

IMPORTANT NOTICE

THE DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A OF THE SECURITIES ACT (AS DEFINED BELOW) OR (2) NON-U.S. PERSONS (AS DEFINED BELOW) PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. *If you are not the intended recipient of this message, please do not distribute or copy the information in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments.* The following applies to the offering circular following this page. You are therefore advised to read this carefully before reading, accessing or making any other use of the offering circular. In accessing the offering circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA, AS AMENDED. ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED, SOLD, DELIVERED OR TRANSFERRED, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF KOREA (“KOREA”) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY KOREAN RESIDENT (AS SUCH TERM IS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION ACT OF KOREA) FOR A PERIOD OF ONE YEAR FROM THE DATE OF ISSUANCE OF THE SECURITIES, EXCEPT (I) IF ARTICLE 2-2-2, PARAGRAPH 2, ITEM 3 OF THE REGULATION ON THE ISSUANCE OF SECURITIES AND PUBLIC DISCLOSURE OF KOREA IS APPLICABLE, THE SECURITIES MAY BE SOLD, DELIVERED OR TRANSFERRED BETWEEN OR AMONG KOREAN QUALIFIED INSTITUTIONAL INVESTORS AS SPECIFIED IN ARTICLE 2-2, PARAGRAPH 2, ITEM 4 OF THE ABOVE-MENTIONED REGULATION, OR (II) AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE RELEVANT SECURITIES AND THE INFORMATION CONTAINED IN THE OFFERING CIRCULAR AS SUPPLEMENTED BY THE FINAL PRICING SUPPLEMENT THAT WILL BE DISTRIBUTED TO YOU PRIOR TO THE CLOSING DATE AND NOT ON THE BASIS OF THE ATTACHED DOCUMENT. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation and your Representation: In order to be eligible to view the following offering circular or make an investment decision with respect to the securities, investors must be either (1) qualified institutional buyers (“QIBs”) (within the meaning of Rule 144A under the Securities Act) or (2) addressees who are not U.S. persons (within the meaning of Regulation S under the Securities Act) (“non-U.S. persons”) purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the following offering circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions and (2) you consent to the delivery of such offering circular by electronic transmission.

You are reminded that this offering circular has been delivered to you on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this offering circular to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

This offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Dealers named in this offering circular, nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard copy version available to you on request from the Dealers for the offer and sale of the relevant securities.

You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



SHINHAN FINANCIAL GROUP

Shinhan Financial Group Co., Ltd.

(incorporated with limited liability under the laws of the Republic of Korea)

US\$5,000,000,000

Global Medium Term Note Program

Under this US\$5,000,000,000 Global Medium Term Note Program (the “**Program**”, as amended, supplemented or restated), Shinhan Financial Group Co., Ltd. (the “**Issuer**” or “**SFG**”) may from time to time issue notes (the “**Notes**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The Notes may be issued in bearer or registered form (respectively “**Bearer Notes**” and “**Registered Notes**”). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Program will not exceed US\$5,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Summary of the Program*” and any additional Dealer appointed under the Program from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this offering circular to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Application will be made to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in connection with the Program and application will be made for the listing and quotation of Notes that may be issued under the Program which are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering circular. Approval in-principle from, admission to the Official List of, and the listing and quotation of any Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Program or the Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a pricing supplement (the “**Pricing Supplement**”) which, with respect to Notes to be listed on the SGX-ST, will be submitted to the SGX-ST before the date of listing of the Notes of such Tranche.

The Program provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealers. The Issuer may also issue unlisted Notes.

See “Risk Factors” and “Item 3. Key Information – Risk Factors” in the Annual Report on Form 20-F (as defined herein) for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes of each Series (as defined under “*Terms and Conditions of the Notes*”) will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued only outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and Registered Notes may be issued both outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S under the Securities Act and within the United States or to U.S. persons in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“**QIBs**”) or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“**Institutional Accredited Investors**”) who agree to purchase the Notes for their own account and not with a view to the distribution thereof. See “*Form of the Notes*” for a description of the manner in which Notes will be issued. Notes are subject to certain restrictions on transfer. See “*Subscription and Sale and Transfer and Selling Restrictions*”.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and U.S. Treasury regulations promulgated thereunder.

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea, as amended, and may not be offered, sold, delivered or transferred, directly or indirectly, in Korea or to, or for the account or benefit of, any Korean resident (as defined in the Foreign Exchange Transaction Act of Korea and the Enforcement Decree thereof) for a period of one year from the date of issuance of the Notes, except (i) if Article 2-2-2, Paragraph 2, Item 3 of the Regulation on the Issuance of Securities and Public Disclosure of Korea is applicable, the Notes may be offered, sold, delivered or transferred to, between or among Korean Qualified Institutional Investors as specified in Article 2-2, Paragraph 2, Item 4 of the above-mentioned regulation, provided that at least 80% of the aggregate issuance amount of the Notes shall be allocated to non-residents of Korea (as defined in the Foreign Exchange Transaction Act of Korea and the Enforcement Decree thereof)(which applies only to the Notes acquired from the Issuer or any underwriter at the time of issuance of the Notes), and the other requirements as set forth in Article 2-2-2, Paragraph 2, Item 3 above are satisfied, or (ii) as otherwise permitted by applicable Korean laws and regulations.

The Issuer may agree with the relevant Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary offering circular, if appropriate, will be submitted to the SGX-ST and made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

HSBC

Dealers

BofA Merrill Lynch
HSBC
Mizuho Securities
Shinhan Investment Corp.

Credit Suisse
J.P. Morgan
Shinhan Asia Limited

The date of this offering circular is June 22, 2018.

The Issuer, having made all reasonable enquiries, confirms that this offering circular contains or incorporates all information which is material in the context of the issue and offering of Notes, that the information contained or incorporated by reference in this offering circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this offering circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions and that there are no other facts the omission of which would, in the context of the issue and offering of the Notes, make this offering circular as a whole or any information or the expression of any opinions or intentions in this offering circular misleading in any material respect. The Issuer accepts responsibility accordingly. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated by reference in this offering circular or any other information provided by the Issuer in connection with the Program. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this offering circular or any other information provided by the Issuer in connection with the Program.

This offering circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This offering circular shall be read and construed on the basis that such documents are incorporated and form part of this offering circular.

No person is or has been authorized by the Issuer to give any information or to make any representation which is not contained in or which is not consistent with this offering circular or any other information supplied by or on behalf of the Issuer in connection with the Program or the Notes, and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or any of the Dealers.

Neither this offering circular nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer or any of the Dealers that any recipient of this offering circular or any other information supplied in connection with the Program or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this offering circular nor any other information supplied in connection with the Program or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this offering circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Program or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference in this offering circular when deciding whether or not to purchase any Notes.

This offering circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this offering circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. Neither the Issuer nor any of the Dealers represents that this offering circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other

requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this offering circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this offering circular or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this offering circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this offering circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and Germany), Japan, Korea, Singapore, Hong Kong, the People's Republic of China, Canada, Switzerland and Italy. See "*Subscription and Sale and Transfer and Selling Restrictions*".

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this offering circular or confirmed the accuracy or determined the adequacy of the information contained in this offering circular. Any representation to the contrary is unlawful.

None of the Dealers or the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

MIFID II Product Governance / Target Market – The final terms (or pricing supplement, as the case may be) in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — If the final terms (or pricing supplement, as the case may be, in relation to the Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors," the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor, as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

U.S. INFORMATION

This offering circular is being submitted on a confidential basis in the United States to a limited number of QIBs or Institutional Accredited Investors (each as defined under “*Form of the Notes*”) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes may be offered and sold outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act (“**Regulation S**”). Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (“**Rule 144A**”) or other available exemption.

