as follow

Every Financial company shall appoint at least one outside director who will serve as an audit committee member separately, apart from other directors.

Under the Korean Commercial Code, Mr. Lee Manwoo is considered the financial expert within this fully independent audit committee.

The Outside Director Recommendation Committee under the Board of Directors recommended Mr. Lee Manwoo to renew his term as an outside director. At the same time the Audit Committee Member Recommendation Committee under the Board of Directors recommended Mr. Lee Manwoo as an Audit Committee Member.

The Outside Director Recommendation Committee is a committee under the Board of Directors and assesses the independence and ability of potential candidates for outside directors and recommends relevant candidates to the Board of Directors. On February 21, 2017, the Board of Directors endorsed the nominee selected by the Outside Director Recommendation Committee and the Audit Committee Member Recommendation Committee.

The Board of Directors recommends a vote **FOR** the election of the aforementioned candidate;

*Please refer to the Additional information section provided at the end of this document for information on the a) Members of the Board of Directors after the 16th Annual General Meeting of Shareholders and b) Committees of Board of Directors.*

## Agenda Item No.4 Outside Director Candidate

Mr. Lee Manwoo

- |                                                          |                                                                                            |
|----------------------------------------------------------|--------------------------------------------------------------------------------------------|
| 1. Date of Birth                                         | November 22, 1954                                                                          |
| 2. Nominator                                             | Outside Director Recommendation committee, Audit Committee Member Recommendation Committee |
| 3. Relation to the largest shareholder                   | None                                                                                       |
| 4. Business transaction with SFG during the last 3 years | None                                                                                       |
| 5. Term of Office                                        | From Mar.23, 2017 until the 17 <sup>th</sup> AGM<br>(1 year)                               |
| 6. Current Position                                      | Professor, Korea University Business School                                                |
| 7. New Appointment                                       | No                                                                                         |
| 7-1 If incumbent, prior year BoD meeting attendance rate | 100%.                                                                                      |
| 8. Education                                             | Ph.D. in Business Administration from University of Georgia                                |
| 9. Main Work Experience                                  |                                                                                            |
| 1988 - current                                           | Professor, Korea University Business School                                                |
| 2007 - 2008                                              | Chairman, Korean Accounting Association                                                    |
| 2006 - 2007                                              | Chairman, Korean Academic Society of Taxation                                              |
| 2001 - 2007                                              | Committee member of Securities Listing, Korea Exchange                                     |

**Reasons for recommendation**

Mr. Lee is an expert in accounting and business administration, with a strong academic background as well as practical experience in various fields such as role as the president of Korea Accounting Association and President of Korea Academic Society of Taxation. Mr. Lee has given valuable insights and perspectives at his governmental advisory roles, including member as National Advisory Council, National Tax Administrative Commission, National Economic Council and as supervisory member of Financial Service Commission. And as a renowned professor, he shares important perspectives with the Board on accounting and business administration. The Board recommended him as an outside director who will serve as audit committee member.

**Agenda Item No. 5** Appointment of Audit Committee Member (2 MEMBERS)

**Voting Item(s)**

Pursuant to Article 542.12 of the Commercial Act, Article 41 of the Financial Holding Companies Act and Article 38 of the Company's Articles of Incorporation, we seek shareholders' approval during the Annual General Meeting of Shareholders on the appointment of the Audit Committee Members.

Agenda Item No. 5-1 Audit Committee Member Candidate : Mr. Lee Sang-kyung

Agenda Item No. 5-2 Audit Committee Member Candidate : Mr. Lee Steven Sung-ryang

Among the existing outside director candidates, Messrs. Lee Sang-kyung and Lee Steven Sung-ryang were recommended as candidates of the Audit Committee Members for fiscal year 2017 through the resolution of the Audit Committee Member Recommendation Committee.

The Board of Directors recommends a vote FOR the election of each of the following nominee;

## Agenda Item No.5-1 Audit Committee Member Candidate

Mr. Lee Sang-kyung

- |                                                          |                                                              |
|----------------------------------------------------------|--------------------------------------------------------------|
| 1. Date of Birth                                         | September 20, 1945                                           |
| 2. Nominator                                             | Audit Committee Member Recommendation Committee              |
| 3. Relation to the largest shareholder                   | None                                                         |
| 4. Business transaction with SFG during the last 3 years | None                                                         |
| 5. Term of Office                                        | From Mar.23, 2017 until the 17 <sup>th</sup> AGM<br>(1 year) |
| 6. Current Position                                      | Representative Attorney, Law Firm Lee Sang Kyung             |
| 7. New Appointment                                       | No                                                           |
| 7-1 If incumbent, prior year BoD meeting attendance rate | 100%.                                                        |
| 8. Education                                             | B.A. in Law, Chung-Ang University                            |
| 9. Main Work Experience                                  |                                                              |

2014 - current	Representative Attorney, Law Firm Lee Sang Kyung
2010 - 2013	Representative Attorney, Law Firm WONJON
2009 - 2010	Lawyer, DW Partners Law Firm
2005 - 2009	Lawyer, Law Firm LEEWOO
2004 - 2005	Chief Judge, Constitutional Court of Korea
2002 - 2004	President, Busan High Court
2000 - 2002	President, Daegu District Court & Incheon District Court
2000 - 2000	Senior Presiding Judge, Patent Court of Korea
1992 - 2000	Senior Judge, Daegu High Court

**Reasons for recommendation**

Mr. Lee is a seasoned legal expert who honorably served as the Chief Judge of the Constitutional Court of Korea. The committee recommends Mr. Lee based on his renowned capacity and character as he is expected to contribute to the development of the Company.

## Agenda Item No.5-2 Audit Committee Member Candidate

Mr. Lee Steven Sung-ryang

- |                                                          |                                                              |
|----------------------------------------------------------|--------------------------------------------------------------|
| 1. Date of Birth                                         | August 30, 1955                                              |
| 2. Nominator                                             | Audit Committee Member Recommendation Committee              |
| 3. Relation to the largest shareholder                   | None                                                         |
| 4. Business transaction with SFG during the last 3 years | None                                                         |
| 5. Term of Office                                        | From Mar.23, 2017 until the 17 <sup>th</sup> AGM<br>(1 year) |
| 6. Current Position                                      | Professor, School of Economics, Dongguk University           |
| 7. New Appointment                                       | No                                                           |
| 7-1 If incumbent, prior year BoD meeting attendance rate | 100%.                                                        |
| 8. Education                                             | Ph.D. in Economics, Columbia University                      |
| 9. Main Work Experience                                  |                                                              |

2007 - current	Professor, School of Economics, Dongguk University
2015 - current	Director, Research Institute of Social Science, Dongguk University
2013 - 2015	Dean, School of Economics, Dongguk University
2002 - 2004	Head of Graduate Department of public administration, Dongguk University
1997 - 2006	Professor, School of International Studies, Dongguk University
1995 - 1996	Head of Asia(South-East Asia) Department, Korea Institute for International Economic Policy
1994 - 1995	Visiting Professor, Florida International University
1987 - 1994	Assistant Professor, St. Johns University (NY)
1986 - 1987	Assistant Professor, The University of Washington

**Reasons for recommendation**

Mr. Lee is an economic expert with a career as a professor at Dongguk University and director of Research Institute of Social Science of Dongguk University. The committee recommends Mr. Lee based on his renowned capacity and expertise as he is expected to contribute to the development of the Company.

