SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

Contents

<u>Independent Auditors' Report</u>

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated financial statements of Shinhan Card Co., Ltd. and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 5 to the consolidated financial statements which states that the Group changed its accounting estimates regarding allowance for doubtful accounts and allowance for unused credit commitments during the year ended December 31, 2017.

Other Matter

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

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 6, 2018

This report is effective as of March 6, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2017 and 2016

(In millions of won, except share data)	***Note***		**2017**	**2016**
Assets				
Cash and due from banks	*10,38*	₩	566,970	460,279
Trading financial assets	*11*		360,064	340,084
Derivative assets	*12*		3,966	153,343
Loans and receivables, net	*13*		24,284,494	22,262,917
Lease assets	*14*		103,620	-
Available-for-sale financial assets	*15*		34,585	242,156
Property and equipment, net	*16*		82,358	76,717
Intangible assets	*17*		45,936	47,226
Deferred tax assets	*37*		208,032	205,694
Other assets	*18*		677,537	631,470
Total assets		₩	26,367,562	24,419,886
Liabilities				
Derivative liabilities	*12*	₩	140,732	10,665
Borrowings	*19*		1,964,344	1,390,180
Debentures, net	*20*		13,959,909	12,984,819
Liability for defined benefit obligations	*21*		3,015	34,281
Current tax liabilities	*37*		123,904	128,754
Provisions	*22*		137,356	389,673
Other liabilities	*23,24*		3,763,183	3,598,968
Total liabilities			20,092,443	18,537,340
Equity				
Common stock of ₩5,000 par value	*25*		626,847	626,847
Authorized - 2,000,000,000 shares				
Issued and outstanding - 125,369,403 shares in 2017 and 2016				
Capital surplus	*25*		860,592	860,592
Capital adjustments	*25*		10	(370)
Accumulated other comprehensive income (loss)	*25*		(3,534)	107,271
Retained earnings	*25,26*		4,797,629	4,283,892
Equity attributable to owners of the Group			6,281,544	5,878,232
Non-controlling interests	*25*		(6,425)	4,314
Total equity			6,275,119	5,882,546
Total liabilities and equity		₩	26,367,562	24,419,886

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(In millions of won, except earnings per share)	***Note***		**2017**	**2016**
Interest income		₩	1,880,908	1,879,317
Interest expense			(379,854)	(394,620)
Net interest income	*30*		1,501,054	1,484,697
Fee and commission income			2,434,001	2,382,672
Fee and commission expense			(2,265,803)	(2,155,604)
Net fee and commission income	*31*		168,198	227,068
Dividend income	*32*		12,400	24,876
Net income on trading financial assets	*11*		2,040	1,148
Net income (loss) on derivatives	*12*		(246,175)	43,997
Net income (loss) on foreign currency transactions			279,726	(15,253)
Net gain on sales of available-for-sale financial assets	*15*		250,572	208,450
Net impairment loss on financial assets	*33*		(291,694)	(347,179)
General administrative expenses	*34*		(791,163)	(751,186)
Other operating income, net	*35*		278,168	43,313
Operating income			1,163,126	919,931
Non-operating expense, net	*36*		(14,956)	(9,044)
Profit before income tax			1,148,170	910,887
Income tax expense	*37*		(249,447)	(203,543)
Profit for the year		₩	898,723	707,344
Other comprehensive income (loss) :				
Items that will never be reclassified to profit or loss				
Remeasurement of the net defined benefit obligations	*21, 25*	₩	21,873	(5,576)
Items that are or may be reclassified subsequently to profit or loss				
Net changes in the unrealized fair value of available-for-sale financial assets	*15, 25*		(150,392)	(147,413)
Net changes in the unrealized fair value of cash flow hedges	*12, 25*		19,030	3,014
Foreign currency translation adjustments for foreign operations	*25*		(1,278)	1,069
Other comprehensive loss for the year, net of tax			(110,767)	(148,906)
Total comprehensive income for the year		₩	787,956	558,438
Profit attributable to:				
Owners of the Company	*28*	₩	913,791	715,867
Non-controlling interests			(15,068)	(8,523)
Profit		₩	898,723	707,344

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (continued)

For the years ended December 31, 2017 and 2016

(In millions of won, except earnings per share)	*Note*		2017	2016
Total comprehensive income (loss) attributable to:				
Owners of the Company		₩	802,986	567,005
Non-controlling interests			(15,030)	(8,567)
Total comprehensive income		₩	787,956	558,438
Earnings per share				
Basic and diluted earnings per share (in won)	*28*	₩	7,289	5,710

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(In millions of won)		2016							
		Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub total	Non-controlling interests	Total equity
Balance at January 1, 2016	₩	626,847	860,592	358	256,133	4,468,052	6,211,982	7,751	6,219,733
Dividends		-	-	-	-	(900,027)	(900,027)	-	(900,027)
Share-based payment transactions		-	-	(728)	-	-	(728)	-	(728)
Changes in non-controlling interests		-	-	-	-	-	-	5,130	5,130
Retained earnings after appropriation:									
Profit for the year		-	-	-	-	715,867	715,867	(8,523)	707,344
Remeasurement of the net defined benefit obligations		-	-	-	(5,576)	-	(5,576)	-	(5,576)
Net changes in the unrealized fair value of available-for-sale financial assets		-	-	-	(147,413)	-	(147,413)	-	(147,413)
Net changes in the unrealized fair value of cash flow hedges		-	-	-	3,014	-	3,014	-	3,014
Foreign currency translation adjustments for foreign operations		-	-	-	1,113	-	1,113	(44)	1,069
Balance at December 31, 2016	₩	626,847	860,592	(370)	107,271	4,283,892	5,878,232	4,314	5,882,546

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

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(In millions of won)		2017	2016
Cash flows from operating activities			
Profit before income tax	₩	1,148,170	910,887
Adjustment for:			
Interest income		(1,880,908)	(1,879,317)
Interest expense		379,854	394,620
Dividend income		(12,400)	(24,876)
Fee and commission income		(323,919)	(283,406)
Fee and commission expense		169,640	166,216
Net gain on valuation of trading financial assets		(64)	(84)
Net loss (gain) on valuation and transaction of derivatives		246,175	(43,997)
Net loss (gain) on foreign currency transaction		(173,610)	43,883
Net gain on sales of available-for-sale financial assets		(250,572)	(208,450)
Bad debt expenses		295,485	355,266
Provision for (reversal of) allowance for unused loan commitments		(281,512)	21,989
Reversal of impairment loss on available-for-sale financial assets		(3,791)	(8,087)
General administrative expenses		58,358	69,201
Other operating expenses		34,330	-
Non-operating expenses, net		146	4,834
		(1,742,788)	(1,392,208)
Changes in assets and liabilities:			
Trading financial assets		(19,916)	(209,995)
Loans and receivables, net		(2,299,004)	(1,395,406)
Lease assets		(109,402)	-
Other assets		(38,364)	67,612
Liability for defined benefit obligations		(25,595)	(14,984)
Provisions		(51,273)	(57,110)
Other liabilities		481,464	694,043
		(2,062,090)	(915,840)
Income taxes paid		(221,157)	(188,147)
Interest received		1,742,429	1,728,081
Interest paid		(374,415)	(415,418)
Dividend received		12,400	24,876
Net cash used in operating activities		(1,497,451)	(247,769)
Cash flows from investing activities			
Decrease in restricted due from banks		-	69,683
Increase in restricted due from banks		(100,132)	-
Proceeds from disposal of available-for-sale financial assets		266,483	230,172
Acquisition of available-for-sale financial assets		(2,000)	-
Acquisition of subsidiary		-	(651)
Proceeds from disposal of property and equipment		117	84
Acquisition of property and equipment		(25,569)	(11,708)
Proceeds from disposal of intangible assets		914	2,193
Acquisition of intangible assets		(13,706)	(24,847)
Decrease in guarantee deposits		51,099	9,419
Increase in guarantee deposits		(60,679)	(15,366)
Net cash provided by investing activities	₩	116,527	258,979

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

For the years ended December 31, 2017 and 2016

(In millions of won)	***Note***		**2017**	**2016**
Cash flows from financing activities				
Proceeds from borrowings		₩	1,212,293	549,945
Repayment of borrowings			(628,387)	(770,942)
Proceeds from debentures			4,703,013	3,739,546
Repayment of debentures			(3,562,204)	(2,561,590)
Cash inflows from cash flow hedges			65,220	15,414
Cash outflows from cash flow hedges			(6,490)	(1,486)
Paid in capital from non-controlling interests			4,291	5,130
Dividends paid			(400,054)	(900,027)
Net cash provided by financing activities			1,387,682	75,990
Effect of exchange rate fluctuations on cash and cash equivalents held			(199)	1,210
Net increase in cash and cash equivalents			6,559	88,410
Cash and cash equivalents at the beginning of year			374,315	285,905
Cash and cash equivalents at the end of year	*38*	₩	380,874	374,315

See accompanying notes to the consolidated financial statements.

1. Reporting Entity

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

(a) Controlling Company

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

As of December 31, 2017, the Company has approximately 12.30 million personal credit card holders (21.15 million including check card holders), 1.79 million merchants in its network and 34 branch offices. The Company is a wholly owned subsidiary of Shinhan Financial Group Co., Ltd. ("Shinhan Financial Group").

(b) Subsidiaries

As of December 31, 2017 and 2016 consolidated subsidiaries are summarized below.

Subsidiaries	Location	Fiscal year-end	Operating activities	2017 Controlling interest	2017 Non-controlling interest	2016 Controlling interest	2016 Non-controlling interest
Shinhan Card 2013-1(*1,2)	Republic of Korea	December 31	ABS	-	-	0.5%	99.5%
Shinhan Card 2014-1(*1,2)	"	"	"	0.5%	99.5%	"	"
Shinhan Card 2014-2(*1,2)	"	"	"	"	"	"	"
Shinhan Card 2015-1(*1,2)	"	"	"	"	"	"	"
Shinhan Card 2016-1(*1,2)	"	"	"	"	"	"	"
Shinhan Card 2017-1(*1,2)	"	"	"	"	"	"	"
Shinhan Card 2017-2(*1,2)	"	"	"	"	"	-	-
Shinhan Card 2017-3(*1,2)	"	"	"	"	"	-	-
Shinhan Finance LLC	Kazakhstan	"	Installment, credit loan	100.0%	-	100.0%	-
Shinhan Indo Finance	Indonesia	"	Installment, credit card and lease financing	50%+1 of the shares	50%-1 of the shares	50%+1 of the shares	50%-1 of the shares
Shinhan Microfinance Co., Ltd.	Myanmar	"	Credit loan	100.0%	-	100.0%	-
Specified money in trusts(*1)	Republic of Korea	"	Trust asset management	100.0%	-	100.0%	-

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

1. Reporting Entity, continued

(b) Subsidiaries, continued

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

(c) Change in subsidiaries

(i) Subsidiaries newly included in consolidated financial statements during the year ended December 31, 2017 are as follows;

Subsidiary	Reason
Shinhan Card 2017-2	New Investment
Shinhan Card 2017-3	New Investment

(ii) Subsidiary excluded from consolidated financial statements during the year ended December 31, 2017 is as follows;

Subsidiary	Reason
Shinhan Card 2013-1	Liquidation

(In millions of won)

1. Reporting Entity, continued

(d) Condensed financial information for the Group's subsidiaries as of and for the years ended December 31, 2017 and 2016 is as follows:

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

		2016				
Subsidiaries		**Total assets**	**Total liabilities**	**Total equity**	**Profit (Loss) for the year**	**Total comprehensive income (loss)**
Shinhan Card 2011-3	₩	-	-	-	1	1
Shinhan Card 2012-1		-	-	-	6,279	6,382
Shinhan Card 2013-1		3	-	3	6,689	7,342
Shinhan Card 2014-1		599,768	607,503	(7,735)	(400)	829
Shinhan Card 2014-2		909,128	921,218	(12,090)	(806)	(294)
Shinhan Card 2015-1		706,539	715,477	(8,938)	(412)	(2,100)
Shinhan Card 2016-1		741,159	751,623	(10,464)	(7,678)	(10,464)
Shinhan Card 2017-1		-	-	-	-	-
Shinhan Finance LLC		10,838	127	10,711	73	1,205
Shinhan Indo Finance		91,824	83,196	8,628	(17,029)	(17,117)
Shinhan Microfinance Co.,Ltd.		3,425	1	3,424	(94)	(69)
Specified money in trusts		250,000	-	250,000	8	8

2. Basis of Preparation

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 7, 2018, which will be submitted for approval to the stockholder's meeting to be held on March 21, 2018.

(a) Basis of measurement

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

- derivative financial instruments are measured at fair value;
- trading financial assets are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- liabilities for share-based payment arrangements are measured at fair value; and
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets.

(b) Functional and presentation currency

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

(c) Use of estimates and judgements

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

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

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

(d) Changes in Accounting Policies

Except for the application of the amendments to standards for the first time, which are applied from January 1, 2017, as described below, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2016.