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under “*Terms and Conditions of the Notes*”). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note (as defined under “*Form of the Notes*”) or any Notes issued in registered form in exchange or substitution therefor (together “**Legended Notes**”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Subscription and Sale and Transfer and Selling Restrictions*”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Form of the Notes*”.

The distribution of this offering circular and the offer, sale or delivery of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this offering circular or any Notes come must inform themselves about, and observe, any such restrictions. The Notes have not been and will not be registered under the Securities Act, and include Notes that are in bearer form that are subject to U.S. tax law requirements and limitations. Subject to certain exceptions, Notes in bearer form may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this offering circular, see “*Subscription and Sale and Transfer and Selling Restrictions*” below.

FORWARD LOOKING STATEMENTS

Certain statements in this offering circular constitute “forward-looking statements”, including statements regarding the Issuer’s expectations and projections for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “will”, “aim”, “will likely result”, “will continue”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “should”, “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this offering circular, including, without limitation, those regarding the Issuer’s financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Issuer’s products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this offering circular (whether made by the Issuer or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections

regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Issuer's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the risk of adverse impacts from an economic downturn in Korea and globally;
- the Issuer's ability to successfully implement its business strategy;
- the condition of and changes in the Korean, Asian or global economies, including changes in consumer confidence and spending;
- future levels of non-performing loans;
- the Issuer's growth and expansion, including whether the Issuer succeeds with its business strategy;
- changes in interest rates and changes in government regulation and licensing of the Issuer's businesses in Korea and in other jurisdictions where the Issuer may operate; and
- competition in the financial services industry.

Additional factors that could cause the Issuer's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Any forward-looking statements contained in this offering circular speak only as of the date of this offering circular. Each of the Issuer and the Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

CERTAIN DEFINED TERMS AND CONVENTIONS

Unless otherwise specified or the context otherwise requires, in this offering circular:

- all references to "**we**", "**us**", "**our**", "**our company**", "**our holding company**", "**Shinhan Financial Group**", "**SFG**" and the "**Group**" mean Shinhan Financial Group Co., Ltd. and its consolidated subsidiaries.

All references to "**Korea**" and the "**Republic**" contained in this offering circular shall mean The Republic of Korea. All references to the "**Government**" shall mean the government of The Republic of Korea. The "**Financial Services Commission**" or the "**FSC**" shall mean the Financial Services Commission of Korea, and the "**Financial Supervisory Service**" or the "**FSS**" shall mean the Financial Supervisory Service of Korea, the executive body of the FSC.

All references in this offering circular to "**U.S. dollars**", "**dollars**", "**US\$**" and "**\$**" refer to the lawful currency of the United States of America; all references in this offering circular to "**Won**" and "**₩**" refer to the lawful currency of Korea; all references in this offering circular to "**€**", "**Euro**" and "**euro**" refer to the lawful currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; all references in this offering circular to "**Chinese Yuan**", "**CNY**", "**Renminbi**" and "**RMB**" are to the lawful currency of the People's Republic of China (the "**PRC**"); all references in this offering circular to "**Yen**" and "**¥**" refer to the lawful currency of Japan; and all references in this offering circular to "**S\$**" refer to the lawful currency of Singapore. The Issuer maintains its accounts in Won.

For convenience only, certain Won amounts have been translated into U.S. dollars. Unless otherwise stated, translations of Won amounts into U.S. dollars for interim accounts in this offering circular were made based on the basic rate under the market average exchange rate system, announced by Seoul Money Brokerage Services, Ltd., in Seoul, between U.S. dollars and Won (the “**Market Average Exchange Rate**”) in effect on March 31, 2018, which was ₩1,066.5 to US\$1.00, and translations of Won into U.S. dollars for the annual accounts in this offering circular and the Annual Report on Form 20-F incorporated by reference in this offering circular were made at the noon buying rate in the City of New York for cable transfers in Won per US\$1.00 as certified for customers purposes by the Federal Reserve Bank of New York (the “**Noon Buying Rate**”) in effect on December 31, 2017, which was ₩1,067.4 to US\$1.00. The Market Average Exchange Rate and Noon Buying Rate have been highly volatile recently and the U.S. dollar amounts referred to in this offering circular and the Annual Report on Form 20-F incorporated by reference in this offering circular should not be relied upon as an accurate reflection of the Issuer’s results of operations. The Issuer expects this volatility to continue in the near future. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. The Market Average Exchange Rate on June 19, 2018 was ₩1,104.4 to US\$1.00.

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. References to billions are to thousands of millions.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless stated otherwise, the Issuer’s consolidated annual financial statements included in the Annual Report on Form 20-F and incorporated by reference in this offering circular have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standard Board (“**IASB-IFRS**”). The Issuer’s consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards as adopted by Korea (“**K-IFRS**”), which differs in certain significant respects from IASB-IFRS and generally accepted accounting principles in other countries, including the United States, together with, where applicable, accounting and reporting guidelines under Korean accounting standards applicable to the banking industry. The Issuer believes that, the application of IASB-IFRS as opposed to K-IFRS, or vice versa, on the Issuer’s consolidated financial statements does not result in a significant difference to the financial information presented therein.

In making an investment decision, investors must rely upon their own independent examination of the Issuer, the terms of the Notes and the most recent financial information, including the risks involved. Potential investors should consult their own professional advisors for an understanding of the differences between IASB-IFRS and K-IFRS, and how these differences affect the financial information contained in this offering circular.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is a corporation organized under the laws of Korea. All or substantially all of the Issuer’s directors and officers and certain other persons named in this offering circular reside in Korea, and all or a substantial portion of the assets of the directors and officers and certain other persons named in this offering circular and substantially all of the Issuer’s assets are located in Korea. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or against the Issuer in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilizing manager(s) (“Stabilizing Manager(s)”) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or person(s) acting on behalf of a Stabilizing Manager(s)) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or person(s) acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

The Issuer is subject to the informational requirements of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and files reports and other information with the United States Securities and Exchange Commission (the “**SEC**”). You may inspect and copy reports and other information filed by the Issuer at the public reference room of the SEC at 100 Fifth Street, N.E., Washington, D.C. 20549, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. As a foreign private issuer, the Issuer is exempt from certain provisions of the Exchange Act, including those requiring the furnishing and prescribing of the content of proxy statements and those requiring the reporting of insider purchases and sales of the Issuer’s equity securities. Any filings the Issuer makes electronically will be available to the public over the Internet at the SEC’s website at <http://www.sec.gov>.

The Issuer’s annual report on Form 20-F for the fiscal year ended December 31, 2017 (the “**Annual Report on Form 20-F**”) is incorporated into this offering circular by reference.

All supplements or amendments to this offering circular circulated by the Issuer from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this offering circular, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this offering circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this offering circular.

The Issuer will provide, without charge, to each person to whom a copy of this offering circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its registered office set out at the end of this offering circular.

The Issuer will, in connection with the listing of the Notes on the SGX-ST, so long as the rules of the SGX-ST so require, in the event of any material change which is not reflected in this offering circular, prepare a supplement to this offering circular or publish a new offering circular for use in connection with any subsequent issue of the Notes to be listed on the SGX-ST.

If the terms of the Program are modified or amended in a manner which would make this offering circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

The documents incorporated herein by reference constitute an integral part of this offering circular and contain certain material information regarding the Issuer and the securities offered hereby. You represent and warrant to the Dealers and the Issuer that you have examined those documents as well as this offering circular in forming your investment decision.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with sales of the Notes, the Issuer will be required under the Agency Agreement dated June 22, 2018, (as may be amended, supplemented and/or restated from time to time, the “**Agency Agreement**”) among the Issuer, The Bank of New York Mellon, London Branch, as the fiscal agent (the “**Fiscal Agent**”), and other agents party thereto, to furnish, upon request, to a

Holder (as defined in “*Form of the Notes — General*”) of a Note and a prospective investor designated by such Holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act unless at the time of the request the Issuer is a reporting company under Section 13 or Section 15(d) of the Exchange Act, or the Issuer is exempt from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to publish on its website, in English, certain information pursuant to Rule 12g3-2(b) under the Exchange Act). In accordance with the Agency Agreement, the Fiscal Agent also will make available for inspection by holders of the Notes or, in certain cases, arrange for the mailing to such holders of the Notes, certain reports or communications received from us. See “*Terms and Conditions of the Notes — Notices*”.