**Agenda Item No.6** Approval of the Maximum Limit on Director Remuneration**Voting Item(s)**

Pursuant to Article 388 of the Commercial Act and Article 49 of the Company's Articles of Incorporation, we hereby request that the shareholders approve the following:

**Directors Remuneration for FY2016~FY2017(in KRW)**

<b>FY2017(Proposed)</b>	<b>FY2016(Approved)</b>	<b>FY2015(Approved)</b>
<b>3.5 billion*</b>	<b>3.5 billion</b>	<b>4.5 billion</b>

KRW 3.5 billion is proposed as the maximum amount of aggregate remuneration that may be disbursed to the 12 directors, including 10 outside directors, of the Company for fiscal year 2017. For your reference the limitation for fiscal year 2016 for 12 directors, including 9 outside directors, was KRW 3.5 billion.

\* the maximum number of performance shares to be granted to the directors of the board of the Company in respect of fiscal year 2017 be set as 19,600 shares, provided that payments accrued in relation thereto shall be made in fiscal year 2021 in accordance with the standards for and method of such grant and payment as determined by the board of directors, and the board of directors be hereby delegated with the authority to make such determination. It should be noted, however, that in addition to such limit, additional compensation in the form of performance shares may be made in fiscal year 2017 to the extent that the total number of such shares falls within the limit approved at previous shareholders' meetings held.

**Assessment and Compensation**

The Compensation Committee and the board of directors decide the reward system for internal directors. A variable amount of compensation is determined by reflecting the group's annual performance as well as long-term outcome. The board of directors determines compensation for external directors, and the amount of compensation varies according to the degree of participation in the board of directors and subcommittees. The annual limit for directors' compensation is approved at the shareholders' meeting every year, and the board of directors makes decisions on the details within the limit. For internal directors, a Compensation Committee solely consisting of external directors makes additional assessment on the details of the system for compensating the group's management board, including internal directors.

### Additional Information

#### I. Number and Classification of Voting Shares

The record date for exercising voting rights at the Annual General Meeting of Shareholders is December 31, 2016. As of the record date, there are 474,199,587 shares outstanding, all of which are valid shares for voting.

#### II. Method of Resolutions

Pursuant to the provisions of the Commercial Act, Agenda Item No. 1, 3, 4, 5 and 6 shall be passed a majority of the votes cast by the shareholders present at the meeting and at least one-fourth of the total shares that are entitled to vote. Agenda Item No. 2 shall be passed by at least two-thirds of the votes cast by the shareholders present at the meeting and at least one-third of total shares entitled to vote.

#### III. Members of the Board of Directors after the 16th Annual General Meeting of Shareholders

		After AGM		
		Initially		
Before AGM		Appointed on	Reappointed on	End of Tenure
<b>Executive Director</b>	<b>Executive Director</b>			
Han Dongwoo	Cho Yong-byoung	March 23, 2017		FY 2019 AGM
<b>Non-Executive Director</b>	<b>Non-Executive Director</b>			
Cho Yong-byoung	Wi Sung-ho	March 23, 2017		FY 2018 AGM
Namkoong Hoon				
<b>Outside Directors*</b>	<b>Outside Directors*</b>			
Park Cheul	Park Cheul	March 25, 2015	March 23, 2017	FY 2017 AGM
Lee Manwoo	Lee Manwoo	March 26, 2014	March 23, 2017	FY 2017 AGM
Lee Sang-kyung	Lee Sang-kyung	March 29, 2012	March 23, 2017	FY 2017 AGM
Lee Steven Sung-ryang	Lee Steven Sung-ryang	March 24, 2016		FY 2017 AGM
Lee Jung-il	Lee Jung-il	March 24, 2016		FY 2017 AGM
Lee Heun-ya	Lee Heun-ya	March 24, 2016		FY 2017 AGM
Yuki Hirakawa	Yuki Hirakawa	March 25, 2015	March 23, 2017	FY 2017 AGM
Philippe Avril	Philippe Avril	March 25, 2015	March 23, 2017	FY 2017 AGM
Ko Boo-in	Park Ansoon	March 23, 2017		FY 2018 AGM
	Joo Jaeseong	March 23, 2017		FY 2018 AGM

\* Outside Directors is defined by the Financial Holding Companies Act and the Securities and Exchange Act as a director who does not engage in the regular affairs of the financial holding company, and who is elected at a shareholders meeting, after having been nominated by the outside director nominating committee. None of the largest shareholder, those persons specially related to the largest shareholder of such company, persons who during the past two years have served as an officer or employee of such company, the spouses and immediate

family members of an officer of such company, and certain other persons specified by law may qualify as an outside director of such company.

\*\* Mr. Park Cheul was the Chairman of the Board of Directors for Shinhan Financial Group.

\*\*\* The new Chairman of the Board of Directors will be elected on the following meeting of Board of Directors after the AGM.

indicates outside directors whose tenure expired and who seeks shareholders approval to renew their terms.

#### **IV. Corporate Governance Overview**

##### **Principle and Policy of Governance Structure**

In order to promote long-term development of the group, and to protect the profits of stakeholders such as shareholders and financial consumers, Shinhan Financial Group strives to acquire transparency, integrity, and stability and to possess a governance structure, which reflects the group's history of growth and organizational culture. As a result, Shinhan Financial Group was the only company out of 867 domestic listed companies to receive an integrated assessment grade of A+ for 2 consecutive years at 2016 Award on Companies with Outstanding Governance Structure conducted by the Korea Corporate Governance Service, receiving the Grand Prize as a company with outstanding governance structure. Korea Corporate Governance Service revealed that the reasons for the award was the group's high ratio of external directors, improvement in transparency of corporate governance structure by operating various expert committees, and detailed disclosure of information related to governance structure. The company's principles and policies on governance structure are as follows.

##### **Transparency**

Every year, the company discloses its annual report on governance structure on the company website. The annual report on governance structure includes all internal regulations, such as the articles of association and regulations for the board of directors and its subcommittees, as well as all activities by the board of directors and the subcommittees. The company practices a concentrated voting policy for protecting the rights of minority shareholders and policy on exercising voting rights through writing, for protecting the voting rights of active shareholders. Also, it provides real-time videos of shareholders' meetings in order to provide impartial and timely information.

##### **Integrity**

The company operates its board of directors with autonomy and professionalism, and is sincerely adhering to external regulations such as commercial laws and the Financial Holding Companies Act as well as internal regulations such as articles of association, internal norm on governance structure, and regulations on the board of directors. The company also incorporates and performs all matters recommended by the model norm on financial company governance structure and the model norm on corporate governance structure.

##### **Stability**

In order to ensure stable governance structure through checks and balances between members, powers of making decisions and executing tasks have been delegated to the board of directors and the management board, respectively, and the management board is to report the status of executing tasks to the board of directors. Also, the ratio of external directors in the board of directors is 75%, which is much higher than the legal requirement of 50%, ensuring that the board of directors can check the powers of the management board. Also, more than 50% of members in all subcommittees consist of external directors, actively promoting activities of external directors in the board of directors. While regulating the board chairman to be appointed from external directors, most subcommittee chairmen, including the External Director Recommendation Committee, are appointed from external directors.

## **Diversity and Professionalism**

The internal norm on governance structure stipulates the diversity principle in composing the board of directors, which ensures that the board of directors will not have common backgrounds or represent a certain interest, promoting diversity and professionalism in the governance structure. Indeed, members of the board of directors evenly specialize in finance, economy, business, accounting, law, consumer protect and information technology -the seven fields presented as conditions for expertise by the model norm - so that the board of directors will not incline to certain backgrounds or occupations. Furthermore, the ratio of female candidates are consistently increasing while selecting the candidates for external directors, and the candidates come from a wide range of financial background, reflecting the efforts to comply with the principle of diversity in composing the board of directors.