2. Basis of Preparation, continued

(d) Changes in Accounting Policies, continued

Amendments to K-IFRS No. 1007 Statement of Cash Flows

For the year beginning on January 1, 2017, the Group applied the amendments to K-IFRS No. 1007 Statement of Cash Flows. K-IFRS No. 1007 requires liabilities related to the cash flows that were classified as a financing activity in the statement of cash flows or will be classified as a financing activity in the future should be disclosed as follows:

- Changes from financing cash flows
- Changes arising from obtaining or losing control of subsidiaries or other businesses
- The effect of changes in foreign exchange rates
- Changes in fair values
- Other changes

The related disclosures are included in note 38 (e).

3. Significant Accounting Policies

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

(a) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Group has a single reportable segment. Accordingly, information about segment assets, liabilities and profit or loss is not disclosed.

(b) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Structured entity

The Group has established a number of structured entity by way of the transfer of credit card assets and others. Structured entity is consolidated if, based on an evaluation of the substance of its relationship with the Group and the Structured entity's risks and rewards, the Group concludes that it controls the Structured entity.

(iii) Elimination of intra-group transactions

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

(iv) Non-controlling interests

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

3. Significant Accounting Policies, continued

(c) Cash and cash equivalents

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

(d) Non-derivative financial assets

Non-derivative financial assets are classified into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are recognized in the consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a Non-derivative financial asset at its 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 acquisition of the financial asset.

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

Held-to-maturity investments
Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

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

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value. However, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

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

3. Significant Accounting Policies, continued

(d) Non-derivative financial assets, continued

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset and the relevant liability to the extent of its continuing involvement in the financial asset.

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

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

(e) Derivative financial assets

Derivatives are recognized initially at fair value on trade date. 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 derivative financial instruments such as interest rate swaps and currency swaps to hedge its foreign currency and interest rate risk exposures. The Group designates certain derivatives as hedging instruments for the purpose of hedging the exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments (fair value hedge) and the exposure to variability in cash flows that is attributable to a risk associated with changes in foreign exchange rates of highly probable forecast transactions or firm commitments (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 derivatives that are designated and qualify as fair value hedges are recognized in profit or loss together with changes in the fair value of the hedged items that are attributable to the hedged risk in the same line item in the consolidated statement of comprehensive income as the hedged item.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued, prospectively. Any adjustment to the hedged item is amortized to profit or loss from the discontinuance.

Cash flow hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast 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.

3. Significant Accounting Policies, continued

(e) Derivative financial assets, continued

(i) Hedge accounting, continued

The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. 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 previously recognized in other comprehensive income remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for as a stand-alone derivatives if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and 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 in profit or loss.

(iii) Other derivatives

Except for effective hedge derivatives as measurement of hedge, all derivatives have to be estimated in fair value. Valuation profit and loss from difference between fair values are recognized as profit or loss of this term.

(f) Fair value of financial instruments

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

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

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

3. Significant Accounting Policies, continued

(f) Fair value of financial instruments, continued

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

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

(g) Impairment of financial assets

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

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

- Significant financial difficulty of the borrower or issuer
- Default or delinquency in interest or principal payments
- Restructuring of a loan or a concession granted by the Group, which the Group would not otherwise consider
- Indications that a borrower or issuer will enter bankruptcy or other financial reorganization
- The disappearance of an active market for a security
- Observable data that there is a measurable decrease in the estimated future cash flows from a group of financial assets, since the initial recognition of those assets, although individual cash flows cannot be discriminated

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

3. Significant Accounting Policies, continued

(g) Impairment of financial assets, continued

Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The impairment loss of loans and receivables measured at amortized cost which is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.
Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss of the period.

Financial assets carried at cost

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

Available-for-sale financial assets

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

Held-to-maturity financial assets

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. The impairment losses of held-to-maturity financial assets and available-for-sale financial assets are recognized by reducing the carrying amount directly. When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss of the period. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The impairment losses on held-to-maturity financial assets are reduced from the carrying amount directly.

3. Significant Accounting Policies, continued

(h) Property and equipment

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

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

Land is not depreciated. Other property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items of property and equipment.

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

The estimated useful lives and depreciation methods are as follows:

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

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

3. Significant Accounting Policies, continued

(i) Intangible assets

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

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

Descriptions	Useful lives
Membership	Indefinite
Development cost	4 years
Software	4 years
Other intangible assets	5 years or less

Amortization methods, useful lives and residual values are reviewed at each fiscal year-end and adjusted if appropriate. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. The change is accounted for as a change in an accounting estimate.

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

3. Significant Accounting Policies, continued

(j) Leases

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

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

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

(k) Impairment of non-financial assets

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

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

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

3. Significant Accounting Policies, continued

(l) Non-derivative financial liabilities

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

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

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

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

(m) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Other long-term employee benefits

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

3. Significant Accounting Policies, continued

(m) Employee benefits, continued

(iii) Post-employment benefit plan

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

Defined contribution plans
The Group has no further payment obligations once the contributions have been paid, which are classified as a defined contribution plan. The contributions are recognized as an expense, unless included in the cost of an asset. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or cash refund.

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

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

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

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

3. Significant Accounting Policies, continued

(m) Employee benefits, continued

(iv) Termination benefits

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

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

(n) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. If the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

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

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

3. Significant Accounting Policies, continued

(o) Foreign currency

(i) Foreign currency transactions.

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

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

(ii) Foreign operations

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

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

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

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

(iii) Translation of the net investment in foreign operations

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

3. Significant Accounting Policies, continued

(p) Share capital

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

(q) Share-based payment transactions

For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

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

(r) Interest and fee income recognition

The Group recognizes interest and fee income from cardholders and merchants on an accrual basis. However, the Group recognizes service charges and interest income from delinquent cardholders on cash basis. Certain fees associated with lending activities which meet specified criteria, are deferred and amortized over the life of the loan as an adjustment to the carrying amount of the loan. The amortization of deferred fee is recognized as operating revenue by the effective interest rate method.

3. Significant Accounting Policies, continued

(s) 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 or by offering a variety of gifts. The amount allocated to the points is estimated by reference to the fair value of the monetary and non-monetary benefits for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recognized as accrued income and 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.

(t) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss.

Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

3. Significant Accounting Policies, continued

(u) Income taxes

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

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

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, 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, and only to the extent that it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and deferred tax assets reflect the tax consequences that would follow from the manner in which the 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 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.

(v) Earnings per share

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

3. Significant Accounting Policies, continued

(w) New standards and interpretations not yet adopted

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

(i) K-IFRS No. 1109 Financial Instruments

K-IFRS 1109, published on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018. It replaces existing guidance in K-IFRS 1039, Financial Instruments: Recognition and Measurement. The Group plans to adopt K-IFRS No.1109 for the year beginning on January 1, 2018 and will recognize the accumulated effect resulting from initial application of K-IFRS No.1109 on the date of initial application, which is January 1, 2018.

K-IFRS 1109 will generally be applied retrospectively; however the Group plans to take advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement (including impairment) changes. New hedge accounting requirements will generally be applied prospectively except for certain exemptions including the accounting for the time value of options.

Key features of the new standard, K-IFRS 1109, are 1) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, 2) impairment methodology that reflects ‘expected credit loss’ (ECL) model for financial assets, and 3) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

For the application of K-IFRS No.1109, the Group implemented changes in internal controls and accounting system relating to financial instruments.

To assess financial impacts from application of K-IFRS No.1109, the Group performed a preliminary assessment of the impacts on the 2017 consolidated financial statements based on the status and available information as of December 31, 2017. Expected financial impacts on the Group's consolidated financial statements by the main chapters of K-IFRS No.1109 were summarized as follows:

3. Significant Accounting Policies, continued

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

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

ⓐ Classification and Measurement of “Financial Assets”

When K-IFRS No.1109 is applied, the Group will classify financial assets to be measured at amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVPL”) on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. If a hybrid contract contains a host that is a financial asset, the embedded derivatives shall not be separated from the host, and the hybrid contract as a whole shall be classified as a financial asset.

Business model (*1)	Contractual cash flows that are solely payments of principal and interests	All other cases
For collecting contractual cash flows	Amortized cost (*2)	FVPL (*3)
For both collecting contractual cash flows and selling financial assets	FVOCI (*2)	
For trading, and others	FVPL	

(*1) Business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.
(*2) The Group may irrevocably designate a financial asset as at FVPL to eliminate or significantly reduce an accounting mismatch.
(*3) The Group may irrevocably designate equity instruments that is not held for trading as at FVOCI.

As there are more stringent requirements for a financial asset to be classified as measured at amortized costs or FVOCI under K-IFRS No.1109 compared to the existing guidance in K-IFRS No.1039, the adoption of K-IFRS No.1109 would potentially increase the portion of financial assets that are measured at FVPL, which would also increase the volatility in the Group’s profit or loss.

Expected impacts on the classification and measurements of the non-derivative financial instruments as of December 31, 2017, based on the information from the revised accounting system were as follows:

3. Significant Accounting Policies, continued

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

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

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

Based on the management's impact assessment to date, as of December 31, 2017, available-for-sale financial assets amounted to ₩3,456 million are expected to be classified as financial assets measured at FVPL upon adoption of K-IFRS No.1109 as of January 1, 2018. As a result, the portion of financial assets measured at FVPL in non-derivative financial assets is expected to increase from 1.36% under K-IFRS No.1039 as of December 31, 2017 to 1.38% under K-IFRS No.1109 as of January 1, 2018, which would increase the volatility in the Group's profit or loss.

3. Significant Accounting Policies, continued

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

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

ⓑ Classification and Measurement of Financial Liabilities

According to K-IFRS No.1109, changes in fair value of the financial liability designated as at FVPL that is attributable to changes in the credit risk shall be presented as other comprehensive income, not recognized in profit or loss. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, if recognizing the changes in fair value as other comprehensive income creates or enlarges accounting mismatch, the amounts shall be recognized as profit or loss.

As a portion of the change in fair value which has been recognized in profit or loss under the existing standard, K-IFRS No.1039, will be presented in other comprehensive income under K-IFRS No.1109, profit or loss related to valuation of financial liabilities is likely to decrease.

Based on the management's impact assessment to date, as of December 31, 2017, financial liability amounted to ₩19,197,450 million under K-IFRS No.1039, among which no financial liability is expected to be designated as at FVPL upon adoption of K-IFRS No.1109.

© Impairment

In accordance with the existing standard K-IFRS No.1039, impairment is recognized only if evidence of impairment based on 'incurred loss model' is identified. In accordance with K-IFRS No.1109, the new accounting standard, impairment shall be recognized based on 'expected credit loss impairment model' for debt instruments, lease receivables, contract assets, loan commitments and financial guarantee contracts which are measured at amortized cost or FVOCI.

According to K-IFRS No.1109, a loss allowance shall be measured at the amounts of 12 month expected credit losses or lifetime expected credit losses, by the three stages in the table below depending on the extent of significant increase in credit risk since initial recognition. Hence, an early recognition of credit risk may be available compared to the ‘incurred loss model’ in the existing standard K-IFRS No.1039.

Stage	Category	Description
Stage 1	Credit risk has not increased significantly since initial recognition (*1)	12 month expected credit losses: Expected credit loss resulting from potential default of financial instruments occurring over 12 months from the end of reporting period
Stage 2	Credit risk has increased significantly since initial recognition	Lifetime expected credit losses: Expected credit loss resulting from all potential default of financial instruments occurring over the expected life
Stage 3	Credit-impaired financial assets	

(*1) The Group may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the credit risk is low at the reporting date.

3. Significant Accounting Policies, continued

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

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

According to K-IFRS No.1109, the Group shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for financial assets impaired at its initial recognition.

Based on the management's impact assessment to date, as of December 31, 2017, expected impacts on the loss allowances of consolidated financial statements based on information from the revised accounting system were as follows:

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

Overseas subsidiaries were excluded from the analysis as the expected impact is insignificant.

3. Significant Accounting Policies, continued

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

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

ⓓ Hedge accounting

Although the new standard K-IFRS No.1109 maintains 'Mechanics of hedging accounting' - fair value hedge, cash flow hedge and hedge of a net investment in a foreign operation - as defined in existing standard K-IFRS No.1039, the new standard replaces the complex and rule-based requirements for hedge accounting defined in existing standard K-IFRS No.1039 with a principle-based approach focusing an entity's risk management activities. As a result of the changes, scope of hedged items and hedging instruments are expanded and qualifying criteria for hedge accounting are eased by removing criteria for evaluation of hedge effectiveness and quantitative evaluation (80~125%).

When applying hedge accounting under K-IFRS No.1109, hedge accounting to certain transactions that do not meet the requirements for hedge accounting under the existing standard K-IFRS No.1039 may be applicable, and the volatility of the profit or loss may be reduced.

The Group plans to apply hedge accounting for the transactions that meet the requirements for hedge accounting under K-IFRS No.1109. As of December 31, 2017, there was no applicable transaction for hedge accounting under K-IFRS No.1109 which do not meet the requirements for hedge accounting under the existing standard K-IFRS No.1039.

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

K-IFRS 1115 Revenue from Contracts with Customers, published on November 6, 2015, is effective for annual periods beginning on or after January 1, 2018. It replaces existing revenue recognition guidance, including K-IFRS 1018 Revenue, K-IFRS 1011 Construction Contracts, K-IFRS 2031 Revenue- Barter transactions involving advertising services, K-IFRS 2113 Customer Loyalty Programs, K-IFRS 2115 Agreements for the construction of real estate, K-IFRS 2118 Transfers of assets from customers.