Copies of the Agency Agreement are available from the specified offices of the Fiscal Agent.

GENERAL DESCRIPTION OF THE PROGRAM

Under the Program, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Program and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the “*Terms and Conditions of the Notes*” endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*” below.

This offering circular and any supplement will only be valid for the offering of Notes in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Program, does not exceed US\$5,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Program from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under “*Form of the Notes*”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes, described under “*Form of the Notes*”) and other Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE ISSUER

The Issuer is one of the leading financial institutions in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. Incorporated on September 1, 2001, the Issuer was the first privately-held financial holding company to be established in Korea. Since inception, the Issuer has developed and introduced a wide range of financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, the Issuer is the second largest financial services provider in Korea (as measured by consolidated total assets as of December 31, 2017) and operates the second largest banking business (as measured by consolidated total bank assets as of December 31, 2017) and the largest credit card business (as measured by the total credit purchase volume in 2017) in Korea.

The Issuer currently has 14 direct subsidiaries and 25 indirect subsidiaries offering a wide range of financial products and services, including commercial banking, corporate banking, private banking, credit card, asset management, brokerage and insurance services. The Issuer believes that such breadth of services will help it to meet the diversified needs of its present and potential clients. The Issuer currently serves approximately 18.6 million active customers, which it believes is the largest customer base in Korea, through approximately 26,443 employees at approximately 1,435 network branches group-wide. While substantially all of the Issuer's revenues have been historically derived from Korea, the Issuer aims to serve the needs of its customers through a global network of 178 offices in the United States, Canada, the United Kingdom, Japan, the People's Republic of China, Germany, India, Australia, Hong Kong, Vietnam, Cambodia, Kazakhstan, Singapore, Mexico, Uzbekistan, Myanmar, Poland, Indonesia, the Philippines and the United Arab Emirates.

The Issuer derives most of its income from interest earned on its corporate and retail loans, net of funding costs (which primarily consist of interest payable on customer deposits). Net interest income is largely a function of the average volume of loans and the net interest spread thereon.

The Issuer has maintained issuer credit ratings of "A1" from Moody's Investors Service since May 14, 2018.

The Issuer has been listed on the KRX KOSPI Market since 2001. The Issuer's common shares are also listed on the New York Stock Exchange in the form of ADSs, each representing one-half of one common share. See Item 9. "*The Offer and Listing*" in the Annual Report on Form 20-F.

The Issuer's registered office is located at 20, Sejong-daero 9-gil, Jung-gu, Seoul 04513, Korea.

SUMMARY OF THE PROGRAM

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this offering circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this summary.

Issuer	Shinhan Financial Group Co., Ltd.
Description	Global Medium Term Note Program
Arranger	The Hongkong and Shanghai Banking Corporation
Dealers	Credit Suisse (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation, J.P. Morgan Securities plc, Merrill Lynch International, Mizuho Securities Asia Limited, Shinhan Asia Limited, Shinhan Investment Corp. and any other Dealers appointed in accordance with the Program Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale and Transfer and Selling Restrictions</i> ”).
Issuing and Paying Agent and Fiscal Agent	The Bank of New York Mellon, London Branch
Euroclear/Clearstream Registrar and Euroclear/Clearstream Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch
DTC Paying Agent, DTC Registrar and DTC Transfer Agent	The Bank of New York Mellon
CMU Lodging Agent, CMU Paying Agent, CMU Registrar and CMU Transfer Agent	The Bank of New York Mellon, Hong Kong Branch
Program Size	Up to US\$5,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Program</i> ”) outstanding at any time. The Issuer may increase the amount of the Program in accordance with the terms of the Program Agreement.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.

Redenomination	The applicable Pricing Supplement may provide that certain Notes may be redenominated in Euro (to the extent permitted under the applicable Korean laws and regulations). The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

Other Provisions in Relation to Floating

Rate Notes and Index Linked Interest

Notes Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Dual Currency Notes Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

Zero Coupon Notes Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in case of late payment.

Redemption The Pricing Supplement relating to each Tranche of Notes will indicate either that the Notes of such Tranche cannot be redeemed prior to their stated maturity (other than in specified installments (see below), if applicable, or for taxation reasons (in the case of Subordinated Notes, only with the prior approval of the FSS or such other relevant regulatory authority in Korea, if necessary) or, in the case of Senior Notes, following an Event of Default or, in the case of Subordinated Notes, following a Bankruptcy Event or a Liquidation Event), or that such Notes will be redeemable at the option of the Issuer (in the case of Subordinated Notes, such redemption shall not be made within 5 years after the issuance date of such Notes, and shall be subject to the prior approval of the FSS or such other relevant regulatory authority in Korea) and/or (except in the case of Subordinated Notes) the Noteholders, upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement.

The applicable Pricing Supplement may provide that Notes may be redeemable in two or more installments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

Denomination of Notes Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer except that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note (as defined under “*Form of the Notes*”) will be US\$500,000 or its approximate equivalent in other Specified Currencies.

Taxation	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 10), except as required by applicable law. In the event that any such deduction is made, the Issuer will, except in certain limited circumstances provided in Condition 10, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge	The terms of the Notes will contain limitations on liens as further described in Condition 4.
Cross Acceleration	The terms of the Notes will contain a cross-acceleration provision as further described in Condition 12.
Status of the Senior Notes	The Senior Notes and any relative Receipts and Coupons will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and will rank at least <i>pari passu</i> with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.
Status of the Subordinated Notes	The Subordinated Notes and any relative Receipts and Coupons will constitute direct, unsecured and subordinated obligations of the Issuer. The rights of holders of Subordinated Notes will be subordinated in right of payment in the manner provided in Condition 3(c).
Write-off of the Subordinated Notes upon a Trigger Event.....	The Subordinated Notes will be subject to Write-off upon the occurrence of a Trigger Event, as provided in Condition 9. See “ <i>Risk Factors — Risks relating to the Notes — The Notes that are Subordinated Notes may be fully written off upon the occurrence of certain trigger events, in which case holders of the Notes will lose all of their investment</i> ”.
Listing	Application will be made to the SGX-ST in connection with the Program and application will be made for the listing and quotation of Notes that may be issued under the Program and which are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). The

Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).

Governing Law The Notes will be governed by, and construed in accordance with, New York law except for Condition 3(b) and 3(c), which will be governed by, and construed in accordance with, Korean law.

Selling Restrictions There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Germany), Korea, Japan, Singapore, Hong Kong, People's Republic of China, Canada, Switzerland, Italy and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale and Transfer and Selling Restrictions*".

FORM OF THE NOTES

Certain capitalized terms used herein are defined in “*Terms and Conditions of the Notes*”.

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or another available exemption from the registration requirements of the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a “**Temporary Bearer Global Note**”) or a permanent bearer global note (a “**Permanent Bearer Global Note**”) and, together with Temporary Bearer Global Note, the “**Bearer Global Notes**”) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depository (the “**Common Depository**”) for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”) or (ii) a sub-custodian for the Hong Kong Monetary Authority (“**HKMA**”) as operator of the Central Moneymarkets Unit Service (the “**CMU Service**”).

While any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and/or The Bank of New York Mellon, Hong Kong Branch (the “**CMU Lodging Agent**”) and (in the case of a Temporary Bearer Global Note delivered to the Common Depository for Euroclear and Clearstream) Euroclear and/or Clearstream, as applicable, has given a similar certification (based on the certifications it has received) to the Issuing and Paying Agent.