## **Governance Structure which Reflects the Growth History and Organizational Culture of the Group**

The company originates from Shinhan Bank, which was founded in July 1982 with Korea's first pure private capital, with the patriotic love of 341 Korean minority shareholders in Japan(100% capital investment amounting to KRW 25.9 billion). Shinhan Financial Group, which started in 2001 as Korea's first financial holding company of private capital, prepared the foundation for a new leap forward through the strategic alliance with BNP Paribas, a global financial group. In order to reflect the group's history of growth and organizational culture on governance structure, external directors composing of Korean business experts in Japan who represent the spirit of foundation, and financial experts recommended by BNP Paribas, our strategic alliance company, are working as members in the board of directors.

## **Governance Structure**

### **Procedure and criteria for appointing external directors**

External directors are appointed from shareholders' meetings under the recommendation of the Recommendation Committee on External Director Candidates. The company tries to ensure that external directors with conditions for autonomy set by relevant legislation and with financial history and expertise from various fields will be included in candidates recommended by the External Director Recommendation Committee. Conditions for appointing external directors with professionalism and insight include Dwhether the candidate possesses sufficient practical experience or professional knowledge on areas needed for business, such as finance, economy, management, accounting, and legislation, Dwhether the candidate can conduct his or her tasks fairly to ensure profits for all shareholders and financial consumers without being tied by certain interests, and Dwhether the candidate possesses a sense of ethics and responsibility appropriate for conducting the business. Under a fair and transparent procedure, the External Director Recommendation Committee assesses whether the candidates satisfy conditions set by relevant legislation and norms, and recommends them as candidates for external directors. If necessary, it utilizes recommendations from outside the company, such as shareholders, stakeholders, and external consulting institutions, as much as possible.

## Monitoring and Supervising Conflicts of Interest

Article 4 Clause 1 No. 6 of the internal norm grants monitoring activities regarding conflict of interest between the company and dominant shareholders, employees, etc. under the authority of the board of directors. Article 10 Clause 1 No. 7 of the board of directors regulation stipulates approval on transactions between directors and the company as a matter to be decided by the board of directors. In the current board of directors, the President and CEO of Shinhan Bank resides as a non-executive director. Consequently, a transaction occurring between Shinhan Financial Group and Shinhan Bank implies that a transaction is occurring between a director of Shinhan Financial Group and Shinhan Bank. In order to monitor such activities regarding conflict of interest, the voting right of the President and CEO of Shinhan Bank, the non-executive director, is restricted for the relevant case, and the decision is made through a special resolution, which requires approval by over 2/3 of present directors.

## V. Committees of the Board of Directors

There are currently eight management committees that serve under the board:

The Governance and CEO Recommendation Committee;

The Board Steering Committee;

The Audit Committee;

The Outside Director Recommendation Committee;

The Risk Management Committee;

The Remuneration Committee;

The Audit Committee Member Recommendation Committee; and

The Corporate Social Responsibility Committee

Each committee member is appointed by the Board of Directors, except for members of the Audit Committee, who are elected at the general meeting of shareholders.

The following table lists the members of each committee as of February 21, 2017. Each committee members for FY 2016, except for the members of the Audit Committee, will be appointed by the new Board of Directors after the 16<sup>th</sup> Annual General Meeting of Shareholders;

Committee	Objective	Members	Meetings	Attendance
			attended/ Meetings scheduled to attend	Rate
<b>Governance and CEO Recommendation Committee</b>	<p>The committee is responsible for overall corporate governance matters of the Company. It will deliberate on matters related to corporate governance of the Company, such as the code of conduct and code of ethics, size of the Board of Directors and matters necessary for improvements to the Company's corporate governance structure.</p> <p>The committee is also responsible to develop, operate and review the Company's management succession plan, including setting CEO qualification criteria, evaluating CEO candidate pool and recommending CEO candidates.</p> <p>The Chair of this committee will be elected among the outside director members.</p> <p>The participation, and voting right, of the incumbent CEO will be limited if he or she is included in the CEO candidate pool.</p>	Chair	4/4	100%
		Lee Sang-kyung (o)		
		Ko Boo-in (o)	4/4	100%
		Park Cheul (o)	4/4	100%
		Philippe Avril (o)	3/4	75%
		Yuki Hirakawa (o)	4/4	100%
		Namkoong Hoon	4/4	100%
		Han Dongwoo	4/4	100%

Committee	Objective	Members	Meetings	
			attended/ scheduled to attend	Attendance Rate
Board Steering Committee	The committee is responsible for ensuring the efficient operations of the board and the facilitation of the board's functions. The committee's responsibilities also include reviewing and assessing the board's structure and the effectiveness of that structure in fulfilling the board's fiduciary responsibilities.	Chair	6/6	100%
		Han Dongwoo	6/6	100%
		Lee Sang-kyung (o)		
		Lee Steven	4/4	100%
		Sung-ryang (o)	6/6	100%
Yuki Hirakawa (o)				
Audit Committee	The committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors and our internal audit-related officers. The committee also reviews our financial information, audit examinations, key financial statement issues and the administration of our financial affairs by the Board of Directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the Board of Directors for each general meeting of stockholders.	Namkoong Hoon	4/4	100%
		Chair	9/9	100%
		Lee Manwoo (o)	9/9	100%
		Lee Sang-kyung (o)		
		Lee Steven	6/6	100%
Sung-ryang (o)				
Outside Director Recommendation Committee	Members of this committee will be appointed by our Board of Directors if and only to the extent necessary to recommend and nominate candidates for our outside director positions and related matters. The committee meetings are called by the chairman of this committee, who must be an outside director.	Chair	2/2	100%
		Lee Steven	2/2	100%
		Sung-ryang (o)		
		Lee Manwoo (o)	2/2	100%
		Lee Jung-il (o)	2/2	100%
		Lee Heun-ya (o)	2/2	100%
Risk Management Committee	The committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control.	Han Dongwoo	4/4	100%
		Chair	7/7	100%
		Park Cheul (o)	6/6	100%
		Lee Heun-ya (o)		
		Philippe Avril (o)	6/7	86%
Namkoong Hoon	6/6	100%		
		Chair	5/5	100%

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<b>Remuneration Committee</b>	This committee is responsible for reviewing and approving the management's evaluation and Remuneration programs.	Park Cheul (o)		
		Lee Sang-kyung (o)	3/3	100%
		Lee Steven	3/3	100%
		Sung-ryang (o)		
<b>Audit Committee Member Recommendation Committee</b>	Members of this committee will be appointed by our Board of Directors if and only to the extent necessary to recommend and nominate candidates for our audit committee member positions and related matters. The committee should consist of all of the outside directors of the Group.	Lee Jung-il (o)	3/3	100%
		All outside Directors (o)	1/1	100%
<b>Corporate Social Responsibility Committee</b>	The committee is responsible for setting the general corporate policy and discussing specific business agenda in relation to enhancing our role as a responsible corporate citizen.	Chair	3/3	100%
		Namkoong Hoon		
		Ko Boo-in (o)	3/3	100%
		Lee Manwoo (o)	3/3	100%
		Yuki Hirakawa (o)	3/3	100%
		Han Dongwoo	3/3	100%

indicates committees with a majority of outside directors as committee members

(o) indicates outside directors

**VI. Related Party Transactions****Transactions with largest Shareholders**

According to the Article 45-2, 45-3 of Financial Holding Companies Act, we announced matters regarding the credit grants to the major shareholders and we also disclosure the acquisition of the stocks issued by the major shareholders of the company on our website on a quarterly basis.