The Group plans to apply K-IFRS No.1115 from the annual period beginning on January 1, 2018. The Group will apply K-IFRS No.1115 retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application, which is January 1, 2018. The Group plans to use the practical expedients and not reassess the contracts that were completed as of the date of initial application, which is January 1, 2018.

Existing K-IFRS standards and interpretations including K-IFRS 1018 provide revenue recognition guidance by transaction types such as sales of goods, rendering of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS 1115, the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

As a result of the analysis on the financial impact based on the situation and the available information as of December 31, 2017, the Group does not expect the application of K-IFRS No.1115 will have a material impact on the consolidated financial statements. As of the date when these financial statements were authorized for issuance, the Group is still evaluating potential impact for certain transactions upon adoption of K-IFRS 1115. Therefore the conclusion described herein is preliminary and is subject to change upon completion of the transition analysis efforts.

3. Significant Accounting Policies, continued

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

(iii) K-IFRS No.1102 Share-based payment

The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments. The amendments also clarify that share-based payment transactions with a net settlement feature for withholding tax obligation shall be classified as an equity-settled share-based payment transaction. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

(iv) K-IFRS No.1116 leases

K-IFRS No.1116 replaces existing standards, including K-IFRS No.1017 Leases, K-IFRS No.2104, Determining whether an Arrangement contains a Lease. It is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for a Group which has adopted to the K-IFRS No. 1115.

K-IFRS No. 1116 suggests an single accounting model that requires a lessee to recognize lease related asset and liability in the financial statements. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease of which has a term of 12 months or less at the commencement date and low value assets. Accounting treatment for lessor is similar to the existing standard which classifies lease into finance and operating lease. The Group is in the process of evaluating whether there will be a significant impact on the Group's consolidated financial statements due to the adoption of K-IFRS No. 1116.

(v) Amendments to K-IFRS No.1040 Investment Property

The amendments clarify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

4. Financial Risk Management

(a) General information of risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

(i) Organization for risk management

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

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

(ii) Risk management process

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

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

4. Financial Risk Management, continued

(a) General information of risk management, continued

(iii) Risk monitoring

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

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

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

(iv) Enterprise crisis management system

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

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

4. Financial Risk Management, continued

(a) General information of risk management, continued

(iv) Enterprise crisis management system, continued

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

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

(v) Evaluation process

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

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

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

(vi) Credit Scoring System

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

4. Financial Risk Management, continued

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. The Group complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Application of credit risk management includes all the transactions that could possibly generate economic loss. The Group assesses credit risks of those transactions and sets a limit on expected credit risks in advance.

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

(In millions of won)

4. Financial Risk Management, continued

(b) Credit risk, continued

(i) Exposure to credit risk

The carrying amount of financial instruments represents the Group's maximum exposure to credit risk. Exposure to credit risk of the Group as of December 31, 2017 and 2016 is as follows. Cash held by the Group is excluded.

		2017	2016
Due from banks and loans and receivables(*)			
Banks	₩	1,081,864	612,913
Household			
Credit sales		11,570,580	10,765,147
Cash advances		1,844,254	1,833,790
Card loans		5,478,557	5,141,501
Installment finance and others		3,121,724	2,896,315
Government/Public institution/ The Bank of Korea		19,114	18,531
Corporate		1,735,318	1,454,991
		24,851,411	22,723,188
Available-for-sale financial assets			
Debt securities		1,953	1,368
		24,853,364	22,724,556
Derivative financial assets		3,966	153,343
Other assets(*)			
Other financial assets		489,804	408,373
	₩	25,347,134	23,286,272

(*) The maximum exposure to credit risk is measured as net of allowance for doubtful accounts, deferred loan origination costs, and present value discount amount.

As of December 31, 2017 and 2016, the maximum exposure to credit risk caused by unused credit commitments amounted to ₩63,745,952 million, and ₩61,184,914 million , respectively.

(In millions of won)

4. Financial Risk Management, continued

(b) Credit risk, continued

(ii) Analysis of past due and impaired amounts

Set out below is an analysis of past due and impaired amounts of due from banks, loans and receivables, and debt securities as of December 31, 2017 and 2016.

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

		2016			
		Neither past due nor impaired	Past due but not impaired	Impaired	Total
Banks	₩	612,952	-	-	612,952
Household					
Credit sales		10,773,172	144,117	62,725	10,980,014
Cash advances		1,859,153	54,448	39,626	1,953,227
Card loans		5,210,384	94,500	71,836	5,376,720
Installment finance and others		2,746,108	40,425	251,035	3,037,568
		20,588,817	333,490	425,222	21,347,529
Government/Public institution/ The Bank of Korea		18,058	629	-	18,687
Corporate		1,371,650	107,952	5,480	1,485,082
		22,591,477	442,071	430,702	23,464,250
Allowance for doubtful accounts		(401,147)	(68,536)	(270,011)	(739,694)
	₩	22,190,330	373,535	160,691	22,724,556

(In millions of won)

4. Financial Risk Management, continued

(b) Credit risk, continued

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

The Group classifies due from banks and loans and receivables within several risk categories. In case of individual customers, on the basis of internal credit rating, when the bad debt expense ratio is less than earnings before bad debt expense ratio, the loans and receivables are determined to be “outstanding” category and the others are determined to be “normal” category. In case of corporate customers, internal credit ratings that have AAA ~ BBB+ level and unrated ratings of Government/Public institution/The Bank of Korea are determined to be "outstanding” and that of the others is determined to be "normal". Information about the credit quality of due from banks, and loans and receivables that are neither past due nor impaired as of December 31, 2017 and 2016 is as follows:

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

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

		2016		
		Outstanding	**Normal**	**Total (*)**
Banks	₩	612,706	207	612,913
Household				
Credit sales		9,534,484	1,095,756	10,630,240
Cash advances		1,074,566	711,074	1,785,640
Card loans		3,856,832	1,202,238	5,059,070
Installment finance and others		2,332,843	402,876	2,735,719
		16,798,725	3,411,944	20,210,669
Government/Public institution/ The Bank of Korea		17,912	-	17,912
Corporate		552,736	796,100	1,348,836
	₩	17,982,079	4,208,251	22,190,330

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

(In millions of won)

4. Financial Risk Management, continued

(b) Credit risk, continued

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

Management of the Group considers accounts that are past due for less than 90 days as not impaired, unless other information can demonstrate that this is not the case. Analysis of the aging of loans and receivables that are past due but not impaired as of December 31, 2017 and 2016 is as follows:

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

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

		2016			
		Less than 30 days	**After 30 days through 60 days**	**After 60 days through 90 days**	**Total(*)**
Banks	₩	-	-	-	-
Household					
Credit sales		111,526	7,674	2,563	121,763
Cash advances		34,756	3,787	1,430	39,973
Card loans		58,392	6,723	2,587	67,702
Installment finance and others		34,517	3,167	687	38,371
		239,191	21,351	7,267	267,809
Government/Public institution/ The Bank of Korea		618	-	-	618
Corporate		95,025	9,321	762	105,108
	₩	334,834	30,672	8,029	373,535

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

(In millions of won)

4. Financial Risk Management, continued

(b) Credit risk, continued

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

Financial assets that are individually and collectively determined to be impaired as of December 31, 2017 and 2016 are as follows:

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

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

(In millions of won)

4. Financial Risk Management, continued

(b) Credit risk, continued

(vi) Industrial concentration of credit risk

Industrial concentration of credit risk of due from banks, loans and receivables, debt securities as of December 31, 2017 and 2016 is as follows:

2017

		Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Con-struction	Hotel and leisure	Other	Retail customer	Total
Banks	₩	1,081,864	-	-	-	-	-	-	-	1,081,864
Household										
Credit sales		-	-	-	-	-	-	-	11,570,580	11,570,580
Cash advances		-	-	-	-	-	-	-	1,844,254	1,844,254
Card loans		-	-	-	-	-	-	-	5,478,557	5,478,557
Installment finance and others		-	-	-	-	-	-	-	3,121,724	3,121,724
		-	-	-	-	-	-	-	22,015,115	22,015,115
Government/Public institution/The Bank of Korea		869	1	19	154	20	-	18,051	-	19,114
Corporate		65,671	453,990	283,180	75,656	102,791	10,206	745,777	-	1,737,271
	₩	1,148,404	453,991	283,199	75,810	102,811	10,206	763,828	22,015,115	24,853,364

2016

		Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Con-struction	Hotel and leisure	Other	Retail customer	Total
Banks	₩	612,913	-	-	-	-	-	-	-	612,913
Household										
Credit sales		-	-	-	-	-	-	-	10,765,147	10,765,147
Cash advances		-	-	-	-	-	-	-	1,833,790	1,833,790
Card loans		-	-	-	-	-	-	-	5,141,501	5,141,501
Installment finance and others		-	-	-	-	-	-	-	2,896,315	2,896,315
		-	-	-	-	-	-	-	20,636,753	20,636,753
Government/Public institution/The Bank of Korea		1,045	2	20	117	13	-	17,334	-	18,531
Corporate		53,124	318,387	236,886	62,294	85,297	9,709	690,662	-	1,456,359
	₩	667,082	318,389	236,906	62,411	85,310	9,709	707,996	20,636,753	22,724,556

(In millions of won)

4. Financial Risk Management, continued

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk could be caused by maturity mismatch of financial assets and liabilities, or temporary insolvency by unexpected cash outflows. It includes economic losses that the Group will incur in the process of financing high interest rates, or disposing of invested assets in order to meet its obligations. The Group manages liquidity risk by considering all liquidity variation factors that can cause cash inflows and cash outflows.

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

(i) Non-derivatives

A maturity analysis for non-derivative financial assets and liabilities as of December 31, 2017 and 2016 is as follows. Such undiscounted contractual cash flows differ from the discounted amount included in the consolidated statement of financial position, as they include estimated interest payments.

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

		2017						
		Less than 1 month	**1~3 months**	**3~6 months**	**6 months ~ 1 year**	**1~5 years**	**Over 5 years**	**Total**
Assets:								
Cash and due from banks	₩	566,970	-	-	-	-	-	566,970
Loans and receivables		9,532,322	5,168,875	3,085,357	3,349,865	4,857,087	220,257	26,213,763
Trading financial assets		360,064	-	-	-	-	-	360,064
Available-for-sale financial assets		-	-	-	-	-	34,585	34,585
Other financial assets		423,149	23	726	-	-	77,531	501,429
		10,882,505	5,168,898	3,086,083	3,349,865	4,857,087	332,373	27,676,811
Liabilities:								
Borrowings		310,961	34,555	241,082	30,985	1,393,926	-	2,011,509
Debentures		249,411	436,081	870,339	1,908,981	10,959,528	234,504	14,658,844
Other financial liabilities		2,970,558	17,574	25,569	47,568	182,145	41,523	3,284,937
		3,530,930	488,210	1,136,990	1,987,534	12,535,599	276,027	19,955,290
	₩	7,351,575	4,680,688	1,949,093	1,362,331	(7,678,512)	56,346	7,721,521

(In millions of won)

4. Financial Risk Management, continued

(c) Liquidity risk, continued

(i) Non-derivatives, continued

		2016						
		Less than 1 month	**1~3 months**	**3~6 months**	**6 months ~ 1 year**	**1~5 years**	**Over 5 years**	**Total**
Assets:								
Cash and due from banks	₩	460,279	-	-	-	-	-	460,279
Loans and receivables		8,686,532	4,906,479	2,812,840	3,039,845	4,531,385	236,266	24,213,347
Trading financial assets		340,084	-	-	-	-	-	340,084
Available-for-sale financial assets		28	-	-	-	-	242,128	242,156
Other financial assets		353,478	397	185	-	-	67,498	421,558
		9,840,401	4,906,876	2,813,025	3,039,845	4,531,385	545,892	25,677,424
Liabilities:								
Borrowings		243,448	164,943	34,479	29,462	943,784	-	1,416,116
Debentures		468,877	245,608	823,286	2,283,468	9,277,799	509,559	13,608,597
Other financial liabilities		2,674,466	15,108	169,778	48,626	185,451	42,282	3,135,711
		3,386,791	425,659	1,027,543	2,361,556	10,407,034	551,841	18,160,424
	₩	6,453,610	4,481,217	1,785,482	678,289	(5,875,649)	(5,949)	7,517,000

(In millions of won)

4. Financial Risk Management, continued

(c) Liquidity risk, continued

(ii) Derivatives

A maturity analysis including the remaining contractual maturities for the derivatives as of December 31, 2017 and 2016 is as follows.
The amounts shown in the table were calculated based on the information below.

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

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

		2016					
		Less than 1 month	**1~3 months**	**3~6 months**	**6 months ~ 1 year**	**1~5 Years**	**Total**
Net settlement cash outflow	₩	(1,106)	(787)	(1,101)	(1,170)	(2,230)	(6,394)
Gross settlement cash inflow		1,871	5,110	128,881	855,968	1,089,176	2,081,006
Gross settlement cash outflow		(2,649)	(5,714)	(109,876)	(753,473)	(1,044,587)	(1,916,299)
	₩	(1,884)	(1,391)	17,904	101,325	42,359	158,313

(iii) Unused credit commitments

As of December 31, 2017 and 2016, unused credit commitments which are the Group should fulfill the obligation immediately when the credit card members request payments amounted to ₩63,745,952 million, and ₩61,184,194 million, respectively.