On or after the date (the “**Exchange Date**”) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge and provided that if it is a Partly Paid Note all installments of the subscription monies due before the date of such exchange have been paid) upon request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for Definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as required by U.S. Treasury regulations in accordance with the terms of the Temporary Bearer Global Note unless such certification has already been given pursuant to the preceding paragraph. Definitive Bearer Notes will only be delivered outside the United States. The CMU Service may require that any such exchange for a Permanent Bearer Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for Definitive Bearer Notes is improperly withheld or refused. The Bearer Notes will be subject to certain restrictions on transfer set forth therein or will bear a legend regarding such restrictions.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note (if not held through the CMU Service) will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) and save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice (i) in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Issuing and Paying Agent as described therein and/or (ii) in the case of Notes held through the CMU Service, from the relevant account holders therein to the CMU Lodging Agent as described therein; or (b) only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 12 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, and in the case of Notes cleared through the CMU Service, the CMU Service, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered if the Notes had been represented by the Permanent Bearer Global Note in definitive form. The Issuer will give prompt notice to Noteholders in accordance with Condition 17 if an Exchange Event occurs. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Permanent Bearer Global Note is exchanged for Definitive Bearer Notes, the Issuer will appoint and maintain a Paying Agent in Singapore, where such Definitive Bearer Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Permanent Bearer Global Note is exchanged for Definitive Bearer Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Bearer Notes, including details of the Paying Agent in Singapore. In the event of the occurrence of an Exchange Event, in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) and/or, in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Issuing and Paying Agent or, as the case may be, the CMU Lodging Agent, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Issuing and Paying Agent or, as the case may be, the CMU Lodging Agent, requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Issuing and Paying Agent or, as the case may be, the CMU Lodging Agent.

The following legend will appear on all Permanent Bearer Global Notes and all Definitive Bearer Notes which have a maturity of more than 365 days (including unilateral rollovers and extensions) and on all talons, receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED".

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Bearer Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream or the CMU Service, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a “**Regulation S Global Note**”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person except as otherwise provided in Condition 2 (*Exchange and Transfers of Registered Notes*) and may not be held otherwise than through Euroclear or Clearstream or the CMU Service and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“**QIBs**”) or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“**Institutional Accredited Investors**”) who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (“**Rule 144A Global Note**” and, together with Regulation S Global Note, the “**Registered Global Notes**”).

Registered Global Notes will be deposited with either (i) a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“**DTC**”) for the accounts of its participants, including Euroclear and Clearstream, (ii) a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream or (iii) a sub-custodian for the HKMA as operator of the CMU Service, in each case, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Global Note shall be €100,000 or its approximate equivalent in other Specified Currencies.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“**Definitive IAI Registered Notes**”). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of US\$500,000 and integral multiples of US\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “*Subscription and Sale and Transfer and Selling Restrictions*”. Institutional Accredited Investors that hold Definitive IAI Registered Notes may not hold such Notes through DTC, Euroclear, Clearstream, Luxembourg or the CMU Service, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may elect to do so upon satisfaction of the requirements applicable to such transfer as described under “*Subscription and Sale and Transfer and Selling Restrictions*”. The Rule 144A Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provisions to the contrary, be made to the person shown on the Register (as defined in Condition 1 (*Form, Denomination and Title*)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provisions to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7(d) (*Payments — Payments in respect of Registered Notes*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, the Issuer has been notified that both Euroclear and Clearstream have and, in the case of Notes held through the CMU Service, the Issuer has been notified that the CMU Service has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered if the Notes had been represented by the Registered Global Note in definitive form. The Issuer will give prompt notice to Noteholders in accordance with Condition 17 if an Exchange Event occurs. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Permanent Registered Global Note is exchanged for definitive Registered Notes, the Issuer will appoint and maintain a Paying Agent in Singapore, where such definitive Registered Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Permanent Registered Global Note is exchanged for definitive Registered Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Registered Notes, including details of the Paying Agent in Singapore. In the event of the occurrence of an Exchange Event, (i) in the case of Notes registered in the name of a nominee for DTC or a nominee for a Common Depository for Euroclear and/or Clearstream, DTC, Euroclear and/or Clearstream or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) and/or, (ii) in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Registrar or, as the case may be, the CMU Lodging Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar or, as the case may be, the CMU Lodging Agent requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar or, as the case may be, the CMU Lodging Agent.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in

accordance with the applicable procedures of DTC, Euroclear and Clearstream and the CMU Service, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see “*Subscription and Sale and Transfer and Selling Restrictions*”.

CMU Notes

Unless otherwise specified in the applicable Pricing Supplement, CMU Notes will initially be issued in registered form and represented by a global certificate registered in the name of HKMA, in its capacity as operator of the CMU. Certain special provisions apply to such CMU Notes. See “*Book-Entry Clearance Systems — CMU*”.

General

Pursuant to the Agency Agreement (as defined in “*Terms and Conditions of the Notes*”), the Issuing and Paying Agent, the Registrar or the CMU Lodging Agent, as the case may be, shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a Common Code and ISIN and, where applicable, a CUSIP, CINS number and/or CMU instrument number which are different from the Common Code, ISIN, CUSIP, CINS and CMU instrument number assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche and, for Notes subject to the certification requirements under U.S. Treasury regulations, until at least the Notes represented by interests in a Temporary Bearer Global Note are exchanged for Notes represented by an interest in a Permanent Bearer Global Note or for Definitive Bearer Notes.

For so long as any of the Notes is represented by a global Note (a “**Global Note**”) held on behalf of Euroclear, Clearstream and/or the CMU Service, each person (other than Euroclear, Clearstream or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream and/or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “**Noteholder**”, “**holder of Notes**” and “**Holder**” and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream and/or DTC and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 12 (*Events of Default*). In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interests in such Global Note credited to their accounts with Euroclear, Clearstream, the CMU Service or DTC, as the case may be, may require Euroclear, Clearstream, the CMU Service or DTC, as applicable, to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with the standard operating procedures of Euroclear, Clearstream, the CMU Service or DTC, as applicable.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for definitive Notes, the Issuer will appoint and maintain a Paying Agent in Singapore where such definitive Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying Agent in Singapore.

Form of Applicable Pricing Supplement

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Program.

[MIFID II PRODUCT GOVERNANCE — Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining the appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (“IMD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospective Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Date]

Shinhan Financial Group Co., Ltd.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the US\$5,000,000,000
Global Medium Term Note Program**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the offering circular dated [date], as amended from time to time. This Pricing Supplement is supplemental to and must be read in conjunction with such offering circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an offering circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the offering circular dated [original date]. The Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the offering circular dated [date], except in respect of the Conditions which are extracted from the offering circular dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable”. Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs.]

1. Issuer: Shinhan Financial Group Co., Ltd.
2. (i) Series Number: [●]
(ii) Tranche Number: [●]
(if re-opening fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
(iii) Re-opening: [Yes/No] *[Specify terms of initial or eventual fungibility]*
3. Specified Currency or Currencies*: [●]
4. Aggregate Nominal Amount:
(i) Series: [●]
(ii) Tranche: [●]
5. (i) Issue Price of Tranche: [●] % of the Aggregate Nominal Amount *[plus accrued interest from [insert date] (in the case of fungible re-opening issues only, if applicable)]*
(ii) Net Proceeds: [●]
(Required only for listed issues) [●]
(iii) Use of Proceeds: [●]
6. (i) Specified Denominations: *(N.B. In the case of Registered Notes, this means the minimum integral amount in which transfers can be made. For Registered Global Notes, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies)*
“[US\$200,000] / [€100,000] and integral multiples of [US\$1,000] / [€1,000] in excess thereof”
(N.B. For Bearer Notes with a Specified Denomination and higher integral multiples above the minimum denomination, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies):
(“[US\$200,000] / [€100,000] and integral multiples of [US\$1,000] / [€1,000] in excess thereof, up to and including [US\$399,000] / [€199,000] and, for so long as the Notes are represented by a Global Note (as defined below) and Euroclear and Clearstream so permit, the Notes shall be tradable only in the minimum authorized denomination of [US\$200,000] / [€100,000] and higher integral multiples of [US\$1,000] / [€1,000], notwithstanding that no definitive notes will be issued with a denomination above [US\$399,000] / [€199,000].”)