There are no credit grants to the National Pension Service or no acquisition of the stocks issued by the NPS, which is the largest shareholder of our company as of Dec. 31, 2016.

**Related party transactions with subsidiaries**

Loans to		Loan Type	Origination Date	Maturity Date	Lending Rate	Beginning Balance		Ending Balance	
Subsidiaries (in KRW bil.)	(Jan. 1, 2016)					Decrease	Increase	(Dec. 31, 2016)	
Shinhan Investment Corp.	KRW	2012-01-30	2017-01-30	4.11%	100	100			
	KRW	2012-06-28	2017-06-28	3.84%	100	100			
Shinhan Card	KRW	2011-01-28	2016-01-28	4.91%	100	100			
	KRW	2011-02-24	2016-02-24	4.82%	250	250			
	KRW	2011-05-17	2016-05-17	4.47%	100	100			
	KRW	2012-03-14	2017-03-14	4.12%	150			150	
	KRW	2016-01-26	2021-01-26	1.98%			150	150	
	KRW	2016-02-24	2021-02-24	1.84%			150	150	
Shinhan Capital	KRW	2011-04-29	2016-04-29	4.65%	100	100			
	KRW	2011-05-17	2016-05-17	4.47%	50	50			
	KRW	2012-03-14	2017-03-14	4.12%	50			50	
	KRW	2012-12-14	2017-12-14	3.33%	50			50	
	KRW	2013-01-18	2018-01-18	3.18%	50			50	
	KRW	2013-09-05	2018-09-05	3.61%	80			80	
	KRW	2014-01-27	2019-01-27	3.60%	50			50	
	KRW	2016-03-16	2021-03-16	1.90%			50	50	
Shinhan Private Equity	KRW	2016-04-27	2019-04-27	1.63%			100	100	
	KRW	2015-11-25	2016-11-23	2.12%	5	5			
Shinhan Savings Bank	KRW	2016-11-23	2017-11-22	1.95%			5	5	
	KRW	2016-06-17	2021-06-17	1.61%			50	50	
<b>Total</b>						1,235	805	505	935

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHINHAN FINANCIAL GROUP CO., LTD.

/s/ Yim Bo-hyuk

Name: Yim Bo-hyuk

Title: Chief Financial Officer

Date: February 21, 2017

For detailed information of notes to financial statements, please refer to audit report through 6-K disclosure scheduled on 8th of March, 2017.

Actual date of disclosure that is scheduled on 8th of March, 2017 may be subject to change.

**Appendix A. Financial Statements for FY 2016**

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

Separate Financial Statements

December 31, 2016 and 2015

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## SHINHAN FINANCIAL GROUP CO., LTD.

**Separate Statements of Financial Position**

As of December 31, 2016 and 2015

<i>(In millions of won)</i>	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Due from banks	₩ 42	500,815
Trading assets	195,026	517,597
Loans, net	934,664	1,234,622
Property and equipment, net	877	768
Intangible assets, net	5,659	4,383
Investments in subsidiaries	25,703,159	25,203,159
Deferred tax assets	4,307	4,596
Other assets, net	351,873	209,547
<b>Total assets</b>	<b>₩ 27,195,607</b>	<b>27,675,487</b>
<b>Liabilities</b>		
Borrowings	₩ 5,000	5,000
Debt securities issued	6,583,308	6,642,830
Liabilities for defined benefit obligations	4,158	3,855
Other liabilities	385,280	242,816
<b>Total liabilities</b>	<b>6,977,746</b>	<b>6,894,501</b>
<b>Equity</b>		
Capital stock	2,645,053	2,645,053
Hybrid bonds	498,316	736,898
Capital surplus	9,494,842	9,494,842
Capital adjustments	(1,418)	
Accumulated other comprehensive loss	(4,901)	(4,501)
Retained earnings	7,585,969	7,908,694
<b>Total equity</b>	<b>20,217,861</b>	<b>20,780,986</b>
<b>Total liabilities and equity</b>	<b>₩ 27,195,607</b>	<b>27,675,487</b>

See accompanying notes to the separate financial statements.

SHINHAN FINANCIAL GROUP CO., LTD.

**Separate Statements of Comprehensive Income**

For the years ended December 31, 2016 and 2015

<i>(In millions of won, except earnings per share data)</i>	<b>2016</b>	<b>2015</b>
Interest income	₩ 37,192	58,872
Interest expense	(197,519)	(241,312)
<b>Net interest expense</b>	<b>(160,327)</b>	<b>(182,440)</b>
Fees and commission income	46,713	70,024
Fees and commission expense	(167)	(121)
<b>Net fees and commission income</b>	<b>46,546</b>	<b>69,903</b>
Dividend income	1,646,139	1,063,347
Net trading income	9,774	9,706
Reversal of (provision for) credit losses	106	(2)
General and administrative expenses	(71,389)	(68,423)
<b>Operating income</b>	<b>1,470,849</b>	<b>892,091</b>
<b>Non-operating expense</b>	<b>(183)</b>	<b>(317)</b>
<b>Profit before income taxes</b>	<b>1,470,666</b>	<b>891,774</b>
Income tax expense (benefit)	416	(1,267)
<b>Net profit for the year</b>	<b>1,470,250</b>	<b>893,041</b>
<b>Other comprehensive income (loss) for the year, net of income tax</b>		
Items that will never be reclassified to profit or loss :		
Remeasurements of the defined benefit liability	(400)	287
<b>Total comprehensive income for the year</b>	<b>₩ 1,469,850</b>	<b>893,328</b>
<b>Basic and diluted earnings per share in won</b>	<b>₩ 2,985</b>	<b>1,680</b>

*See accompanying notes to the separate financial statements.*

SHINHAN FINANCIAL GROUP CO., LTD.

**Separate Statements of Appropriation of Retained Earnings**

For the years ended December 31, 2016 and 2015

<i>(In millions of won)</i>	<b>2016</b>	<b>2015</b>
<b>Unappropriated retained earnings :</b>		
Balance at beginning of year	₩ 5,422,880	5,285,274
Redemption of preferred stock	(1,125,906)	
Dividend to hybrid bonds	(36,091)	(34,488)
Net income	1,470,250	893,041
	5,731,133	6,143,827
<b>Reversal of regulatory reserve for loan losses</b>	3,191	
	5,734,324	6,143,827
<b>Appropriation of retained earnings :</b>		
Legal reserve	147,025	89,304
Dividends		
Dividends on common stocks paid	687,589	569,040
Dividends on preferred stocks paid		61,938
Regulatory reserve for loan losses		665
Voluntary reserve (Responsibility for damage)	2,000	
Loss on hybrid bond redemption	1,418	
	838,032	720,947
<b>Unappropriated retained earnings to be carried over to subsequent year</b>	₩ 4,896,292	5,422,880
Date of appropriation :	March 23, 2017	March 24, 2016

*See accompanying notes to the separate financial statements.*

SHINHAN FINANCIAL GROUP CO., LTD.