(In millions of won)

4. Financial Risk Management, continued

(d) Market risk

Market risk from trading positions is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices will affect the Group's income or the value of its holdings of financial instruments. The Group is exposed to interest rate risk of financial assets and liabilities in the case of non-trading assets and interest rate risk of MMF in the case of trading assets and only foreign exchange rate risk of foreign currency equity securities and foreign currency deposits because the Group hedges all cash flows of foreign currency liabilities with currency rate swaps. The Group is exposed to only equity price risk of foreign currency equity securities. The Group assesses risks of expected transactions and sets up limits to control market risks to the extent that the Group can handle. The Group assessed market risks on the basis of the Basel standard methodology and the Historical VaR method, established risk limits respectively, monitored, and established an action plan in case that market risks get close to, or exceed limits.

(i) Market risk management from trading positions

The Group assessed market risk from trading positions using the standard methodology of Financial Supervisory Service. The following represents the Group's assessment of its potential loss in trading financial assets that are exposed to the respective risks, as of December 31, 2017 and 2016:

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

		2016			
		Average	**High**	**Low**	**At December 31**
Interest rate risk	₩	875	1,700	550	1,700

Overseas subsidiaries were excluded from the calculation.

(In millions of won)

4. Financial Risk Management, continued

(d) Market risk, continued

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

Interest rate risk from non-trading positions

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

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

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

Interest rate VaR and EaR of non-trading positions as of December 31, 2017 and 2016 are as follows:

		2017	**2016**
Interest rate VaR	₩	147,932	89,348
Interest rate EaR		32,081	11,905

Overseas subsidiaries were excluded from the calculation.

(In millions of won)

4. Financial Risk Management, continued

(d) Market risk, continued

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

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

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

The Group doesn’t have any non-trading positions that are exposed to equity risk and foreign exchange rate risk. Equity price risk and foreign exchange rate risk of non-trading positions as of December 31, 2016 are as follows:

		2016			
		Average	**Maximum**	**Minimum**	**At December 31**
Equity price risk	₩	27,084	35,317	13,765	13,765
Foreign exchange rate risk		15,921	20,404	8,886	8,886
Variance effect		(1,246)	(1,651)	(573)	(573)
Total VaR	₩	41,759	54,070	22,078	22,078

Overseas subsidiaries were excluded from the calculation.

4. Financial Risk Management, continued

(d) Market risk, continued

(iii) Foreign exchange risk

The Group has been exposed to foreign exchange risk of equity securities and financial liabilities denominated in a foreign currency other than the functional currency, Korean won. Cash outflows of liabilities denominated by foreign currency were hedged by currency rate swap. Exposures to foreign exchange risk of foreign currency denominated assets and liabilities as of December 31, 2017 and 2016 are as follows:

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

	2017											
	Foreign currency										Won equivalent	
Deposit	USD	81	SGD	-	KZT	423,722	IDR	13,562,353	MMK	568,722	₩	2,978
Loans		-		-		2,701,091		1,304,221,010		7,911,655		118,009
Other financial assets		-		-		28,149		14,162,141		99,543		1,288
Debentures		(1,520,500)		(747,969)		-		-		-		(2,227,910)
Borrowings		-		-		-		(1,243,820,577)		(1,150,000)		(99,167)
Other financial liabilities		-		-		(48,223)		(4,615,870)		(52,442)		(562)
On-balance exposure		(1,520,419)		(747,969)		3,104,739		83,509,057		7,377,478		(2,205,364)
Off-balance derivative exposure		1,520,500		747,969		-		-		-		2,227,910
Net position	USD	81	SGD	-	KZT	3,104,739	IDR	83,509,057	MMK	7,377,478	₩	22,546

4. Financial Risk Management, continued

(d) Market risk, continued

(iii) Foreign exchange risk, continued

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

	2016									
	Foreign currency								Won equivalent	
Deposit	USD	419	KZT	1,442,503	IDR	5,691,515	MMK	2,441,086	₩	8,415
Loans		-		1,418,370		983,332,944		299,186		93,717
Available-for-sale financial assets		176,481		-		-		-		213,278
Other financial assets		-		14,040		11,852,600		5,680		1,120
Debentures		(1,680,000)		-		-		-		(2,030,280)
Borrowings		-		-		(902,104,466)		-		(81,009)
Other financial liabilities		(117)		(27,406)		(6,155,714)		(908)		(794)
On-balance exposure		(1,503,217)		2,847,507		92,616,879		2,745,044		(1,795,553)
Off-balance derivative exposure		1,680,000		-		-		-		2,030,280
Net position	USD	176,783	KZT	2,847,507	IDR	92,616,879	MMK	2,745,044	₩	234,727

4. Financial Risk Management, continued

(e) Capital risk management

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

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

5. Significant Estimates and Judgments

The preparation of consolidated financial statements requires the application of certain critical estimates and judgments relative to the future. Management's estimated outcomes may differ from actual outcomes. The change in an accounting estimate is recognized prospectively in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

(a) Valuation of financial instruments

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

5. Significant Estimates and Judgments, continued

(b) Allowance for doubtful accounts

(i) Individually assessed loan impairment

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

(ii) Collectively assessed loan impairment

In assessing collective impairment, future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical methods of historical trends of the probability of default, and the loss rate at default, adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical methods. In adjusting the future cash flow by historical methods, the result has to be in line with changes and trends of observable data (e.g. loan and borrower type, credit rating, portfolio size, loss emergency period, recovery period and other variables). Methodologies and assumptions used to estimate future cash flow are reviewed on regular basis in order to narrow down discrepancy between impairment loss estimation and actual loss.

(iii) Changes in accounting estimates regarding allowance for doubtful accounts and allowance for unused credit commitments

On December 30, 2016, the Group was approved by FSS (Financial Supervisory Service) to adopt the IRB (Internal Rating Based) approach. The Group had accumulated sufficient experience to properly calculate PD (Probability of Default), LGD (Loss Given Default), and CCF (Credit Conversion Factors) by considering the characteristics of borrowers, or its homogeneous borrowing groups, with credit evaluation system and risk evaluation system based on BASEL II. Accordingly, during the year ended December 31, 2017, the Group changed the accounting estimates of allowance for doubtful accounts and allowance for unused credit commitments from a roll-rate analysis model to IRB (Internal Rating Based) approach.

As a result of changes in accounting estimates described above, allowance for doubtful accounts and allowance for unused credit commitments decreased by ₩129,377 million and ₩316,692 million as of December 31, 2017, and profit before income tax increased by ₩446,069 million for the year ended December 31, 2017, respectively. The effects of the changes in accounting estimates were recognized prospectively.

(c) Qualifying hedge relationships

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

5. Significant Estimates and Judgments, continued

(d) Liability for defined benefit obligations

The present value of a defined benefit obligation that is measured by actuarial valuation methods uses various assumptions which can change according to various elements.

The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income.

(e) Impairment of available-for-sale equity investments

When there is significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of over 30% against the original cost as "significant decline" and a six-month decline in the market price for marketable equity instrument as "prolonged decline".

(f) Income taxes

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

6. Fair Value Measurement of Financial Instruments

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

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

Valuation techniques include using the recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

- Valuation techniques using significant unobservable inputs (Level 3)

6. Fair Value Measurement of Financial Instruments, continued

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

(a) Financial instruments measured at fair value

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

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

(In millions of won)

6. Fair Value Measurement of Financial Instruments, continued

(a) Financial instruments measured at fair value, continued

(ii) The fair value measurements classified by fair value hierarchy as of December 31, 2017 and 2016 are summarized as follows:

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

		2016			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets					
Equity securities held for trading	₩	-	340,084	-	340,084
Derivative financial assets for hedging		-	153,343	-	153,343
Available-for-sale debt securities		-	-	1,368	1,368
Available-for-sale equity securities		213,306	-	27,482	240,788
	₩	213,306	493,427	28,850	735,583
Financial liabilities					
Derivative financial liabilities for hedging	₩	-	10,665	-	10,665

(In millions of won)

6. Fair Value Measurement of Financial Instruments, continued

(a) Financial instruments measured at fair value, continued

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

Changes of fair value measurement in level 3 for the years ended December 31, 2017 and 2016 are as follows:

		Available-for-sale debt securities	Available-for-sale equity securities	Total
Balance at January 1, 2017	₩	1,368	27,482	28,850
Reversal of impairment loss		3,791	-	3,791
Other comprehensive income		-	3,150	3,150
Acquisition		-	2,000	2,000
Disposition		(3,206)	-	(3,206)
Balance at December 31, 2017	₩	1,953	32,632	34,585
Balance at January 1, 2016	₩	1,631	26,002	27,633
Reversal of impairment loss		8,087	-	8,087
Other comprehensive income		-	829	829
Acquisition		-	651	651
Disposition		(8,350)	-	(8,350)
Balance at December 31, 2016	₩	1,368	27,482	28,850

(In millions of won)

6. Fair Value Measurement of Financial Instruments, continued

(a) Financial instruments measured at fair value, continued

(iv) Unobservable inputs in markets

Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of December 31, 2017 and 2016 is as follows:

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

	2016					
	Valuation techniques	**Type of financial instruments**		**Book value**	**Significant unobservable inputs**	**Range of estimates for unobservable inputs**
Available-for-sale financial assets:						
	Net asset value	Debt securities	₩	1,368	-	-
	Discounted cash flow	Equity securities		25,168	Discount rate Growth rate	9.89% ~ 15.56% 0.00%
	Cost method	Equity securities		2,314	-	-
			₩	28,850		

6. Fair Value Measurement of Financial Instruments, continued

(a) Financial instruments measured at fair value, continued

(v) Sensitivity to changes on unobservable inputs

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

		2017	
Type of financial instrument		**Favorable change**	**Unfavorable change**
Available-for-sale financial assets(*)	₩	2,654	(1,220)

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

6. Fair Value Measurement of Financial Instruments, continued

(b) Financial instruments measured at amortized cost

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

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

(In millions of won)

6. Fair Value Measurement of Financial Instruments, continued

(b) Financial instruments measured at amortized cost, continued

(ii) The carrying amount and the fair value of financial instruments measured at amortized cost as of December 31, 2017 and 2016 are as follows:

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

		2016				
		Carrying amount				
		Balance	Deferred loan origination costs and others	Allowance for doubtful accounts	Total	Fair value
Financial assets						
Cash	₩	8	-	-	8	8
Deposits		460,271	-	-	460,271	460,271
Credit card assets		19,366,301	(40,943)	(701,359)	18,623,999	18,888,853
Loans		475,639	-	(2,900)	472,739	475,275
Installment assets		2,165,071	34,161	(17,588)	2,181,644	2,186,623
Lease assets		1,003,236	(854)	(17,847)	984,535	983,874
Other assets		421,559	(1,415)	(11,771)	408,373	408,364
	₩	23,892,085	(9,051)	(751,465)	23,131,569	23,403,268
Financial liabilities						
Borrowings	₩	1,390,180	-	-	1,390,180	1,392,840
Debentures in won		10,970,500	(10,553)	-	10,959,947	11,015,196
Debentures in foreign currency		2,030,280	(5,408)	-	2,024,872	2,037,577
Other liabilities		3,118,412	(10,515)	-	3,107,897	3,108,369
	₩	17,509,372	(26,476)	-	17,482,896	17,553,982

(In millions of won)

6. Fair Value Measurement of Financial Instruments, continued

(b) Financial instruments measured at amortized cost, continued

(iii) The fair value hierarchy of financial instruments which are measured at amortized cost in the consolidated statement of financial position as of December 31, 2017 and 2016 is as follows:

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

		2016			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash	₩	8	-	-	8
Deposits		459,883	388	-	460,271
Credit card assets		-	-	18,888,853	18,888,853
Loans		-	-	475,275	475,275
Installment assets		-	-	2,186,623	2,186,623
Lease assets		-	-	983,874	983,874
Other assets		-	-	408,364	408,364
	₩	459,891	388	22,942,989	23,403,268
Financial liabilities:					
Borrowings	₩	-	-	1,392,840	1,392,840
Debentures in won		-	-	11,015,196	11,015,196
Debentures in foreign currency		-	-	2,037,577	2,037,577
Other liabilities		-	-	3,108,369	3,108,369
	₩	-	-	17,553,982	17,553,982

(In millions of won)

7. Categories of Financial Instruments

(a) The carrying amounts of the categories of financial assets as of December 31, 2017 and 2016 are summarized as follows:

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

		2016				
		Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Derivative for hedge	Total
Cash and due from banks	₩	-	460,279	-	-	460,279
Trading financial assets		340,084	-	-	-	340,084
Derivative assets		-	-	-	153,343	153,343
Loans and receivables		-	22,262,917	-	-	22,262,917
Available-for-sale financial assets		-	-	242,156	-	242,156
Other assets		-	408,373	-	-	408,373
	₩	340,084	23,131,569	242,156	153,343	23,867,152