* In respect of Notes denominated in Renminbi, purchasers of Notes should note that Renminbi is not freely convertible at present. All payments in respect of such Notes shall be made solely by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong in accordance with applicable laws and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or by transfer to a bank account in the People’s Republic of China).

- (ii) Calculation Amount: [●]
- (If there is only one Specified Denomination, insert the Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. N.B. there must be a common factor in the case of two or more Specified Denominations)*
7. (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●]
8. Maturity Date: *[Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year]]*
- (NB: Subordinated Notes shall have a minimum maturity of five years)*
9. Interest Basis: [[●]% Fixed Rate]
 [[LIBOR/EURIBOR/HIBOR] +/- [●]% Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
[specify other]
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [Installment]
[specify other]
11. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provisions for change of Notes into another Interest Basis or Redemption/ Payment Basis]*
12. Put/Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
- [N.B.: Investor Put not possible for Subordinated Notes; Issuer Call for Subordinated Notes may not be made within five years of their issuance date and will be subject to satisfaction of regulatory conditions.]*
13. Status of the Notes: [Senior/Tier I Subordinated/Tier II Subordinated][†]
14. Listing: [Singapore Exchange Securities Trading Limited/
specify other/None]
15. Method of Distribution: [Syndicated/Non-syndicated]

[†] *Eligibility of Subordinated Notes in Korea or UK, US or any other jurisdiction where the foreign branch through which the Notes are being issued is located, the inclusion of a substitution or amendment provision which would permit the Issuer to make such changes to the terms as are necessary to reflect the eventual bail-in rules without the need for the consent of the Noteholders, should be considered.*

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate(s) of Interest: [●]% per annum [payable [annually/semi-annually/quarterly] in arrears]
(If payable other than annually, consider amending Condition 6 (Interest))
- (ii) Interest Payment Date(s) ([[●] in each year up to and including the Maturity Date]/ [specify other])
(N.B.: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [[●] per Calculation Amount] / [As per Condition 6(a)(II)]
(applicable to Notes in definitive form)
- (iv) Broken Amount(s): [[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]]/ [As per Condition 6(a)(II)]
(applicable to Notes in definitive form)
[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA)/specify other] / [Not Applicable]‡
- (vi) Determination Date(s): [●] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration. N.B.: Only relevant where Day Count Fraction is Actual/Actual (ICMA)]
- (vii) Business Center(s): [Hong Kong or []]§ [Not Applicable]
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Condition 6(a)(I) applies/Condition 6(a)(II) applies. The Issuing and Paying Agent will act as the Calculation Agent. / None/give details]
17. Floating Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: [●]
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/[specify other]]

‡ Applicable if Condition 6(a)(I) is specified as being applicable in paragraph 16(viii).

§ Applicable if Condition 6(a)(II) is specified as being applicable in paragraph 16(viii).

- (iii) Additional Business Center(s): [●]
[(Insert New York City for U.S. dollar denominated Notes to be held through DTC and for non-U.S. dollar denominated Notes where exchange into U.S. dollars is contemplated for DTC participants holding through Euroclear and Clearstream)]
- (iv) Manner in which the Rate of Interest and Interest Amount are to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [●]
- (vi) Screen Rate Determination:
- Reference Rate: [●]
(Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement)
 - Interest Determination Date(s): [●]
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar HIBOR and the second day on which the TARGET 2 System is open prior to the start of each Interest Period if EURIBOR or Euro LIBOR)
 - Relevant Screen Page: [●]
(In the case of EURIBOR, if not Reuters Page EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- Floating Rate Option: [●]
(If not on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, the Issuer shall describe the basis here)
 - Designated Maturity: [●]
 - Reset Date: [●]
- (viii) Margin(s): [+/-] [●]% per annum
- (ix) Minimum Rate of Interest: [●]% per annum
- (x) Maximum Rate of Interest: [●]% per annum
- (xi) Day Count Fraction: [●]% per annum
 [Actual/365
 Actual/365 (Fixed)
 Actual/365 (Sterling)
 Actual/360
 30/360]

- 30E/360
30E/360 [ISDA]
Other]
(See Condition 6 (*Interest*) for alternatives)
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
18. Zero Coupon Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Accrual Yield [●]% per annum
- (ii) Reference Price: [●]
- (iii) Any other formula/basis of determining amount payable: [●]
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 8(e) (*Redemption and Purchase — Early Redemption Amounts*) — (iii) and Condition 8(j) (*Redemption and Purchase — Late Payment on Zero Coupon Notes*)]
(Consider applicable day count fraction if non-U.S. dollar denominated)
19. Index Linked Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent responsible for calculating the principal and/or interest due: [●]
- (iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [●]
- (iv) Specified Period(s)/Specified Interest Payment Dates: [●]
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vi) Additional Business Center(s): [●]
- (vii) Minimum Rate of Interest: [●]% per annum
- (viii) Maximum Rate of Interest: [●]% per annum
- (ix) Day Count Fraction: [●]

20. DualCurrency Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [●]
[give details]
 - (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable: [●]
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]
 - (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

21. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): [●] *(N.B.: Issuer Call for Subordinated Notes may not be made within five years of their issuance date and will be subject to satisfaction of regulatory conditions.)*
 - (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [●]
 - (b) Maximum Redemption Amount: [●]
 - (iv) Notice period (if other than as set out in the Conditions): [●]
(N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)
22. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]
 - (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount

(iii) Notice period (if other than as set out in the Conditions): [●] *(N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

23. Final Redemption Amount of each Note: [●] [per Calculation Amount/specify other]

24. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8(e) *(Redemption and Purchase — Early Redemption Amounts)*): [●] [per Calculation Amount/specify other]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes:

[Bearer Notes:

[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [either (a) not less than 60 days' written notice (i) in the case of Notes held by a Common Depository for Euroclear and/or Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Issuing and Paying Agent as described therein and/or (ii) in the case of Notes held through the CMU Service, from the relevant account holders therein to the CMU Lodging Agent as described therein; or (b) only upon the occurrence of an Exchange Event]**]

[Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Bearer Global Note exchangeable for Definitive Notes [either (a) not less than 60 days' written notice (i) in the case of Notes held by a Common Depository for Euroclear and/or Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Issuing and Paying Agent as described therein and/or (ii) in the case of Notes held through the CMU Service, from the relevant account holders therein to

** *N.B. — Regard should be given to the specific requirements of the relevant clearing system(s), if any.*

Ensure that this is consistent with the wording in the "Form of the Notes" section in the offering circular and the Notes themselves. The exchange upon notice, options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 above includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000". Furthermore, such Specified Denomination construction is not permitted in relation to any issuance of Notes which is to be represented on issue by a Temporary Bearer Global Notes exchangeable for Definitive Notes.

the CMU Lodging Agent as described therein; or (b) only upon the occurrence of an Exchange Event];]

[Registered Notes:

Regulation S Global Note (US\$[●] nominal amount) [registered in the name of a nominee for DTC/a common depositary for Euroclear and Clearstream/held through the CMU Service]/Rule 144A Global Note (US\$[●] nominal amount registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream/held through the CMU Service]/Definitive IAI Registered Notes (specify nominal amounts)]

26. Additional Financial Center(s) or other special provisions relating to Payment Dates: [Not Applicable/give details] *(Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vi) relate; insert New York City for U.S. dollar denominated Notes to be held through DTC)*
27. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Not Applicable/give details]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details] [New forms of Global Note may be required for Partly Paid issues]
29. Details relating to Installment Notes: [Not Applicable/give details]
- (i) Installment Amount(s): [Not Applicable/give details]
- (ii) Installment Date(s): [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable *[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)]*
31. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilizing Manager (if any): [Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer: [●]

† N.B. — Regard should be given to the specific requirements of the relevant clearing system(s), if any.