**Separate Statements of Changes in Equity**

For the years ended December 31, 2016 and 2015

<i>(In millions of won)</i>	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other Comprehensive loss	Retained earnings	Total equity
<b>Balance at January 1, 2015</b>	₩ 2,645,053	537,443	9,494,842		(4,788)	7,562,569	20,235,119
<b>Total comprehensive income for the year:</b>							
Net profit for the year						893,041	893,041
Other comprehensive income, net of income tax:							
Remeasurements of the defined benefit liability					287		287
					287	893,041	893,328
<b>Transactions with owners:</b>							
Dividends						(512,428)	(512,428)
Dividend to hybrid bonds						(34,488)	(34,488)
Issuance of hybrid bonds		199,455					199,455
		199,455				(546,916)	(347,459)
<b>Balance at December 31, 2015</b>	₩ 2,645,053	736,898	9,494,842		(4,501)	7,908,694	20,780,986

<i>(In millions of won)</i>	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other Comprehensive loss	Retained earnings	Total equity
<b>Balance at January 1, 2016</b>	₩ 2,645,053	736,898	9,494,842		(4,501)	7,908,694	20,780,986
<b>Total comprehensive income for the year:</b>							
Net profit for the year						1,470,250	1,470,250

Other comprehensive  
income, net of income  
tax:

Remeasurements of the defined benefit liability				(400)			(400)
				(400)	1,470,250		1,469,850

**Transactions with  
owners:**

Dividends					(630,978)		(630,978)
Dividend to hybrid bonds					(36,091)		(36,091)
Redemption of hybrid bonds	(238,582)		(1,418)				(240,000)
Redemption of preferred stock					(1,125,906)		(1,125,906)
	(238,582)		(1,418)		(1,792,975)		(2,032,975)

**Balance at December  
31, 2016**

₩2,645,053	498,316	9,494,842	(1,418)	(4,901)	7,585,969	20,217,861
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*See accompanying notes to the separate financial statements.*

## SHINHAN FINANCIAL GROUP CO., LTD.

**Separate Statements of Cash Flows**

For the years ended December 31, 2016 and 2015

<i>(In millions of won)</i>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Profit before income taxes	₩ 1,470,666	891,774
Adjustments for:		
Interest income	(37,192)	(58,872)
Interest expense	197,519	241,312
Dividend income	(1,646,139)	(1,063,347)
Net trading income	(488)	(1)
Provision for (reversal of) credit losses	(106)	2
Employee costs	4,969	3,766
Depreciation and amortization	498	640
Non-operating expense	75	46
	(1,480,864)	(876,454)
Changes in assets and liabilities:		
Trading assets	323,059	(448,258)
Other assets	1,538	374
Liabilities for defined benefit obligations	(2,089)	(2,292)
Other liabilities	(1,792)	(6,761)
	320,716	(456,937)
Interest received	41,832	57,895
Interest paid	(200,452)	(240,172)
Dividend received	1,646,139	1,063,347
<b>Net cash provided by operating activities</b>	<b>1,798,037</b>	<b>439,453</b>
<b>Cash flows from investing activities</b>		
Lending of loans	(505,000)	(5,000)
Collection of loans	805,000	107,500
Acquisition of property and equipment	(456)	(204)
Disposal of property and equipment		10
Acquisition of intangible assets	(1,504)	(86)
Disposal of intangible assets	1,400	75
Acquisition of investments in subsidiaries	(500,000)	
Increase of other assets	(748)	
<b>Net cash provided by (used in) investing activities</b>	<b>(201,308)</b>	<b>102,295</b>
<b>Cash flows from financing activities</b>		
Issuance of hybrid bonds		199,455
Redemption of hybrid bonds	(240,000)	

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Redemption of preferred stock	(1,125,906)	
Increase in borrowings	5,000	95,000
Repayments of borrowings	(5,000)	(97,500)
Issuance of debt securities	1,600,000	1,500,000
Redemption of debt securities issued	(1,660,000)	(1,310,000)
Debentures issuance cost paid	(2,587)	(2,447)
Dividends paid	(669,103)	(546,160)
<b>Net cash used in financing activities</b>	<b>(2,097,596)</b>	<b>(161,652)</b>
<b>Net increase(decrease) in cash and cash equivalents</b>	<b>(500,867)</b>	<b>380,096</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>500,906</b>	<b>120,810</b>
<b>Cash and cash equivalents at end of year</b>	<b>₩ 39</b>	<b>500,906</b>

*See accompanying notes to the separate financial statements.*

SHINHAN FINANCIAL GROUP CO., LTD.

## Notes to the Separate Financial Statements

December 31, 2016 and 2015

### **1. Reporting entity**

Shinhan Financial Group Co., Ltd. (the Company) was incorporated on September 1, 2001 through a business combination involving the exchange of the Company's common stock with the former shareholders of Shinhan Bank, Shinhan Investment Corp., Shinhan Capital Co., Ltd. and Shinhan BNP Paribas Investment Trust Management Co., Ltd. The Company's shares were listed on the Korea Exchange on September 10, 2001 and the Company's American depository shares were listed on the New York Stock Exchange on September 16, 2003.

### **2. Basis of preparation**

#### **(a) Statement of compliance**

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

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027 *Separate Financial Statements* and the investments of the company in an associate or a venturer are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

#### **(b) Basis of measurement**

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

Financial instruments at fair value through profit or loss are measured at fair value

Liabilities for cash-settled share-based payment arrangements are measured at fair value

Liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

#### **(c) Functional and presentation currency**

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

#### **(d) Use of estimates and judgments**

The preparation of the separate 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.

SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

**(e) Approval of separate financial statements**

These separate financial statements were approved by the Board of Directors on February 8, 2017, which will be submitted for approval to shareholder's meeting.

**3. Significant accounting policies**

The significant accounting policies applied by the Company in preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

**(a) Investments in subsidiaries**

The accompanying separate financial statements have been prepared on a stand-alone basis in accordance with K-IFRS No.1027 *Separate Financial Statements*. The Company's investments in subsidiaries are recorded at cost in accordance with K-IFRS No.1027. The Company applied K-IFRS No.1101 *First-time Adoption of K-IFRS*, and considered the amount reported previously in separate financial statements prepared in accordance with previous K-GAAP as deemed cost at the date of transition. Dividends received from its subsidiaries are recognized in profit or loss when the Company is entitled to receive the dividend.

**(b) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Company in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents.

SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

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

The Company 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 Company recognizes financial assets in the separate statement of financial position when the Company 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.

*ii) Held-to-maturity investments*

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

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.



SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

*v) Derecognition of financial assets*

The Company 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 Company is recognized as a separate asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company 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 separate statement of financial position only when the Company 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.

**(d) Derivative financial instruments**

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*

*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 Company 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.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

*ii) 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.

**(e) Impairment of financial assets**

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

The Company 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 Company 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.

**(f) Property and equipment**

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

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

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of 5 years, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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



SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

**(g) Intangible assets**

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

Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of 5 years 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.

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.

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

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

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Depending on commitments in a contract and definition of financial liabilities, the non-derivative financial liabilities are categorized as either at fair value through profit or loss or other financial liabilities.

*i) Financial liabilities at fair value through profit or loss*

The financial liabilities at fair value through profit or loss include a financial liability held for trading or designated at fair value through profit or loss upon initial recognition. These financial liabilities are measured at fair value after initial recognition and changes in the fair value are recognized through profit or loss of the period. Costs attributable to the issuance or acquisition are immediately expensed in the period.

*ii) Other financial liabilities*

The financial liabilities not classified as at fair value through profit or loss are classified into other financial liabilities. The liabilities are measured at a fair value minus cost relating to issuance upon initial recognition. Then, they are carried at amortized cost, using the effective interest rate method.

Only when financial liabilities become extinct, or obligations in a contract are cancelled or terminated, they are derecognized from the Company's separate statement of financial position.

**(j) Foreign currency translation**

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

**(k) Capital stock**

*i) Capital stock*

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

*ii) Hybrid bond*

The Company classifies 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 bond where the Company 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.