(In millions of won)

7. Categories of Financial Instrument, continued

(b) The carrying amounts of the categories of financial liabilities as of December 31, 2017 and 2016 are summarized as follows:

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

		2016		
		Financial liabilities measured at amortized cost	Derivative for hedge	Total
Derivative liabilities	₩	-	10,665	10,665
Borrowings		1,390,180	-	1,390,180
Debentures		12,984,819	-	12,984,819
Other liabilities		3,107,897	-	3,107,897
	₩	17,482,896	10,665	17,493,561

(In millions of won)

7. Categories of Financial Instrument, continued

(c) Net gains (losses) of categories of financial instruments for the years ended December 31, 2017 and 2016 are as follows:

2017

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

2016

		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Impairment reversal (loss)	Other operating income, net	Net income (loss)	Other comprehensive income (loss)
Financial assets										
Trading financial assets	₩	-	-	-	-	-	-	1,148	1,148	-
Loans and receivables		1,879,317	-	2,382,672	(2,155,604)	-	(355,266)	28,844	1,779,963	-
Available-for-sale financial assets		-	-	-	-	24,876	8,087	208,450	241,413	(147,413)
Derivative for hedge		-	-	-	-	-	-	36,800	36,800	483
		1,879,317	-	2,382,672	(2,155,604)	24,876	(347,179)	275,242	2,059,324	(146,930)
Financial liabilities										
Financial liabilities measured at amortized cost		-	(394,620)	-	-	-	-	(44,097)	(438,717)	-
Derivative for hedge		-	-	-	-	-	-	7,197	7,197	2,531
		-	(394,620)	-	-	-	-	(36,900)	(431,520)	2,531
	₩	1,879,317	(394,620)	2,382,672	(2,155,604)	24,876	(347,179)	238,342	1,627,804	(144,399)

(In millions of won)

7. Categories of Financial Instrument, continued

(d) The amounts of foreign exchange differences recognized in profit or loss for each category of financial instruments for the years ended December 31, 2017 and 2016 are as follows:

		2017			2016		
		Gain on foreign currency transaction	Loss on foreign currency transaction	Net amount	Gain on foreign currency transaction	Loss on foreign currency transaction	Net amount
Loans and receivables	₩	39,244	(4,902)	34,342	35,324	(6,480)	28,844
Financial liabilities measured at amortized cost		246,533	(1,149)	245,384	10,732	(54,829)	(44,097)
	₩	285,777	(6,051)	279,726	46,056	(61,309)	(15,253)

(In millions of won)

8. Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2017 and 2016 are as follows:

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

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

		2016					
		Gross amounts recognized	Gross amounts recognized for offsetting	Net amounts of financial instruments	Amounts not subject to offsetting		Net amount
					Financial instruments	Cash collateral received	
Financial assets:							
Derivatives	₩	153,343	-	153,343	2,433	-	150,910
Repurchase agreements (*)		150,000	-	150,000	150,000	-	-
Financial liabilities:							
Derivatives		10,665	-	10,665	2,433	-	8,232

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

(In millions of won)

9. Operating Segments

The Group has a single reportable segment.

(a) Details of revenues by financial service type for the years ended December 31, 2017 and 2016 are as follows:

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

		2016				
		Credit card	**Installment finance**	**Lease**	**Others**	**Total**
Interest incomes	₩	1,718,491	91,982	46,663	22,181	1,879,317
Fee and commission income		2,366,707	4,843	8,029	3,093	2,382,672
Other operating income		39,388	100	40	371,302	410,830
	₩	4,124,586	96,925	54,732	396,576	4,672,819

(b) Over 99% of revenues from external customers for the years ended December 31, 2017 and 2016 are all attributed to the Republic of Korea, the Company's country of domicile.

(c) There is no single external customer with whom revenues amount to 10 percent or more of the Group's revenues for the years ended December 31, 2017 and 2016.

(In millions of won)

10. Cash and Due from Banks

(a) Details of cash and due from banks as of December 31, 2017 and 2016 are as follows:

		2017	2016
Cash	₩	53	8
Deposits in won:			
Deposits on demand		288,422	264,131
Current deposits		1,475	1,768
Foreign currency deposits		2,925	8,408
Time deposits		388	388
Deposit for checking accounts		33	33
Deposits on demand of SPC		185,675	85,543
Others		87,999	100,000
	₩	566,970	460,279

(b) Restricted due from banks as of December 31, 2017 and 2016 are as follows:

		2017	2016	Restrictions
Time deposits				
Shinhan Bank	₩	50	50	Pledged as collateral for cash advances
Korea Post		338	338	Pledged as collateral for a lease
		388	388	
Other deposits				
Woori Bank and others		33	33	Deposit for checking accounts
		185,675	85,543	Deposits on demand of SPC
		185,708	85,576	
	₩	186,096	85,964	

11. Trading Financial Assets

(a) Details of trading financial assets as of December 31, 2017 and 2016 are as follows:

		2017	2016
MMF (Money Market Fund)	₩	360,064	340,084

(b) Net income on trading financial assets for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Gain on valuation of trading financial assets	₩	64	84
Gain on sale of trading financial assets		1,976	1,064
	₩	2,040	1,148

(In millions of won)

12. Derivatives

(a) Derivative assets and liabilities

The notional amounts and fair values of derivative assets and liabilities as of December 31, 2017 and 2016 are as follows:

		2017			2016		
		Notional amounts	Fair value Assets	Fair value Liabilities	Notional amounts	Fair value Assets	Fair value Liabilities
Currency rate swap	₩	2,227,910	286	139,763	2,030,280	153,223	5,476
Interest rate swap		730,000	3,680	969	675,000	120	5,189
	₩	2,957,910	3,966	140,732	2,705,280	153,343	10,665

(b) Gain (loss) on derivatives

Gain (loss) on derivatives for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Gain on valuation of derivatives	₩	-	46,720
Gain on derivatives transactions		13,825	9,170
		13,825	55,890
Loss on valuation of derivatives		(184,326)	(1,800)
Loss on derivatives transactions		(75,674)	(10,093)
		(260,000)	(11,893)
Gain (loss) on derivatives	₩	(246,175)	43,997

(c) Cash flow hedge activity

For cash flow hedges, the amount that was recognized in other comprehensive income and the amount that was reclassified from equity to profit or loss for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Recognized in other comprehensive income	₩	(220,713)	47,973
Reclassified from equity to profit or loss		246,175	(43,997)
Deferred tax effect		(6,432)	(962)
Changes in accumulated other comprehensive income, net	₩	19,030	3,014

(In millions of won)

13. Loans and Receivables

(a) Details of loans and receivables as of December 31, 2017 and 2016 are as follows:

		2017	2016
Credit card assets:			
Lump-sum purchases	₩	5,448,088	5,290,780
Installment purchases		5,808,476	5,277,322
Cash advances		1,768,221	1,781,073
Revolving cash advances		150,775	168,777
Revolving purchases		1,364,392	1,229,344
Card loans		5,693,920	5,376,721
Restructured loans		249,627	241,416
Purchasing card		910	868
Less : Allowance for doubtful accounts		(595,634)	(701,359)
Present value discount account		(18,836)	(16,108)
Deferred loan origination fees		(26,992)	(24,835)
		19,842,947	18,623,999
Loans:			
General loans		334,401	114,991
Bonds purchased under resale agreements		173,000	150,000
Factoring receivables		276,848	207,664
Commercial paper		332,002	-
Others		807	2,984
Less : Allowance for doubtful accounts		(10,717)	(2,900)
Add : Deferred loan origination costs		586	-
		1,106,927	472,739
Installment financing assets:			
Installment for cars		2,267,701	2,164,928
Installment for houses		-	37
Installment for others		2,241	106
Less : Allowance for doubtful accounts		(13,758)	(17,588)
Add : Deferred loan origination costs		29,395	34,161
		2,285,579	2,181,644
Lease assets:			
Financing lease receivables		1,083,193	1,003,198
Cancelled financing lease receivables		94	38
Less : Allowance for doubtful accounts		(32,398)	(17,847)
Deferred loan origination fees		(1,848)	(854)
		1,049,041	984,535
	₩	24,284,494	22,262,917

(In millions of won)

13. Loans and Receivables, continued

(b) Changes in the allowance for doubtful accounts for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Beginning balance	₩	739,694	691,754
Provision for allowance		280,054	340,345
Write-offs		(552,940)	(446,159)
Unwinding effect		(1,631)	(8,421)
Allowance related to disposal of loans		(1,928)	(32,970)
Recoveries		188,852	192,786
Others		406	2,359
Ending balance	₩	652,507	739,694

(c) Financing lease assets

Total investments in financing leases and the present value of minimum lease payments for each of the following periods as of December 31, 2017 and 2016 are as follows:

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

		2016		
		Total investment	Unrealized interest income	Present value of minimum lease payment
Less than one year	₩	398,470	40,652	357,818
One year to five years		687,042	45,009	642,033
Over five years		3,401	16	3,385
	₩	1,088,913	85,677	1,003,236

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

Changes in deferred loan origination costs (fees) for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Beginning balance	₩	8,472	10,060
Increase		24,906	30,465
Decrease		(32,237)	(32,053)
Ending balance	₩	1,141	8,472

(In millions of won)

14. Lease assets

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

		2017		
		Acquisition cost	**Accumulated depreciation**	**Book value**
Operating lease assets	₩	108,625	(5,488)	103,137
Cancelled financing lease assets		206	(7)	199
Prepaid lease assets		284	-	284
	₩	109,115	(5,495)	103,620

(b) Future minimum lease payments under lease assets as of December 31, 2017 is as follows:

		2017
Less than one year	₩	24,214
One year to five years		59,687
Over five years		12
	₩	83,913

(In millions of won)

15. Available-for-Sale Financial Assets

(a) Details of available-for-sale financial assets as of December 31, 2017 and 2016 are as follows:

		2017	2016
Debt securities			
Corporate bonds	₩	1,953	1,368
Equity securities (*)			
Stock		32,630	240,786
Equity investments		2	2
		32,632	240,788
	₩	34,585	242,156

(*) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at their acquisition cost. The carrying amounts of those investments are ₩4,314 million and ₩2,314 million as of December 31, 2017 and 2016, respectively.

(b) Changes in available-for-sale financial assets for the years ended December 31, 2017 and 2016 are as follows:

		2017			2016		
		Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Beginning balance	₩	1,368	240,788	242,156	1,631	447,986	449,617
Acquisition		-	2,000	2,000	-	651	651
Disposal		(3,206)	(248,697)	(251,903)	(8,350)	(211,426)	(219,776)
Changes in fair value of available-for-sale financial assets		-	53,778	53,778	-	5,988	5,988
Exchange rate differences		-	(15,237)	(15,237)	-	(2,411)	(2,411)
Reversal of impairment loss		3,791	-	3,791	8,087	-	8,087
Ending balance	₩	1,953	32,632	34,585	1,368	240,788	242,156

(c) Gain on sale of available-for-sale financial assets for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Gain on sale of available-for-sale financial assets	₩	250,572	208,450

(In millions of won)

16. Property and Equipment

(a) Details of Property and equipment as of December 31, 2017 and 2016 are as follows:

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

		2016			
		Land	**Buildings**	**Others**	**Total**
Acquisition cost	₩	32,384	8,909	343,618	384,911
Accumulated depreciation		-	(1,971)	(304,019)	(305,990)
Impairment losses		(946)	(1,258)	-	(2,204)
Ending balance	₩	31,438	5,680	39,599	76,717

(b) Changes in property and equipment for the years ended December 31, 2017 and 2016 are as follows:

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

		2016			
		Land	**Buildings**	**Others**	**Total**
Beginning balance	₩	32,370	7,070	44,673	84,113
Acquisition		-	26	11,682	11,708
Disposal		-	-	(97)	(97)
Depreciation		-	(269)	(23,989)	(24,258)
Impairment losses (*)		(946)	(1,258)	-	(2,204)
Others		14	111	7,330	7,455
Ending balance	₩	31,438	5,680	39,599	76,717

(*) Impairment losses are recognized as non-operating income and expenses.

(In millions of won)

16. Property and Equipment, continued

(c) Insured Assets

Insured assets as of December 31, 2017 are summarized as follows:

Type of insurance	Assets covered	Insurance company		Amount covered
Property all risks policy	Buildings, etc.	Samsung Fire & Marine Insurance, Ltd.	₩	42,374

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

17. Intangible Assets

(a) Details of Intangible assets as of December 31, 2017 and 2016 are as follows:

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

		2016				
		Club memberships	Development cost	Goodwill (*)	Others	Total
Acquisition cost	₩	16,281	104,679	2,849	22,953	146,762
Accumulated amortization		-	(86,712)	-	(8,991)	(95,703)
Impairment losses		(984)	-	(2,849)	-	(3,833)
Ending balance	₩	15,297	17,967	-	13,962	47,226

(*) Since the recoverable amount of an asset is zero, goodwill was fully impaired as of December 31, 2016.