Ensure that this is consistent with the wording in the “Form of the Notes” section in the offering circular and the Notes themselves. The exchange upon notice, options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 above includes language substantially to the following effect: “€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000”. Furthermore, such Specified Denomination construction is not permitted in relation to any issuance of Notes which is to be represented on issue by a Permanent Bearer Global Notes exchangeable for Definitive Notes.

- | | |
|--|---|
| 34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | [TEFRA D/TEFRA C/TEFRA not applicable (for Bearer Notes with a maturity of one year or less (including unilateral rollovers and extensions) or Registered Notes)] |
| 35. Prohibition of Sales to EEA Retail Investors: | [Not Applicable/ <i>give details</i>] |
| 36. Additional selling restrictions: | [Not Applicable/ <i>give details</i>] |

OPERATIONAL INFORMATION

- | | |
|---|--|
| 37. Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s): | [CMU Service/not Applicable/ <i>give name(s) and number(s)</i>] |
| 38. Delivery: | Delivery [against/free of] payment |
| 39. In the case of Registered Notes, specify the location of the office of the Registrar if other than New York: | [Not Applicable/Luxembourg/Hong Kong] |
| 40. In the case of Bearer Notes, specify the location of the office of the Issuing and Paying Agent if other than London: | [Not Applicable/Hong Kong] |
| 41. Additional Paying Agent(s) (if any): | [●] |
| 42. Alternate Settlement Rate Determination Agent (if any): | [●] |

-
- | | |
|--------------|-----|
| ISIN: | [●] |
| Common Code: | [●] |
| CUSIP: | [●] |
| CINS: | [●] |

(insert here any other relevant codes such as a CMU instrument number)

[LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the US\$5,000,000,000 Global Medium Term Note Program of Shinhan Financial Group Co., Ltd.]

[The Singapore Exchange Securities Trading Limited (the “SGX-ST”) assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Pricing Supplement. Approval in-principle from, admission to the Official List of, and the listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Program or the Notes.]

***RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement. Signed on behalf of the Issuer:

By: _____

Duly authorized signatory

Name:

Title:

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1 (*Form, Denomination and Title*), 5 (*Redenomination*), 6 (*Interest*), 7 (*Payments*), 8 (*Redemption and Purchase* (except Condition 8(b) (*Redemption and Purchase — Redemption for Tax Reasons*)), 14 (*Replacement of Notes, Receipts, Coupons and Talons*), 15 (*Agents*), 16 (*Exchange of Talons*), 17 (*Notices*) (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 19 (*Further Issues*), they will not necessitate the preparation of a supplement to this offering circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this offering circular will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes to be issued by the Issuer which will be incorporated by reference into each Global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Notes” above for a description of the content of Pricing Supplements which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Shinhan Financial Group Co., Ltd. (the “**Issuer**”). References herein to the “**Notes**” shall be references to the Notes of this Series and shall mean (i) in relation to any Notes represented by a global note (a “**Global Note**”), units of the lowest Specified Denomination in the Specified Currency, (ii) any Global Note in bearer form (each a “**Bearer Global Note**”); (iii) any Global Notes in registered form (each a “**Registered Global Note**”), (iv) any definitive Notes in bearer form (“**Definitive Bearer Notes**” and, together with the Bearer Global Notes, the “**Bearer Notes**”) issued in exchange (or part exchange) for a Global Note in bearer form and (v) any definitive Notes in registered form (“**Definitive Registered Notes**” and, together with Registered Global Notes, “**Registered Notes**”) (whether or not issued in exchange for a Global Note in registered form). The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement dated June 22, 2018 (as may be modified and/or supplemented and/or restated from time to time, the “**Agency Agreement**”), and made among the Issuer, The Bank of New York Mellon, London Branch as fiscal agent (the “**Fiscal Agent**”) and issuing and paying agent (the “**Issuing and Paying Agent**”), The Bank of New York Mellon SA/NV, Luxembourg Branch as Euroclear/Clearstream transfer agent (the “**Euroclear/Clearstream Transfer Agent**”) and Euroclear/Clearstream registrar (the “**Euroclear/Clearstream Registrar**”), in each case, with respect to Notes to be held in and/or cleared through Euroclear or Clearstream (each as defined below), The Bank of New York Mellon, DTC paying agent (the “**DTC Paying Agent**”), DTC transfer agent (the “**DTC Transfer Agent**”) and DTC registrar (the “**DTC Registrar**”), in each case, with respect to Notes to be held in and/or cleared through the DTC (as defined below), and The Bank of New York Mellon, Hong Kong Branch as CMU lodging agent (the “**CMU Lodging Agent**”), CMU paying agent (the “**CMU Paying Agent**”), CMU registrar (the “**CMU Registrar**”) and CMU transfer agent (the “**CMU Transfer Agent**”), in each case, with respect to Notes to be held in and/or cleared through the CMU Service (as defined below). The Issuing and Paying Agent, the DTC Paying Agent, the CMU Paying Agent and other paying agents appointed under the Agency Agreement are referred to as “**Paying Agents**”, and any of them, as “**Paying Agent**”. The Euroclear/Clearstream Transfer Agent, the DTC Transfer Agent and the CMU Transfer Agent and other transfer agents appointed under the Agency Agreement are referred to as “**Transfer Agents**”, and any of them as “**Transfer Agent**”. The Euroclear/Clearstream Registrar, the DTC Registrar and the CMU Registrar are referred to as the “**Registrars**”, and any of them, as “**Registrar**”. The references herein to Fiscal Agent, Registrar, Paying Agent, Transfer Agent and CMU Lodging Agent (each, an “**Agent**”), shall include any respective successor thereof, and the references herein to Paying Agents, Registrars and Transfer Agents shall include any respective additional agents or successors thereto. For purposes of these Terms and Conditions, all references to the Registrar or the Transfer Agent shall, with respect to a Series of Notes to be held in and/or cleared through Euroclear or Clearstream, be deemed to be a reference to The Bank of New York Mellon SA/NV, Luxembourg Branch in its capacity as Euroclear/Clearstream Registrar or Euroclear/Clearstream Transfer Agent, as applicable, and all references to the Paying Agent, the Registrar or the Transfer Agent shall, (i) with respect to a Series of Notes to be held in and/or cleared through DTC, be deemed to be a reference to The Bank of New York Mellon in its capacity as DTC Paying Agent, DTC Registrar or DTC

Transfer Agent, as applicable, and (ii) with respect to a Series of Notes to be held in and/or cleared through the CMU Service, be deemed to be a reference to The Bank of New York Mellon, Hong Kong Branch in its capacity as CMU Paying Agent, CMU Registrar or CMU Transfer Agent, as applicable, and all such references shall be construed accordingly.

Interest-bearing Definitive Bearer Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons (“**Coupons**”) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in installments have receipts (“**Receipts**”) for the payment of the installments of principal (other than the final installment) attached on issue. Definitive Registered Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the “**applicable Pricing Supplement**” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to “**Noteholders**” or “**holders**” in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered, and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of any Coupons, and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates (if applicable) and/or Issue Prices (if applicable).