**(l) Employee benefits**

*i) Short-term employee benefits*

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

*ii) Defined benefit plans*

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

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

expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company 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.

SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

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

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, are recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately following the introduction of, or changes to, a defined benefit plan, the Company recognizes the past service cost immediately.

*iii) Other long-term employee benefits*

The Company's net obligation in respect of long-term employee benefits other than pension plans 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, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

**(m) 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.

SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

**(n) Provisions**

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

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

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

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

**(o) Financial income and expense**

*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 year) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

*ii) Fees and commissions*

Fees and commission income are recognized as the related services are performed.

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

*iii) Dividend income*

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

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SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

**(p) 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.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.



SHINHAN FINANCIAL GROUP CO., LTD.

**Notes to the Separate Financial Statements**

December 31, 2016 and 2015

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

**(q) Earnings per share**

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

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

**AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2016 and 2015

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

**Consolidated Statements of Financial Position**

As of December 31, 2016 and 2015

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

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Retained earnings	18,640,038	17,689,134
Total equity attributable to equity holders of Shinhan Financial Group Co., Ltd.	31,109,698	30,839,655
Non-controlling interests	635,282	973,401
<b>Total equity</b>	<b>31,744,980</b>	<b>31,813,056</b>
<b>Total liabilities and equity</b>	<b>₩ 395,680,324</b>	<b>370,548,003</b>

*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, 2016 and 2015

<i>(In millions of won)</i>	<b>2016</b>	<b>2015</b>
Interest income	₩ 11,236,302	11,129,704
Interest expense	(4,030,936)	(4,436,771)
<b>Net interest income</b>	<b>7,205,366</b>	<b>6,692,933</b>
Fees and commission income	3,803,596	3,896,529
Fees and commission expense	(2,238,057)	(2,275,550)
<b>Net fees and commission income</b>	<b>1,565,539</b>	<b>1,620,979</b>
Insurance income	4,586,098	4,447,828
Insurance expenses	(5,004,602)	(4,879,989)
<b>Net insurance loss</b>	<b>(418,504)</b>	<b>(432,161)</b>
Dividend income	281,623	308,277
Net trading income (expenses)	270,810	(344,098)
Net foreign currency transaction gain	560,371	78,236
Net gain (loss) on financial instruments designated at fair value through profit or loss	(501,955)	459,765
Net gain on disposal of available-for-sale financial assets	647,541	772,474
Impairment losses on financial assets	(1,195,663)	(1,264,053)
General and administrative expenses	(4,508,575)	(4,475,068)
Other operating expenses, net	(797,911)	(444,143)
<b>Operating income</b>	<b>3,108,642</b>	<b>2,973,141</b>
Equity method income	9,995	20,971
Other non-operating income, net	51,835	146,465
<b>Profit before income taxes</b>	<b>3,170,472</b>	<b>3,140,577</b>
Income tax expense	345,553	694,619
<b>Profit for the year</b>	<b>₩ 2,824,919</b>	<b>2,445,958</b>

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, 2016 and 2015

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

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, 2015

in millions of (in million)	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		
<b>Balance at January 1, 2015</b>	₩2,645,053	537,443	9,887,335	(393,405)	637,894	15,869,779	29,184,099	1,330,809	30,514,908
<b>Comprehensive income for the year</b>									
Profit for the year						2,367,171	2,367,171	78,787	2,445,958
<b>Other comprehensive income (loss), net of income tax:</b>									
Foreign currency translation adjustments					(5,630)		(5,630)	(839)	(6,469)
Net change in unrealized fair value of available-for-sale financial assets					(265,910)		(265,910)	(80)	(265,990)
Equity in other comprehensive income of associates					11,624		11,624		11,624
Net change in unrealized fair value of cash flow hedges					2,932		2,932		2,932
Other comprehensive income of separate account measurements					3,092		3,092		3,092
Defined benefit plans					(79,231)		(79,231)	(2,582)	(81,813)

Total other comprehensive income (loss)				(333,123)		(333,123)	(3,501)	(336,624)	
<b>Total comprehensive income</b>				(333,123)	2,367,171	2,034,048	75,286	2,109,334	
<b>Other changes in equity</b>									
Dividends					(512,428)	(512,428)		(512,428)	
Dividends to hybrid bonds					(34,488)	(34,488)		(34,488)	
Issuance of hybrid bonds	199,455					199,455		199,455	
Change in other capital adjustments				(30,131)	(900)	(31,031)		(31,031)	
Change in other non-controlling interests							(432,694)	(432,694)	
	199,455			(30,131)	(547,816)	(378,492)	(432,694)	(811,186)	
<b>Balance at December 31, 2015</b>	<b>₩ 2,645,053</b>	<b>736,898</b>	<b>9,887,335</b>	<b>(423,536)</b>	<b>304,771</b>	<b>17,689,134</b>	<b>30,839,655</b>	<b>973,401</b>	<b>31,813,056</b>

*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, 2016

in millions of (in Kwon)	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.						Sub-total	Non- controlling interests	Total
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings			
Balance at January 1, 2016	₩2,645,053	736,898	9,887,335	(423,536)	304,771	17,689,134	30,839,655	969,981	31,809,636
Retrospective adjustment for a business combination								3,420	3,420
Balance at January 1, 2016 (adjusted)	2,645,053	736,898	9,887,335	(423,536)	304,771	17,689,134	30,839,655	973,401	31,813,056
Total comprehensive income for the year						2,774,778	2,774,778	50,141	2,824,919
Other comprehensive income (loss), net of income tax:									
Foreign currency translation adjustments					12,012		12,012	91	12,103
Net change in unrealized fair value of available-for-sale financial assets					(432,530)		(432,530)	(1,127)	(433,657)
Equity in other comprehensive income of associates					2,689		2,689		2,689
Net change in unrealized fair value of cash flow hedges					(1,262)		(1,262)		(1,262)
					(4,330)		(4,330)		(4,330)

Other comprehensive income of separate account measurements defined benefit plans			15,705			15,705	(398)	15,307	
Total other comprehensive income (loss)			(407,716)			(407,716)	(1,434)	(409,150)	
<b>Total comprehensive income</b>			(407,716)	2,774,778		2,367,062	48,707	2,415,769	
<b>Other changes in equity</b>									
Dividends				(630,978)		(630,978)		(630,978)	
Dividends to hybrid bonds				(36,091)		(36,091)		(36,091)	
Redemption of hybrid bonds	(238,582)		(1,418)			(240,000)		(240,000)	
Redemption of preferred stock				(1,125,906)		(1,125,906)		(1,125,906)	
Change in other capital adjustments			(33,507)	362	(30,899)	(64,044)		(64,044)	
Change in other non-controlling interests							(386,826)	(386,826)	
	(238,582)		(34,925)	362	(1,823,874)	(2,097,019)	(386,826)	(2,483,845)	
<b>Balance at December 31, 2016</b>	<b>₩ 2,645,053</b>	<b>498,316</b>	<b>9,887,335</b>	<b>(458,461)</b>	<b>(102,583)</b>	<b>18,640,038</b>	<b>31,109,698</b>	<b>635,282</b>	<b>31,744,980</b>