(In millions of won)

17. Intangible Assets, continued

(b) Changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

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

		2016				
		Club memberships	Development cost	Goodwill	Others	Total
Beginning balance	₩	16,595	30,827	2,849	4,319	54,590
Acquisition		1,022	21,340	-	2,485	24,847
Reclassification		-	(16,861)	-	9,793	(7,068)
Disposal		(2,258)	-	-	(8)	(2,266)
Amortization		-	(17,339)	-	(2,623)	(19,962)
Impairment loss (*)		(62)	-	(2,849)	-	(2,911)
Others		-	-	-	(4)	(4)
Ending balance	₩	15,297	17,967	-	13,962	47,226

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

(In millions of won)

18. Other Assets

(a) Other assets as of December 31, 2017 and 2016 are summarized as follows:

		2017	2016
Guarantee deposits	₩	77,530	67,950
Present value discount account		(2,936)	(1,415)
Accounts receivable		309,647	246,573
Allowance for doubtful accounts		(1,316)	(3,248)
Accrued income		112,989	105,396
Allowance for doubtful accounts		(7,372)	(8,523)
Advance payments		135,077	180,763
Prepaid expenses		48,155	37,828
Others		5,763	6,146
	₩	677,537	631,470

(b) Changes in allowance for other assets for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Beginning balance	₩	11,771	11,510
Provision for allowance		15,431	14,921
Write-offs		(19,326)	(15,485)
Recoveries		812	824
Others		-	1
Ending balance	₩	8,688	11,771

(In millions of won)

19. Borrowings

Borrowings as of December 31, 2017 and 2016 are summarized as follows:

	Interest rate (%)		2017	2016
Borrowings in won:				
Commercial paper	1.60 ~ 2.30	₩	1,090,000	710,000
General borrowings	2.36 ~ 2.61		96,300	45,000
Borrowings from Shinhan Financial Group Co., Ltd.	1.84 ~ 2.35		600,000	450,000
Bank overdrafts	2.57		78,878	104,171
			1,865,178	1,309,171
Borrowings in foreign currency:				
General borrowings	7.35 ~ 12.5		99,166	81,009
		₩	1,964,344	1,390,180

20. Debentures

Debentures as of December 31, 2017 and 2016 are summarized as follows:

	Maturity	Interest rate (%)		2017	2016
Debentures in won	2018.01.08 ~ 2024.08.30	1.47 ~ 3.72	₩	11,747,000	10,970,500
Less: discount				(7,119)	(10,553)
				11,739,881	10,959,947
Debentures in foreign currency	2018.01.25 ~ 2021.06.28	1.83 ~ 2.31		2,227,910	2,030,280
Less: discount				(7,882)	(5,408)
				2,220,028	2,024,872
			₩	13,959,909	12,984,819

(In millions of won)

21. Employee Benefits

(a) Defined benefit plan assets and liabilities as of December 31, 2017 and 2016 are as follows:

		2017	2016
Present value of defined benefit obligations	₩	234,446	241,652
Fair value of plan assets		(231,431)	(207,371)
Recognized liabilities for defined benefit obligations	₩	3,015	34,281

(b) Changes in the present value of defined benefit obligations and plan assets for the years ended December 31, 2017 and 2016 are as follows:

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

(*) Transfer from/to related parties

(In millions of won)

21. Employee Benefits, continued

		2016		
		Defined benefit obligations	**Plan assets**	**Net defined benefit obligations**
Beginning balance	₩	216,720	(195,336)	21,384
Recognized in profit or loss as incurred:				
Current service cost		19,896	-	19,896
Interest expense (income)		7,616	(6,870)	746
		27,512	(6,870)	20,642
Recognized in other comprehensive income:				
Remeasurement loss (gain)				
- Actuarial losses (gains)				
Demographic assumptions		(2,576)	-	(2,576)
Financial assumptions		12,739	-	12,739
Experience adjustments.		(6,372)	-	(6,372)
- Return on plan assets		-	3,565	3,565
		3,791	3,565	7,356
Others:				
Contributions paid into the plan		-	(22,300)	(22,300)
Benefits paid by the plan		(6,385)	13,570	7,185
Others (*)		142	-	142
Acquisition of subsidiary		(128)	-	(128)
		(6,371)	(8,730)	(15,101)
Ending balance	₩	241,652	(207,371)	34,281

(*) Transfer from/to related parties

(c) Details of the amounts included in the fair value of plan assets for each category of financial instruments as of December 31, 2017 and 2016 are as follows:

		2017		2016	
		Amounts	**Ratio**	**Amounts**	**Ratio**
Cash and due from banks	₩	40	0.0%	81,108	39.1%
Securities		230,762	99.7%	125,561	60.6%
Others		629	0.3%	702	0.3%
Fair value of plan assets	₩	231,431	100.0%	207,371	100.0%

(In millions of won)

21. Employee Benefits, continued

(d) Actuarial assumptions as of December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate (AA0)	Permanent workers : 3.74% Operating workers : 3.92% Temporary workers : 2.44%	3.22%
Future salary increasing rate	1.80% + upgrade rate	2.72% + upgrade rate
Average expected remaining years of service	Permanent workers : 8.88 years Operating workers : 12.08 years Temporary workers : 1.17 years	11.28 years

(e) Sensitivity analysis

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

		Changes in the amount of defined benefit obligations
Discount rate (1% decrease)	₩	22,271
Discount rate (1% increase)		(19,626)
Future salary increasing rate (1% decrease)		(19,735)
Future salary increasing rate (1% increase)		21,956

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

(f) The amounts recognized as expenses for defined contribution plans are ₩2,087 million and ₩1,862 million for the years ended December 31, 2017 and 2016, respectively.

(In millions of won)

22. Provisions

(a) Changes in provisions for the years ended December 31, 2017 and 2016 are as follows:

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

		2016					
		Allowance for litigation	Provision for customer loyalty programmes	Allowance for unused credit commitments	Asset retirement	Others	Total
Beginning balance	₩	2,169	27,649	332,316	7,279	3,136	372,549
Provision		116	51,745	21,989	25	312	74,187
Payment		(1,283)	(54,299)	-	-	(1,528)	(57,110)
Others		-	-	-	47	-	47
Ending balance	₩	1,002	25,095	354,305	7,351	1,920	389,673

(b) Details of allowance for unused credit commitments as of December 31, 2017 and 2016 are as follows:

		2017	2016
Unused credit commitments	₩	63,745,952	61,184,194
Allowance		72,793	354,305
Ratio (%)		0.11%	0.58%

(In millions of won)

23. Other Liabilities

Details of other liabilities as of December 31, 2017 and 2016 are as follows:

		2017	2016
Accounts payable	₩	2,581,672	2,451,277
Accrued expenses		256,770	217,137
Advances from customers		96,920	99,085
Unearned revenue		296,948	278,179
Withholdings		213,419	236,979
Guarantee deposits, net		280,681	278,916
Advances of gift card and others		30,374	31,898
Others		6,399	5,497
	₩	3,763,183	3,598,968

(In millions of won)

24. Deferred Revenue of Customer Loyalty Programmes

Changes in deferred revenue of customer loyalty programmes for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Beginning balance	₩	189,830	181,557
Deferred		330,810	291,679
Recognition as revenue		(323,919)	(283,406)
Ending balance	₩	196,721	189,830

25. Equity

(a) Equity as of December 31, 2017 and 2016 is summarized as follows:

		2017	2016
Common stock	₩	626,847	626,847
Capital surplus			
Gains on capital reduction		852,646	852,646
Gains on sale of treasury stock		2	2
Other additional capital		7,944	7,944
		860,592	860,592
Capital adjustments			
Stock options		10	(370)
Accumulated other comprehensive income			
Unrealized gain on valuation of available-for-sale securities		15,904	166,296
Effective portion of valuation gain (loss) on cash flow hedges		5,930	(13,100)
Remeasurements of the net defined benefit obligations		(22,437)	(44,310)
Foreign currency translation adjustments for foreign operations		(2,931)	(1,615)
		(3,534)	107,271
Retained earnings			
Legal reserve		313,424	313,424
Reserve for credit losses (refer to Note 26)		388,351	387,038
Voluntary reserve		11,216	11,216
Retained earnings (*)		4,084,638	3,572,214
		4,797,629	4,283,892
Non-controlling interests		(6,425)	4,314
	₩	6,275,119	5,882,546

(*) ₩503,246 million of retained earnings plans to reserve for credit losses for the year ended December 31, 2017 and ₩1,314 million of retained earning reserved for credit losses for the year ended December 31, 2016.

(In millions of won)

25. Equity, continued

(b) Capital stock and capital surplus

As of December 31, 2017 and 2016, par value of common stock is ₩5,000 and the Group authorized 2,000,000,000 shares and issued outstanding shares amounted to 125,369,403 shares.

(c) Changes in accumulated other comprehensive income for the years ended December 31, 2017 and 2016 are as follows:

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

		2016				
		Valuation of available-for-sale financial assets	**Valuation of cash flow hedges**	**Remeasurements of defined benefit obligations**	**Foreign currency translation adjustments for foreign operations**	**Total**
Balance at January 1, 2016	₩	313,709	(16,114)	(38,734)	(2,728)	256,133
Changes in fair value		5,988	-	(7,356)	-	(1,368)
Exchange rate differences		(2,411)	-	-	597	(1,814)
Changes in fair value of cash flow hedges		-	47,973	-	-	47,973
Reclassification to profit or loss		(198,053)	(43,997)	-	-	(242,050)
Deferred tax effect		47,063	(962)	1,780	516	48,397
Balance at December 31, 2016	₩	166,296	(13,100)	(44,310)	(1,615)	107,271

(d) Earned surplus reserves

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

25. Equity, continued

(e) Voluntary reserve

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

Details of discretionary reserve as of December 31, 2017 and 2016 are as follows:

		2017	2016
Revaluation surplus of property and equipment	₩	10,216	10,216
Claim reserves for on-line transactions		1,000	1,000
	₩	11,216	11,216

(f) Statements of appropriation of retained earnings for the years ended December 31, 2017 and 2016 based on separate financial statements of the Controlling Company are as follows:

Expected date of Appropriation for 2017: March 21, 2018
Date of Appropriation for 2016: March 22, 2017

(In millions of won, except dividends per share)		2017	2016
Unappropriated retained earnings			
Balance at beginning of year	₩	3,180,966	2,854,392
Profit for the year		925,975	727,942
		4,106,941	3,582,334
Reversal of Reserve for credit losses		-	-
Balance at end of year before appropriation		4,106,941	3,582,334
Appropriation of retained earnings			
Transfer to reserve for credit losses		503,246	1,314
Cash dividends		600,018	400,054
Dividends per share (dividend as a percentage of par value): ₩ 4,786 (95.72%) for 2017 ₩ 3,191 (63.82%) for 2016			
		1,103,264	401,368
Unappropriated retained earnings to be carried over to subsequent year	₩	3,003,677	3,180,966

(In millions of won)

26. Reserve for Credit Losses

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

(a) Reserve for credit losses as of December 31, 2017 and 2016 are summarized as follows:

		2017	2016
Accumulated reserve for credit losses	₩	388,352	387,038
Accumulated reserve for credit losses, scheduled		503,246	1,314
Ending balance of reserve for credit losses	₩	891,598	388,352

(b) Details of profit for the year attributable to owners of the Company after adjusting for reversal of credit losses and provision for reserve for credit losses for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Profit for the year attributable to owners of the Company	₩	913,791	715,867
Reserve for credit losses, scheduled		(503,246)	(1,314)
Profit for the year attributable to owners of the Company after adjusting for reserve for credit losses	₩	410,545	714,553
Earnings per share after adjusting credit losses (in won)	₩	3,275	5,700

27. Operating Revenue

Operating revenue for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Interest income	₩	1,880,908	1,879,317
Fee and commission income		2,434,001	2,382,672
Dividend income		12,400	24,876
Gain on valuation and disposition of trading financial assets		2,040	1,148
Gains related to derivatives		13,825	55,890
Gains on foreign currency transactions		285,777	46,056
Gains on disposition of available-for-sale financial assets		250,572	208,450
Reversal of impairment losses on financial assets		3,791	8,087
Other operating income		313,866	66,323
	₩	5,197,180	4,672,819

28. Earnings Per Share

Earnings per share for the years ended December 31, 2017 and 2016 are as follows:

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

		2017	2016
Profit for the year attributable to owners of the Company	₩	913,791	715,867
Weighted average number of common stocks outstanding		125,369,403	125,369,403
Earnings per share (in won)	₩	7,289	5,710

The Company had no dilutive potential ordinary shares in the calculation of diluted earnings per share for the reporting periods. Accordingly, diluted earnings per share equals basic earnings per share for the years ended December 31, 2017 and 2016.