Copies of the Agency Agreement and the Pricing Supplement applicable to this Note are available for inspection during normal business hours at the specified office of each of the Paying Agents (in the case of all Notes) and the Transfer Agents (in the case of Registered Notes only) except that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent or Transfer Agent, as the case may be, as to its holding of Notes and as to identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and *provided that*, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement or between these Terms and Conditions and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. Form, Denomination and Title

The Notes are issued in bearer form or in registered form and, in the case of definitive Notes, will be serially numbered, in the Specified Currency and the Specified Denomination(s). Except as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and vice versa.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Installment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached and, if applicable, Talons and Receipts attached, unless they are Zero Coupon Notes, in which case reference to Coupons and Couponholders in these Terms and Conditions are not applicable. If a definitive Bearer Note is redeemable in installments, it will be issued with receipts (“**Receipts**”) attached for the payment of installments of principal prior to such Bearer Note’s stated maturity. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

Notes are issued in the Specified Denomination(s) set out in the applicable Pricing Supplement which, in the case of Registered Notes sold other than pursuant to Regulation S, shall be the Authorized Denomination (as defined below) and, in the case of Notes having a maturity of 183 days or less, the Specified Denomination shall be at least US\$500,000 (or the equivalent in any other currency or currencies). Each Tranche of Notes is issued in a nominal amount that is a multiple of the applicable Specified Denomination.

“**Authorized Denomination**” means:

- (i) in the case of a Registered Global Note, unless otherwise specified in the applicable Pricing Supplement, US\$200,000 (or its equivalent in any other currency rounded upwards as specified in the relevant Pricing Supplement) and higher integral multiples of US\$1,000, or the higher denomination or denominations specified in the applicable Pricing Supplement; and
- (ii) in the case of a Definitive Registered Note which is initially offered and sold to Institutional Accredited Investors pursuant to Section 4(2) of the Securities Act, US\$500,000 (or its equivalent in any other currency rounded upwards as specified in the applicable Pricing Supplement) and higher integral multiples of US\$1,000, or the higher denomination or denominations specified in the applicable Pricing Supplement.

Any minimum authorized denomination required by any law or directive or regulatory authority in respect of the currency of issue of any Note shall be such as applied on or prior to the date of issue of such Note.

Subject as set out below, title to Bearer Notes, Receipts and Coupons will pass by delivery. Title to Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, any Paying Agent, the Registrar, any Transfer Agent and (if applicable) the CMU Lodging Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the

registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking, S.A. (“**Clearstream**”) and/or a sub-custodian for the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the “**CMU Service**”), each person (other than Euroclear, Clearstream or the CMU Service, as applicable) who is for the time being shown in the records of Euroclear, Clearstream or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, the CMU Service or, as the case may be, DTC, as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note (and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly). Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service. Such notification shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder (the “**CMU Accountholders**”) and the principal amount of any Note credited to its account, save in the case of manifest error, and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

For so long as The Depository Trust Company (“**DTC**”) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, the CMU Service and DTC, as the case may be.

References to Euroclear, Clearstream, the CMU Service and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer.

2. Transfers of Registered Notes

(a) Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, the CMU Service, Euroclear or Clearstream, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will be exchangeable for Definitive Registered Notes if

(i) Euroclear, Clearstream, the CMU Service or DTC, as the case may be, notifies the Issuer that it is unwilling or unable to continue as depository for such Registered Global Note, (ii) if applicable, DTC ceases to be a “**Clearing Agency**” registered under the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) or either Euroclear, Clearstream or the CMU Service, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business, and a successor depository or alternative clearing system satisfactory to the Issuer and the Registrar and, in the case of CMU Notes, the CMU Lodging Agent is not available, (iii) an Event of Default (as defined in Condition 12) has occurred and is continuing with respect to such Notes or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered if the Notes had been represented by the Registered Note in definitive form. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause the appropriate Definitive Registered Notes to be delivered, *provided that*, notwithstanding the above, no Definitive Registered Notes will be issued until expiry of the applicable Distribution Compliance Period, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorized denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, the CMU Service, Euroclear or Clearstream, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee or a sub-custodian for DTC, the CMU Service, Euroclear or Clearstream, as the case may be, shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee or sub-custodian of DTC, the CMU Service, Euroclear or Clearstream, as the case may be, or such successor’s nominee or sub-custodian.

(b) Transfers of Definitive Registered Notes

Subject as provided in Conditions 2(c), (d) and (e) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorized denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (a) the holder or holders must surrender (i) the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorized in writing and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable requirements as the Issuer and the Registrar or, as the case may be, the relevant Transfer Agent may from time to time prescribe (the initial such regulation being set out in Schedule 9 of the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

(c) Transfers of interests in Regulation S Global Notes

Prior to expiry of the applicable Distribution Compliance Period (as defined below), transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note (as defined below) to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a “**Transfer Certificate**”), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:
 - (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A (as defined below); or
 - (B) to a person who is an Institutional Accredited Investor (as defined below), in which case the Transfer Certificate must be accompanied by a duly executed investment letter from the relevant transferee substantially in the form set out in Schedule 6 of the Agency Agreement (an “**IAI Investment Letter**”); or
- (ii) otherwise pursuant to the Securities Act (as defined below) or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States, and, in each case, in accordance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States or any other jurisdiction.

In the case of (i)(A) above, such transferee may take delivery through a Legended Note (as defined below) in global or definitive form and, in the case of (i)(B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (a) beneficial interests in Regulation S Notes registered in the name of a nominee for DTC may be held through DTC directly by a participant in DTC or indirectly through a participant in DTC and (b) such certification requirements will no longer apply to such transfers.

(d) Transfers of interests in Legended Notes

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter indirectly through Euroclear and/or Clearstream; or
- (ii) to a transferee who takes delivery of such interest through a Rule 144A Global Note if the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(iii) to a transferee who takes delivery of such interest through a Legended Note:

(A) where the transferee is a person whom the transferor reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A, without certification; or

(B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an “**IAI Investment Letter**”); or

(iv) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States;

and in each case, in accordance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear, Clearstream or the CMU Service, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(e) Exchanges and transfers of Registered Notes generally

Registered Notes may not be exchanged for Bearer Notes and vice versa.

Holders of Definitive Registered Notes, other than Institutional Accredited Investors, may exchange such Definitive Registered Notes for interests in a Registered Global Note of the same type at any time.

(f) Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8(c), the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(g) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during (i) the period of 15 days ending on the due date for any redemption or payment of principal or interest or payment on such Note and

(ii) during the 15 days before any dates on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 8.3, (iii) after any such Note has been called for redemption or (iv) during the period of seven (7) days ending (and including) on any Record Date (as defined below).

(h) Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(i) Definitions

In this Condition, the following expressions shall have the following meanings:

“Distribution Compliance Period” means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“Institutional Accredited Investor” means **“accredited investors”** (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions;

“Legended Note” means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A, which notes bear a legend specifying certain restrictions on transfer;

“QIB” means a **“qualified institutional buyer”** within the meaning of Rule 144A;

“Regulation S” means Regulation S under the Securities Act;

“Regulation S Global Note” means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

“Rule 144A” means Rule 144A under the Securities Act;

“Rule 144A Global Note” means a Registered Global Note representing Notes sold in the United States or to QIBs; and

“Securities Act” means the United States Securities Act of 1933, as amended.

3. *Status of the Notes*

(a) *Status of Senior Notes*

Notes whose status is specified in the applicable Pricing Supplement as Senior (the “**Senior Notes**”) and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer which rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.

(b) *Status of Subordinated Notes*

(i) *Tier II Subordinated Notes*

This Condition 3(b)(i) applies only to Notes whose status is specified in the applicable Pricing Supplement as “Tier II Subordinated Notes”.

The Notes whose status is specified in the applicable Pricing Supplement as Tier II Subordinated (the “**Tier II Subordinated Notes**”) and any relative Receipts and Coupons constitute direct, unsecured and subordinated (as described in Condition 3(c)) obligations of the Issuer which (subject to the provisions of Condition 9) will at all times rank (x) junior to the Senior Indebtedness of the Issuer (as defined in Condition 3(c)), (y) *pari passu* with and rateably without any preference among themselves and all other subordinated obligations of the Issuer which do not rank or are not expressed by their terms to rank junior or senior to the Tier II Subordinated Notes (collectively, the “Tier II Obligations”) and (z) senior to, and in priority to claims of holders of, the Tier I Obligations (as defined in Condition 3(b)(ii)) and all classes of equity of the Issuer (other than equity that constitutes Tier II capital of the Issuer under applicable Korean laws and regulations).