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, 2016 and 2015

<i>(In millions of won)</i>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Profit before income taxes	₩ 3,170,472	3,140,577
Adjustments for:		
Interest income	(11,236,302)	(11,129,704)
Interest expense	4,030,936	4,436,771
Dividend income	(281,623)	(308,277)
Net fees and commission expense	166,216	168,313
Net insurance loss	2,779,710	2,714,061
Net trading loss	143,182	751,811
Net foreign currency translation loss (gain)	(248,844)	163,417
Net loss (gain) on financial assets designated at fair value through profit or loss	147,813	(748,959)
Net gain on disposal of available-for-sale financial assets	(647,541)	(772,474)
Provision for credit losses	1,107,633	1,021,711
Impairment losses on other financial assets	88,030	242,342
Employee costs	203,639	185,222
Depreciation and amortization	259,941	278,882
Other operating expense (income)	70,236	(623,639)
Equity method income, net	(9,995)	(20,971)
Other non-operating expense (income), net	598	(18,463)
	(3,426,371)	(3,659,957)
<b>Changes in assets and liabilities:</b>		
Due from banks	3,937,005	(1,926,814)
Trading assets and liabilities	(4,343,206)	1,583,631
Financial instruments designated at fair value through profit or loss	(2,439)	210,582
Derivative instruments	(435,650)	(382,276)
Loans	(11,351,121)	(24,731,045)
Other assets	(4,627,748)	(3,562,267)
Deposits	16,771,470	23,246,539
Liabilities for defined benefit obligations	(261,550)	(347,926)
Provisions	(77,514)	(71,272)
Other liabilities	(2,333,634)	3,578,899
	(2,724,387)	(2,401,949)
Income taxes paid	(561,604)	(640,393)
Interest received	11,109,313	10,921,869
Interest paid	(4,080,122)	(4,700,685)
Dividends received	309,876	310,852

<b>Net cash provided by operating activities</b>	<b>₩ 3,797,177</b>	<b>2,970,314</b>
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*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, 2016 and 2015

<i>(In millions of won)</i>	<b>2016</b>	<b>2015</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of available-for-sale financial assets	₩ 29,242,921	31,592,380
Acquisition of available-for-sale financial assets	(32,844,558)	(33,755,811)
Proceeds from disposal of held-to-maturity financial assets	1,839,275	2,414,031
Acquisition of held-to-maturity financial assets	(5,277,451)	(5,150,329)
Proceeds from disposal of property and equipment	6,609	8,760
Acquisition of property and equipment	(260,780)	(124,844)
Proceeds from disposal of intangible assets	8,217	5,463
Acquisition of intangible assets	(83,277)	(132,636)
Proceeds from disposal of investments in associates	67,082	35,396
Acquisition of investments in associates	(145,119)	(30,927)
Proceeds from disposal of investment property	22,900	16,171
Acquisition of investment property	(176,204)	(10,296)
Proceeds from disposal of assets held for sale	2,213	88,235
Net increase (decrease) in other assets	48,156	(22,173)
Proceeds from settlement of hedging derivative financial instruments for available-for-sale financial assets	27,265	5,000
Payment of hedging derivative financial instruments for available-for-sale financial assets	(69,175)	(63,847)
Business combination, net of cash used	(4,280)	(163,172)
<b>Net cash used in investing activities</b>	<b>(7,596,206)</b>	<b>(5,288,599)</b>
<b>Cash flows from financing activities</b>		
Issuance of hybrid bonds		199,455
Redemption of hybrid bonds	(240,000)	
Net increase (decrease) in borrowings	3,392,164	(1,557,883)
Proceeds from debt securities issued	15,916,866	16,512,720
Repayments of debt securities issued	(11,988,965)	(12,867,244)
Net decrease in other liabilities	(824)	(7,258)
Dividends paid	(669,103)	(546,160)
Proceeds from settlement of hedging derivative financial instruments for debt securities issued	15,414	23,270
Payment of hedging derivative financial instruments for debt securities issued	(1,486)	(17,342)
Redemption of preferred stock	(1,125,906)	
Decrease in non-controlling interests	(451,208)	(426,808)
<b>Net cash provided by financing activities</b>	<b>4,846,952</b>	<b>1,312,750</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents held</b>	<b>(22,638)</b>	<b>8,375</b>

<b>Increase (decrease) in cash and cash equivalents</b>	1,025,285	(997,160)
<b>Cash and cash equivalents at beginning of period</b>	4,607,251	5,604,411
<b>Cash and cash equivalents at end of period</b>	₩ 5,632,536	4,607,251

*See accompanying notes to the consolidated financial statements.*

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

## Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

**1. Reporting entity**

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

## (a) Controlling company

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

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

Investor	Investee (*1)	Location	Date of financial information	Ownership (%)	
				2016	2015
Shinhan Financial Group Co., Ltd.	Shinhan Bank Co., Ltd.	Korea	December 31	100.0	100.0
	Shinhan Card Co., Ltd.			100.0	100.0
	Shinhan Investment Corp.			100.0	100.0
	Shinhan Life Insurance Co., Ltd.			100.0	100.0
	Shinhan Capital Co., Ltd.			100.0	100.0
	Jeju Bank			68.9	68.9
	Shinhan Credit Information Co., Ltd.			100.0	100.0
	Shinhan Private Equity Inc.			100.0	100.0
	Shinhan BNP Paribas Asset Management Co., Ltd.			65.0	65.0
	SHC Management Co., Ltd.			100.0	100.0
	Shinhan Data System			100.0	100.0
	Shinhan Savings Bank			100.0	100.0
	Shinhan AITAS Co., Ltd.			99.8	99.8
Shinhan Bank Co., Ltd.	Shinhan Asia Limited	Hong Kong		99.9	99.9
	Shinhan Bank America	USA		100.0	100.0
	Shinhan Bank Europe GmbH	Germany		100.0	100.0
	Shinhan Khmer Bank PLC (*2)	Cambodia		90.0	90.0
	Shinhan Bank Kazakhstan Limited	Kazakhstan		100.0	100.0
	Shinhan Bank Canada	Canada		100.0	100.0

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	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 Metro Express	Indonesia		98.98	97.76
	PT Centratama Nasional Bank				75.0
Shinhan Card Co., Ltd.	LLP MFO Shinhan Finance	Kazakhstan	December 31	100.0	100.0
	PT. Shinhan Indo Finance	Indonesia		50.0	50.0
	Shinhan Microfinance Co., Ltd.	Myanmar		100.0	
Shinhan Investment Corp.	Shinhan Investment Corp. USA Inc.	USA		100.0	100.0
	Shinhan Investment Corp. Asia Ltd.	Hong Kong		100.0	100.0
	SHINHAN SECURITIES VIETNAM CO., LTD.	Vietnam		100.0	100.0
	PT. Shinhan Sekuritas Indonesia	Indonesia		99.0	

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

## Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

1. Reporting entity (continued)

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

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

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

(c) Consolidated structured entities

Consolidated structured entities are as follows:

Consolidated		
Category	structured entities	Description
Trust	16 trusts managed by Shinhan Bank including development trust	A trust is consolidated when the Group as a trustee is exposed to variable returns, for example, if principle or interest amounts of the entrusted properties falls below guaranteed amount, the Group should compensate it; and the Group has the ability to affect those returns.
Asset-Backed Securitization	MPC Yulchon Green I and 57 others	An entity for asset backed securitization is consolidated when the Group has the ability to dispose assets or change the conditions of the assets, is exposed to variable returns and has the ability to affect the variable returns providing credit enhancement and purchases of subordinated securities.
Structured Financing	SHPE Holdings One Co., Ltd. and 3 others	An entity established for structured financing relating to real estate, shipping, or mergers and acquisitions is consolidated, when the Group has granted credit to the entity, has sole decision-making authority of these entities due to the entities default, and is exposed to, or has rights to related variable returns.