29. Share-Based Payment

Share-based payment as of December 31, 2017 is summarized as follows:

(a) Share-based payment arrangements with performance conditions

(i) Performance share granted as of December 31, 2017 are as follows:

	Granted as of 2012	**Granted as of 2013**	**Granted as of 2014**	**Granted as of 2015**	**Granted as of 2016**	**Granted as of 2017**
Type	Equity-settled type	Equity-settled type	Equity-settled type	Equity-settled type	Equity-settled type	Equity-settled type
Vesting period	2012 ~ 2014	2013 ~ 2015	2014 ~ 2016	2015 ~ 2017	2016 ~ 2018	2017 ~ 2019
Performance condition	Based on relative stock price (33.4%) Based on 4 year management index (66.6%)	Based on relative stock price (33.4%) Based on 4 year management index (66.6%)	Based on relative stock price (20.0%) Based on 4 year management index (80.0%)	Based on relative stock price (20.0%) Based on 4 year management index (80.0%)	Based on relative stock price (20.0%) Based on 4 year management index (80.0%)	Based on relative stock price (20.0%) Based on 4 year management index (80.0%)
Estimated number of shares granted	23,831 shares	45,930 shares	34,870 shares	55,202 shares	67,229 shares	64,581 shares

(In millions of won)

29. Share-Based Payment, continued

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

(ii) Granted shares and the fair value of grant date as of December 31, 2017 are as follows:
(In won, except grant shares)

Grant date	Grant shares	Exercise	Fair value (*)	Estimated shares (**)
February 28, 2012	28,200	17,790	46,650	17,790
August 24, 2012	9,300	6,041	36,150	6,041
January 1, 2013	89,800	24,252	40,050	24,252
February 22, 2013	10,100	5,893	42,350	5,997
May 27, 2013	10,100	775	40,250	775
August 27, 2013	24,000	13,136	39,700	14,906
January 1, 2014	23,600	-	47,300	22,427
February 10, 2014	9,400	-	42,800	7,958
March 31, 2014	4,700	-	47,000	2,192
July 24, 2014	1,600	-	46,550	672
August 22, 2014	4,700	-	51,800	1,621
January 1, 2015	50,700	-	44,500	46,433
February 4, 2015	4,500	-	45,700	3,871
August 24, 2015	4,500	-	40,250	1,523
August 27, 2015	10,200	-	39,600	3,375
January 1, 2016	74,200	-	39,000	50,064
February 4, 2016	15,400	-	38,150	13,172
June 3, 2016	5,200	-	38,800	2,770
August 1, 2016	1,900	-	40,650	739
October 31, 2016	3,100	-	43,850	484
January 1, 2017	70,200	-	45,300	56,567
March 7, 2017	10,600	-	46,950	8,014
	466,000	67,887		291,643

(*) The fair value per share was evaluated based on the closing price of Shinhan Financial Group at each grant date.

(**) Grant shares at grant date were adjusted pursuant to increase rate of stock price and achievement of target ROE based on standard quantity applicable to the days of service among specified period of service, which allows for the determination of acquired quantity at the end of the operation period.

(b) Stock compensation costs for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Share-based payment arrangements with performance conditions	₩	2,895	2,574

(In millions of won)

29. Share-Based Payment, continued

(c) Details of accrued expenses and the intrinsic value as of December 31, 2017 are as follows:

		Accrued expense related to compensation expenses associated with share based payments	Intrinsic values (*)
Share-based payment arrangements with performance conditions (**)	₩	9,383	9,383

(*) The fair value of share-base arrangements with performance conditions is considered as intrinsic value.

(**) Payments according to arrangements with Shinhan Financial Group are calculated on the basis of the closing price on December 31, 2017, and have been recognized as liabilities.

30. Net Interest Income

Details of net interest income for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Interest income			
Cash and due from banks	₩	6,612	6,775
Credit card assets		1,686,499	1,718,491
Loans		38,483	13,768
Installment loans		96,078	91,982
leases		51,581	46,663
Others		1,655	1,638
		1,880,908	1,879,317
Interest expense			
Borrowings		(42,384)	(39,936)
Debentures		(283,839)	(304,549)
Securitized debentures		(47,920)	(43,896)
Others		(5,711)	(6,239)
		(379,854)	(394,620)
Net interest income	₩	1,501,054	1,484,697

Interest income on impaired financial assets for the years ended December 31, 2017 and 2016 are ₩9,628 million and ₩12,888 million, respectively.

(In millions of won)

31. Net Fee and commission Income

Details of net fee and commission income for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Fee and commission income			
Credit card assets	₩	2,364,034	2,324,289
Loans		805	3,082
Installment loans		5,622	4,843
Leases		20,087	8,029
Others (*)		43,453	42,429
		2,434,001	2,382,672
Fee and commission expense			
Credit card assets		(2,193,993)	(2,088,048)
Installment loans		(21,255)	(19,642)
Leases		(404)	(404)
Others (*)		(50,151)	(47,510)
		(2,265,803)	(2,155,604)
Net fee and commission income	₩	168,198	227,068

(*) Other fee and commission income or expense includes profit or loss associated with Shinhan Credit Service (Debt exemption and debt suspension) given to credit card members. For the years ended December 31, 2017 and 2016, the amount of income related to debt exemption and debt suspension are ₩43,446 million and ₩42,418 million, respectively, and the amount of expense are ₩7,657 million and ₩8,902 million, respectively.

(In millions of won)

32. Dividend Income

Dividend income for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Available-for-sale financial assets in won	₩	11,100	22,204
Available-for-sale financial assets in foreign currency		1,300	2,672
	₩	12,400	24,876

33. Impairment Loss and Reversal on Financial Assets

Details of impairment loss and reversal on financial assets for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Impairment loss			
Loans and receivables	₩	(280,054)	(340,345)
Other assets		(15,431)	(14,921)
		(295,485)	(355,266)
Reversal			
Available-for-sale financial assets		3,791	8,087
Net impairment loss on financial assets	₩	(291,694)	(347,179)

(In millions of won)

34. General Administrative Expenses

General administrative expenses for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Relate to employees			
Salaries and wages	₩	171,624	169,515
Bonus		65,911	48,747
Incentive of results		17,836	27,040
Share-based compensation expense		2,895	2,574
Employee benefits		76,651	77,424
Travel		7,941	6,522
Defined benefit		22,091	20,642
Defined contribution		2,087	1,862
Honorary retirement allowance		56,283	942
		423,319	355,268
Depreciation and amortization			
Depreciation		20,559	24,258
Amortization		11,140	19,962
Others		-	103
		31,699	44,323
Other general administrative expenses			
Communication		50,066	50,169
Utility		19,012	18,781
Vehicles maintenance		3,122	3,517
Supplies		12,917	11,413
Rent		25,128	23,554
Insurance		7,516	3,807
Repairs		218	214
Entertainment		2,139	1,723
Advertising		34,889	29,897
Sales promotion		141,067	169,790
Training		2,941	3,078
Publication		445	409
Freight		889	617
Provision for asset retirement obligation		17	25
Taxes and dues		35,779	34,601
		336,145	351,595
	₩	791,163	751,186

(In millions of won)

35. Other Operating Income and Expenses

Other operating income and expenses for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Other operating income			
Gains on recovery of bad debt	₩	10,853	10,660
Reversal of allowance for unused loan commitments		281,512	-
Gains on sale of loans		-	35,363
Others		21,501	20,300
		313,866	66,323
Other operating expenses			
Provision for allowance for unused loan commitments		-	(21,989)
Losses on repayment of debentures		(85)	-
Depreciation of lease assets		(5,668)	-
Depreciation of other assets		(114)	-
Others		(29,831)	(1,021)
		(35,698)	(23,010)
	₩	278,168	43,313

36. Non-Operating Income and Expenses

Non-operating income and expenses for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Non-operating income			
Gains on disposition of property and equipment	₩	110	76
Gains on disposition of intangible assets		-	3
Reversal of impairment losses on intangible assets		45	-
Reversal of allowance for litigation		223	-
Others		974	893
		1,352	972
Non-operating expenses			
Donations		(13,324)	(3,756)
Provision for allowance for litigation		-	(116)
Losses on disposition of property and equipment		(375)	(89)
Losses on disposition of intangible assets		(149)	(76)
Impairment losses on property and equipment		-	(2,204)
Impairment losses on intangible assets		-	(2,911)
Others		(2,460)	(864)
		(16,308)	(10,016)
	₩	(14,956)	(9,044)

(In millions of won)

37. Income Taxes

(a) The components of income tax expense for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Current income taxes payable	₩	233,594	230,434
Adjustments to the income tax expense for prior period		1,722	(264)
Changes in deferred tax due to changes in temporary differences		(2,338)	(50,849)
Income tax expense associated with items recorded in equity		35,209	48,665
Others		(18,740)	(24,443)
Income tax expense	₩	249,447	203,543

(b) The relationship between income tax expense and profit before income taxes for the years ended December 31, 2017 and 2016 is as follows:

		2017	2016
Profit before income taxes (A)	₩	1,148,170	910,887
Income taxes at applicable tax rate		277,857	220,435
Adjustments:			
Non-taxable income		(177)	(288)
Non-deductible expense		848	777
Tax deductions		(195)	(401)
Consolidated tax return effect and others		(3,287)	(16,980)
Changes in deferred tax due to change in tax rate		(25,599)	-
		(28,410)	(16,892)
Income tax expense (B)	₩	249,447	203,543
Effective tax rate (B/A)		21.73%	22.35%

(In millions of won)

37. Income Taxes, continued

(c) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2017 and 2016 are as follows:

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

		2016			
		Beginning deferred tax assets (liabilities)	**Change in profit or loss**	**Change in other comprehensive income**	**Ending deferred tax assets (liabilities)**
Accounts receivable	₩	70	-	-	70
Available-for-sale financial assets		79,640	(2,673)	-	76,967
Valuation on available-for-sale financial assets		(100,155)	-	47,063	(53,092)
Valuation on property and equipment, depreciation and others		(1,989)	(27)	-	(2,016)
Deferred loan origination costs		(8,320)	(294)	-	(8,614)
Derivative assets (liabilities)		5,145	-	(962)	4,183
Accrued expenses		7,592	4,412	-	12,004
Liability for defined benefit		59,676	3,420	917	64,013
Plan assets		(35,090)	(12,479)	863	(46,706)
Other provisions		144,727	12,896	-	157,623
Others		3,549	(2,839)	552	1,262
	₩	154,845	2,416	48,433	205,694

(In millions of won)

37. Income Taxes, continued

(d) Deferred income taxes associated with items, which are not recognized as profit (loss) for the years ended December 31, 2017 and 2016 are as follows:

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

		2016				
		December 31, 2016		**January 1, 2016**		**Changes in tax effect**
		Amount	**Tax effect**	**Amount**	**Tax effect**	
Changes in fair value of available-for-sale financial assets	₩	166,296	(53,092)	313,709	(100,155)	47,063
Effective portion of valuation gain or loss on cash flow hedges		(13,100)	4,183	(16,115)	5,145	(962)
Capital adjustments		-	-	(154)	49	(49)
Overseas operations translation credit (debit)		(1,615)	552	-	-	552
Remeasurements of defined benefit obligations		(44,310)	14,146	(38,733)	12,366	1,780
	₩	107,271	(34,211)	258,707	(82,595)	48,384

(In millions of won)

37. Income Taxes, continued

(e) The Group offsets a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the Group has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities before offsetting as of December 31, 2017 and 2016 are as follows:

		2017	2016
Deferred tax assets	₩	278,214	316,122
Deferred tax liabilities		(70,182)	(110,428)
	₩	208,032	205,694

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

(g) As of December 31, 2017 and 2016 current tax liabilities are ₩123,722 million and ₩128,667 million, respectively. For consolidated tax return, the amount is paid to the taxation authorities through the controlling company of the Group.

38. Statements of Cash Flows

(a) Details of cash and cash equivalents as of December 31, 2017 and 2016 are summarized as follows:

		2017	2016
Cash	₩	53	8
Available deposits from banks			
Deposits on demand		288,422	264,131
Current deposits		1,475	1,768
Foreign currency deposits		2,925	8,408
Others		87,999	100,000
		380,821	374,307
Cash and cash equivalents	₩	380,874	374,315

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

(c) Reconciliations of the amounts of cash and cash equivalents in the statement of cash flows with the equivalent items reported in the statement of financial position as of December 31, 2017 and 2016 are as follows:

		2017	2016
Cash and cash equivalents in the statements of financial position	₩	566,970	460,279
Adjustment:			
Restricted due from banks		(186,096)	(85,964)
Cash and cash equivalents in the statements of cash flows	₩	380,874	374,315

(In millions of won)

38. Statements of Cash Flows, continued

(d) The Group presents statements of cash flows using the indirect method and significant non-cash transactions for the years ended December 31, 2017 and 2016 are summarized as follows:

		2017	2016
Valuation of available-for-sale financial assets	₩	38,541	3,576
Valuation of derivatives		25,461	3,977

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

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

39. Contingent Liabilities and Commitments

(a) Contingent liabilities

The Group has 7 pending lawsuits as a defendant as of December 31, 2017 for a total claim amount of ₩2,196 million. A legal provision of ₩746 million is recognized in the accompanying consolidated financial statements. Additional losses may be incurred from these legal actions, but the result of such the lawsuits cannot be predicted. The management believes that the result of the lawsuits would not have significant impact on the financial statements.

(b) ABS commitments

In trust-type asset securitizations, trust company can demand the Controlling Company to transfer additional assets if the transferred assets are below the agreed minimum amount. As prescribed by the respective asset transfer agreements and other contracts, the Controlling Company has an obligation to early redeem the asset-backed securities in certain cases, such as when outstanding balance of securitized assets falls below the agreed amount at each settlement period or when portfolio profitability ratio is less than primary cost ratio for three consecutive settlement periods. Investor Interest based on transferred assets is provided as collateral for asset-backed securities. As of December 31, 2017, the Group has no additional obligation for the asset-backed securities.

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

(In millions of won)

40. Asset Backed Securitization (ABS)

(a) The initial transfer price of the credit card assets sold by Asset-Backed Securitization Act as of December 31, 2017 and 2016 is as summarized as follows:

	Initial transfer date		2017	2016
Shinhan Card 2016-1	2016.02.02	₩	-	826,549
Shinhan Card 2017-1	2017.02.08		894,379	-
Shinhan Card 2017-2	2017.04.26		841,643	-
Shinhan Card 2017-3	2017.09.12		566,521	-
		₩	2,302,543	826,549

Book vlaue of financial liability associated with asset backed securities, which are transferred, as of December 31, 2017 and 2016 are ₩2,112,983 million and ₩1,928,240 million, respectively.

(b) The uncollected details among transfer assets, which were sold by act on ABS, as of December 31, 2017 and 2016 are summarized as follows:

	List of disposal asset	Initial transfer date		2017	2016
Shinhan Card 2014-1	Credit card assets	2014.07.24	₩	-	543,968
Shinhan Card 2014-2	Credit card assets	2014.10.29		255,514	799,880
Shinhan Card 2015-1	Credit card assets	2015.11.12		654,779	665,687
Shinhan Card 2016-1	Credit card assets	2016.02.02		725,903	743,404
Shinhan Card 2017-1	Credit card assets	2017.02.08		795,302	-
Shinhan Card 2017-2	Credit card assets	2017.04.26		770,298	-
Shinhan Card 2017-3	Credit card assets	2017.09.12		510,335	-
			₩	3,712,131	2,752,939

(In millions of won)

41. Related Party Transactions

(a) As of December 31, 2017, related parties of the Group are summarized as follows:

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

(*) As Shinhan REITs Management Co., Ltd. became an affiliated company of Shinhan Financial Group Co., Ltd. which is the controlling company of the Group, it is included in the scope of other related parties for the year ended December 31, 2017.

(b) Significant transactions with the related parties for the years ended December 31, 2017 and 2016 are as follows:

Related party / Account		2017		2016	
		Revenue	Expense	Revenue	Expense
Shinhan Financial Group Co., Ltd.					
Interest expense	₩	-	11,861	-	15,132
Fee and commission income		12	-	9	-
Fee and commission expense		-	8,381	-	9,089
Bad debt expenses		-	-	-	1
Reversal of allowance for doubtful accounts		2	-	-	-
Shinhan Bank					
Interest income		410	-	144	-
Interest expense		-	1,873	-	417
Fee and commission income		1,367	-	891	-
Fee and commission expense		-	187,548	-	180,236
Bad debt expenses		-	-	-	17
Reversal of allowance for doubtful accounts		43	-	-	-
Other general and administrative expense		-	1,720	-	1,623
Other operating income		43	-	42	-

(In millions of won)

41. Related Party Transactions, continued

Related party / Account		2017 Revenue	2017 Expense	2016 Revenue	2016 Expense
Shinhan Credit Information Co., Ltd.					
Fee and commission income	₩	8	-	3	-
Fee and commission expense		-	17,793	-	10,361
Bad debt expenses		-	-	-	1
Reversal of allowance for doubtful accounts		1	-	-	-
Shinhan Life Insurance Co., Ltd.					
Fee and commission income		14,158	-	13,664	-
Fee and commission expense		-	576	-	38
Bad debt expenses		-	-	-	7
Reversal of allowance for doubtful accounts		21	-	-	-
Employee benefits		-	165	-	168
Other general and administrative expense		-	100	-	-
Shinhan Data System Co., Ltd.					
Fee and commission income		15	-	11	-
Fee and commission expense		-	17,628	-	15,703
Bad debt expenses		-	-	-	1
Reversal of allowance for doubtful accounts		2	-	-	-
Depreciation expenses		-	1,281	-	909
Other general and administrative expense		-	4	-	1
Shinhan Investment Corp.					
Interest income		131	-	67	-
Interest expenses		-	35	-	20
Fee and commission income		209	-	272	-
Fee and commission expense		-	388	-	365
Bad debt expenses		-	-	-	3
Reversal of allowance for doubtful accounts		25	-	-	-
Other general and administrative expense		-	4	-	9
Jeju Bank					
Interest income		1	-	1	-
Fee and commission income		27	-	18	-
Fee and commission expense		-	8	-	7
BNP Paribas Cardif Life Insurance					
Fee and commission income		93	-	307	-
Bad debt expenses		-	3	-	1

(In millions of won)

41. Related Party Transactions, continued

Related party / Account		2017 Revenue	2017 Expense	2016 Revenue	2016 Expense
Shinhan Savings Bank					
Fee and commission expense	₩	-	-	-	1
Bad debt expenses		-	-	-	1
Reversal of allowance for doubtful accounts		1	-	-	-
Shinhan Aitas Co., Ltd.					
Bad debt expenses		-	-	-	1
Reversal of allowance for doubtful accounts		2	-	-	-
Shinhan Capital Co., Ltd.					
Bad debt expenses		-	-	-	1
Reversal of allowance for doubtful accounts		1	-	-	-
Other general and administrative expense		-	-	-	3
Shinhan Private Equity Investment Management					
Reversal of allowance for doubtful accounts		1	-	-	-
Bad debt expenses		-	-	-	1
Shinhan BNP Paribas ITMC Co., Ltd.					
Fee and commission income		1	-	-	-
Fee and commission expense		-	3	-	-
Bad debt expenses		-	-	-	1
Reversal of allowance for doubtful accounts		1	-	-	-
SHC Management Co., Ltd.					
Other operating income		55	-	55	-
BNP Paribas Cardif General Insurance					
Fee and commission income		2	-	2	-
Bad debt expenses		-	-	-	1
Reversal of allowance for doubtful accounts		1	-	-	-
Aju Capital Co., Ltd. (*)					
Fee and commission expense		-	-	-	302
Bad debt expenses		-	-	-	3
Shinhan REITs Management Co., Ltd. (**)					
Fee and commission income		1	-	-	-
Jaeyoung Solutec Co., Ltd.					
Bad debt expenses		-	-	-	1
Reversal of allowance for doubtful accounts		1	-	-	-
Sementic Co., Ltd. (*)					
Bad debt expenses		-	-	-	1
Branbil Co., Ltd.					
Bad debt expenses		-	-	-	1

(*) Aju Capital Co., Ltd. and Sementic Co., Ltd. were excluded from the scope of related parties for the year ended December 31, 2017.

(**) As Shinhan REITs Management Co., Ltd. became an affiliated company of Shinhan Financial Group Co., Ltd. which is the controlling company of the Group, it is included in the scope of other related parties for the year ended December 31, 2017.

(In millions of won)

41. Related party transactions, continued

(c) Significant balances with the related parties as of December 31, 2017 and 2016 are summarized as follows:

Related party / Account		2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
Shinhan Financial Group Co., Ltd.					
Credit card assets	₩	305	-	234	-
Finance lease assets		218	-	110	-
Consolidated tax accounts		39	-	-	-
Borrowings		-	600,000	-	450,000
Current tax liabilities		-	123,722	-	128,669
Accrued expenses		-	10,901	-	10,195
Allowance for doubtful accounts		-	-	-	2
Shinhan Bank					
Cash and due from banks		6,946	-	86,658	-
Derivative assets		2,601	-	-	-
Credit card assets		9,183	-	4,302	-
Finance lease assets		14,766	-	7,952	-
Prepaid expenses		274	-	162	-
Accrued income		2	-	1	-
Guarantee deposits		13,921	-	15,579	-
Derivative liabilities		-	554	-	3,521
Borrowings		-	39,519	-	8,011
Allowance for asset retirement obligation		-	655	-	695
Accounts payable		-	7	-	6
Accrued expenses		-	1,835	-	2,091
Allowance for doubtful accounts		-	-	-	43
Shinhan Credit Information Co., Ltd.					
Credit card assets		161	-	99	-
Finance lease assets		116	-	52	-
Accounts payable		-	2,080	-	1,001
Allowance for doubtful accounts		-	-	-	1
Shinhan Life Insurance Co., Ltd.					
Credit card assets		2,552	-	2,574	-
Accounts payable		-	45	-	44
Accrued expenses		-	43	-	13
Allowance for doubtful accounts		-	-	-	21
Shinhan Data System Co., Ltd.					
Credit card assets		211	-	203	-
Finance lease assets		137	-	101	-
Allowance for doubtful accounts		-	-	-	2

(In millions of won)

41. Related Party Transactions, continued

Related party / Account		2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
Shinhan Investment Corp.					
Cash and due from bank	₩	485	-	868	-
Credit card assets		1,581	-	1,714	-
Prepaid expenses		4	-	10	-
Guarantee deposits		300	-	976	-
Allowance for asset retirement obligation		-	66	-	66
Accounts payable		-	-	-	1
Allowance for doubtful accounts		-	-	-	25
Jeju Bank					
Cash and due from bank		86	-	103	-
Finance lease assets		194	-	-	-
Accounts payable		-	8	-	6
BNP Paribas Cardif Life Insurance					
Credit card assets		191	-	127	-
Allowance for doubtful accounts		-	4	-	1
Shinhan Savings Bank					
Credit card assets		68	-	97	-
Allowance for doubtful accounts		-	-	-	1
Shinhan Aitas Co., Ltd.					
Credit card assets		191	-	210	-
Allowance for doubtful accounts		-	-	-	2
Shinhan Capital Co., Ltd.					
Credit card assets		136	-	122	-
Allowance for doubtful accounts		-	-	-	1
Shinhan Private Equity Investment Management, Inc.					
Credit card assets		44	-	15	-
Allowance for doubtful accounts		-	-	-	1
Shinhan BNP Paribas ITMC Co., Ltd.					
Credit card assets		146	-	124	-
Allowance for doubtful accounts		-	-	-	1
BNP Paribas Cardif General Insurance					
Credit card assets		29	-	44	-
Allowance for doubtful accounts		-	1	-	1
Aju Capital Co., Ltd. (*)					
Credit card assets		-	-	1,922	-
Allowance for doubtful accounts		-	-	-	16
Shinhan REITs Management Co., Ltd. (**)					
Finance lease assets		55	-	-	-

(In millions of won)

41. Related Party Transactions, continued

Related party / Account	2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
Jaeyoung Solutec Co., Ltd.				
Credit card assets	33	-	42	-
Allowance for doubtful accounts	-	1	-	1
Sementic Co., Ltd. (*)				
Credit card assets	-	-	1	-
Allowance for doubtful accounts	-	-	-	1
Branbil Co., Ltd.				
Credit card assets	-	-	3	-
Allowance for doubtful accounts	-	-	-	1

(*) Aju Capital Co., Ltd. and Sementic Co., Ltd. were excluded from the scope of related parties for the year ended December 31, 2017.

(**) As Shinhan REITs Management Co., Ltd. became an affiliated company of Shinhan Financial Group Co., Ltd. which is the controlling company of the Group, it is included in the scope of other related parties for the year ended December 31, 2017.

(d) Financing transactions between the related parties for the years ended December 31, 2017 and 2016 are summarized as follows:

Control relationship	Related party		2017 Borrowing	2017 Repayment	2016 Borrowing	2016 Repayment
Parent Company	Shinhan Financial Group Co., Ltd.	₩	300,000	(150,000)	300,000	(450,000)
Other related parties	Shinhan Bank		39,519	(8,011)	8,011	-

(e) Key management personnel compensations for the years ended December 31, 2017 and 2016 are as follows:

		2017	2016
Salaries and wages	₩	2,743	2,559
Post-employment benefits		64	48
Share-based payments		1,407	1,354
	₩	4,214	3,961

42. Interests in Unconsolidated Structured Entities

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

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

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

(i) The size of unconsolidated structured entities as of December 31, 2017 and 2016 is as follows:

		Asset-backed securitization	
		2017	2016
Total assets	₩	314,160	867,712

(In millions of won)

42. Interests in Unconsolidated Structured Entities, continued

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

(ii) Revenues and expenses recognized relating to the Group's interests in unconsolidated structured entities for the year ended December 31, 2017 and 2016 are as follows:

		Asset-backed securitization	
		2017	2016
Revenues			
Fee and commission income	₩	596	1,092
Dividend income		9,800	20,537
Other operating income		4,147	9,255
	₩	14,543	30,884
Expenses	₩	(270)	(263)

(iii) The carrying amounts of the assets transferred to unconsolidated structured entities as of December 31, 2017 and 2016 are as follows:

		Asset-backed securitization	
		2017	2016
Loans	₩	122,281	141,809

(b) Nature of risks

(i) The carrying amounts of the assets and liabilities recognized relating to the Group's interests in unconsolidated structured entities as of December 31, 2017 and 2016 are as follows:

		Asset-backed securitization	
		2017	2016
Assets:			
Available-for-sale financial assets	₩	1,955	1,370
Other assets		23	136
	₩	1,978	1,506

(ii) Maximum exposure to risk relating to the Group's interests in unconsolidated structured entities as of December 31, 2017 and 2016 is as follows:

		Asset-backed securitization	
		2017	2016
Assets held	₩	1,978	1,506