Investment  
Fund

KoFC Shinhan Frontier  
Champ 2010-4 PEF and  
52 others

An investment fund is consolidated, when the Group manages or invests assets of the investment funds on behalf of other investors, or has the ability to dismiss the manager of the investment funds, and is exposed to, or has rights to, the variable returns.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

**2. Basis of preparation**

**(a) Statement of compliance**

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 8, 2017, which will be submitted for approval to the shareholders meeting to be held on March 23, 2017.

**(b) Basis of measurement**

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

derivative financial instruments are measured at fair value

financial instruments at fair value through profit or loss are measured at fair value

available-for-sale financial assets are measured at fair value

liabilities for cash-settled share-based payment arrangements are measured at fair value

financial liabilities designated as hedged items in a fair value hedge accounting of which changes in fair value attributable to the hedged risk are recognized in profit or loss

liabilities for defined benefit plans that are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

**(c) Functional and presentation currency**

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

**(d) Use of estimates and judgments**

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

**3. Significant accounting policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

**(a) Operating segments**

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

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

**(b) Basis of consolidation**

*i) Subsidiaries*

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

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

*ii) Structured entity*

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

*iii) Intra-group transactions*

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

*iv) Non-controlling interests*

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

**(c) Business combinations**

*i) Business combinations*

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

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

Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors

Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized

Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012 *Income Taxes*

Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 *Employee Benefits*

Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset

Reacquired rights are measured on the basis of the remaining contractual terms of the related contract

Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No.1102 *Share-based Payment*

Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No.1105 *Non-current Assets Held for Sale*

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

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

*ii) Goodwill*

The Group measures goodwill at the acquisition date as:

the fair value of the consideration transferred; plus

the recognized amount of any non-controlling interests in the acquiree; plus

if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less

the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which

exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

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

**(e) Cash and cash equivalents**

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

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

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

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

*i) Financial assets at fair value through profit or loss*

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

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

such designation eliminates or significantly reduces a recognition or measurement inconsistency that would otherwise arise; or

the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

it forms part of a contract containing one or more embedded derivatives that would be required to be separated from the host contract.

*ii) Held-to-maturity financial assets*

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

*iii) Loans and receivables*

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

*iv) Available-for-sale financial assets*

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

*v) De-recognition of financial assets*

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

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

*vi) Offsetting between financial assets and financial liabilities*

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

**(g) Derivative financial instruments including hedge accounting**

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

*i) Hedge accounting*

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

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

*Fair value hedge* Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

*Cash flow hedge* When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

*ii) Separable embedded derivatives*

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

*iii) Other derivative financial instruments*

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

*iv) Unobservable valuation differences at initial recognition*

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

**(h) Impairment of financial assets**

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

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

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

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

significant financial difficulty of the issuer or obligor

a breach of contract, such as a default or delinquency in interest or principal payments;

the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider

it becoming probable that the borrower will enter bankruptcy or other financial reorganisation

the disappearance of an active market for that financial asset because of financial difficulties

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

*i) Loans and receivables*

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

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

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

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

*ii) Available-for-sale financial assets*

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

*iii) Held-to-maturity financial assets*

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

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

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

**3. Significant accounting policies (continued)****(i) Property and equipment**

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

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

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

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

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

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

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

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

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

**3. Significant accounting policies (continued)****(j) Intangible assets**

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

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

**Descriptions**

Software, capitalized development cost

Other intangible assets

**Useful lives**

5 years

5 years or contract periods

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

*i) Research and development*

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

*ii) Subsequent expenditures*

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

**(k) Investment property**

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

losses.

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

<b>Descriptions</b>	<b>Depreciation method</b>	<b>Useful lives</b>
Buildings	Straight-line	40 years

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

**(l) Leased assets**

*i) Classification of a lease*

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

*ii) Lessee*

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

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

*iii) Lessor*

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

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

**(m) Assets held for sale**

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

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

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

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

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

An impairment loss is recognized if the carrying amount of an asset or 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.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

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

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

*i) Financial liabilities at fair value through profit or loss*

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

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

*ii) Other financial liabilities*

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

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

**(p) Foreign currency**

*i) Foreign currency transactions*

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

*ii) Foreign operations*

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

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

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

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

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

*iii) Net investment in a foreign operation*

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

**(q) Equity**

*i) Capital stock*

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

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

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

*ii) Hybrid bonds*

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

*iii) Capital adjustments*

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

**(r) Employee benefits**

*i) Short-term employee benefits*

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

*ii) Other long-term employee benefits*

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

*iii) Retirement benefits: defined contribution plans*

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

*iv) Retirement benefits: defined benefit plans*

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

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

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

*v) Termination benefits*

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

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

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

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

**(t) Provisions**

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

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

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

**(u) Financial guarantee contract**

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

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

The amount determined in accordance with K-IFRS No.1037 *Provisions, Contingent Liabilities and Contingent Assets* and

The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS No.1018. *Revenue*

**(v) Insurance contracts**

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

*i) Reserves for insurance contracts*

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

*Premium reserve* - Premium reserve is a liability to prepare for the future claims on the valid contracts. Premium reserve is calculated by deducting discounted net premium from the discounted claims expected to be paid in the future period.

*Unearned premium reserve* - Unearned premium reserve represents the portion of premiums written which is applicable to the unexpired portion of policies in force.

*Guarantee reserve* - At the end of reporting period, the Group is required to make reserve on the outstanding insurance contracts to guarantee a certain level of benefit payments for the amount equals to the average amount of net losses of the worst 30% cases forecasted by scenarios or the standard reserve amount by insurance type and the lowest insured amount, whichever is greater.

*Reserve for outstanding claims* - Reserve for outstanding claims is an estimate of loss for insured events that have occurred prior to the date of the statement of financial position but for which a fixed value cannot be determined, which includes the following:

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

Estimated amount: The expenses to be incurred in the course of settlement of the insured event, such as lawsuit or arbitration (if partial amount is settled, the remainder is recognized)

Reserve for ineffective contracts: Reserve for ineffective contracts due to default in premium payment (Partial amount of surrender value)

Unpaid claims: The amount of claims, surrender value and dividend to be paid is determined but not paid yet

IBNR (Incurred But Not Reported): Estimated amount using a reasonable statistical method considering the company's experience rate

*Reserve for participating policyholder's dividend* - In accordance with regulations and policy terms, reserves for participating policyholder's dividend are provided for dividend to be paid to the policyholders and comprise the current reserve for policyholder's dividend and the future reserve for policyholder's dividend. The current reserve for policyholder's dividend is the fixed payable dividend amount but not paid at the end of the reporting period and the future reserve for policyholder's dividend is the calculated policyholder's dividend amount factoring in estimated policy termination rates for the valid insurance policy as at the end of the reporting period.

*ii) Policyholders' equity adjustment*

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

*iii) Liability adequacy test (the LAT)*

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

*iv) Reinsurance contracts*

Transactions relating to reinsurance assumed and ceded are accounted for in the consolidated statements of financial position and comprehensive income in a similar way to direct business transactions provided that these contracts meet the insurance contracts classification requirements and in agreement with contractual clauses.

v) *Deferred acquisition costs (the DAC )*

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

**(w) Financial income and expense**

*i) Interest*

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

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

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

*ii) Fees and commission*

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

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

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

*iii) Dividends*

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

**(x) Customer loyalty program**

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

**(y) Income tax**

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

*i) Current tax*

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

*ii) Deferred tax*

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

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

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

**Notes to the Consolidated Financial Statements**

December 31, 2016 and 2015

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

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

Deferred tax assets and liabilities are offset only if 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.

**(z) Accounting for trust accounts**

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

**(aa) Earnings per share**

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