(ii) *Tier I Subordinated Notes*

This Condition 3(b)(ii) applies only to Notes whose status is specified in the applicable Pricing Supplement as “Tier I Subordinated Notes”.

The Notes whose status is specified in the applicable Pricing Supplement as Tier I Subordinated (the “Tier I Subordinated Notes”) and any relative Receipts and Coupons constitute direct, unsecured and subordinated (as described in Condition 3(c)) obligations of the Issuer which (subject to the provisions of Conditions 6(f) and 9) will at all times rank (x) junior to the Senior Indebtedness of the Issuer (as defined in Condition 3(c)), (y) *pari passu* with and rateably without any preference among themselves and all other subordinated obligations of the Issuer which either constitute additional Tier I capital of the Issuer under applicable Korean laws and regulations or otherwise rank or are expressed by their terms to rank *pari passu* with the Tier I Subordinated Notes (collectively, the “Tier I Obligations”) and (z) senior to, and in priority to claims of holders of, all classes of equity of the Issuer (other than equity that constitutes Tier II capital of the Issuer under applicable Korean laws and regulations). In addition, in the case of a Bankruptcy Event (as defined in Condition 3(c)), the Tier I Subordinated Notes shall be deemed not to constitute liabilities for purposes of determining whether the Issuer’s liabilities exceed its assets.

(c) Subordination

This Condition 3(c) applies only to Tier I Subordinated Notes and Tier II Subordinated Notes (together, the “Subordinated Notes”).

- (i) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Bankruptcy Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is listed on the distribution list (as amended, if such be the case) for final distribution submitted to the court in the bankruptcy proceedings is paid in full or provided to be paid in full in such bankruptcy proceedings.
- (ii) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Rehabilitation Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is listed on the rehabilitation plan of the Issuer at the time when the court’s approval of such plan becomes final and conclusive is paid in full or provided to be paid in full in the rehabilitation proceedings to the extent of the original amount thereof (without regard to any adjustment of such amount in the approved rehabilitation plan).
- (iii) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Liquidation Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is reported during the claims reporting period or is required by the laws or regulations of Korea to be paid during the liquidation proceedings is paid in full or provided to be paid in full in such liquidation proceedings.
- (iv) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Foreign Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall only become payable upon conditions equivalent to those enumerated in the above three paragraphs having been fulfilled, *provided that* notwithstanding any provision herein to the contrary if the imposition of any such conditions is not allowed under such proceedings, any amounts which become due under the Subordinated Notes shall become payable in accordance with the terms herein provided and not subject to such conditions.
- (v) A holder of a Subordinated Note by its acceptance thereof or its interest therein shall be deemed to agree that (i) if any payment in respect of such Note is made to such holder after the occurrence of a Subordination Event and the amount of such payment exceeds the amount, if any, that should have been paid to such holder upon the proper application of these subordination provisions, the payment of such excess amount shall be deemed null and void and such holder (without the Registrar or any Paying Agent having any obligation or liability with respect thereto, save to the extent that the Registrar or such Paying Agent shall return to the Issuer any such excess amount which remains held by it at the time of the notice next referred to) shall be obliged to return the amount of the excess payment within 10 days of receiving notice from the Issuer of the excess payment and (ii) upon the occurrence of a Subordination Event and so long as such Subordination Event continues, such holder shall not exercise any right to set off any liabilities of the Issuer under such Note which become so payable on or after the date on which the Subordination

Event occurs against any liabilities of such holder owed to the Issuer unless, until and only in such amount as the liabilities of the Issuer under such Note become payable pursuant to the proper application of these subordination provisions.

In addition, a holder of a Subordinated Note by its acceptance thereof or its interest therein shall be deemed to have waived, and agreed not to exercise, any right as a creditor to require the Issuer to redeem such Subordinated Note or provide collateral with respect thereto that may arise pursuant to Paragraph 2 of Article 439, Paragraph 3 of Article 527-5, Paragraph 4 of Article 530-9 or Paragraph 2 of Article 530-11 and Article 232 of the Korean Commercial Code in connection with a merger, capital reduction and/or corporate split off of the Issuer.

In these Conditions:

a “**Bankruptcy Event**” shall mean a court of competent jurisdiction in Korea having adjudicated the Issuer to be bankrupt pursuant to the provisions of the Act on the Debtor Rehabilitation and Bankruptcy of Korea or any successor legislation thereto;

a “**Foreign Event**” shall mean in any jurisdiction other than Korea, the Issuer having become subject to bankruptcy, rehabilitation or other equivalent proceedings pursuant to any applicable law of any jurisdiction other than Korea;

a “**Liquidation Event**” shall mean that the liquidation proceedings of the Issuer have commenced by any reason other than a Bankruptcy Event or Rehabilitation Event pursuant to the Korean Commercial Code or other applicable laws of Korea.

a “**Rehabilitation Event**” shall mean a court of competent jurisdiction in Korea having adjudicated the Issuer to be subject to the rehabilitation proceedings pursuant to the provisions of the Act on the Debtor Rehabilitation and Bankruptcy of Korea or any successor legislation thereto;

“**Senior Indebtedness of the Issuer**” shall mean (i) in the case of Tier II Subordinated Notes, all liabilities of the Issuer (other than the Tier II Obligations and the Tier I Obligations) and (ii) in the case of the Tier I Subordinated Notes, all liabilities of the Issuer (other than the Tier I Obligations) and all equity that constitutes Tier II capital of the Issuer under applicable Korean laws and regulations; and

a “**Subordination Event**” shall mean any Bankruptcy Event, Rehabilitation Event, Liquidation Event or Foreign Event.

4. Negative Pledge

(a) Negative Pledge

So long as any of the Senior Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any mortgage, charge, pledge or other security interest upon or over the whole or any part of its property, assets or revenues (whether present or future) to secure for the benefit of the holders of any International Investment Securities (as defined below):

- (i) payment of any sum due in respect of any such International Investment Securities;

- (ii) payment under any guarantee in respect of any such International Investment Securities; or
- (iii) payment under any indemnity or other like obligations in respect of any such International Investment Securities,

without, in any such case and at the same time, according to the holders of the Senior Notes either the same security as is available for the benefit of the holders of such International Investment Securities or such other security as shall be approved for the purpose by an Extraordinary Resolution (as defined in the Agency Agreement) of the holders of the Senior Notes.

(b) Interpretation

In these Conditions:

“**International Investment Securities**” means notes, bonds, debentures or investment securities of any person which:

- (i) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than one-half of the aggregate principal amount of which is initially distributed outside Korea by or with the authorization of the Issuer;
- (ii) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea; and
- (iii) are not (A) securities issued in accordance with a securitization plan pursuant to the Asset-Backed Securitization Act of Korea (or other similar laws of Korea); or (B) securities or instruments serviced primarily by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite period and which are commonly regarded as asset-backed securities.

5. Redenomination

(a) Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream and at least 30 days’ prior notice to the Noteholders in accordance with Condition 17 (*Notices*), elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in Euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into Euro with a principal amount for each Note and Receipt equal to the principal amount of that Note or Receipt in the Specified Currency, converted into Euro at the Established Rate (as defined below), rounded to the nearest Euro 0.01 if the conversion

results in an amount involving a fraction of Euro 0.01, *provided that*, if the Issuer determines that the then market practice in respect of the redenomination into Euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Agents of such deemed amendments;

- (ii) except to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date (as defined below), they shall be issued at the expense of the Issuer in the denominations of Euro 1,000, Euro 10,000, Euro 100,000 and (but only to the extent of any remaining amounts less than Euro 1,000 or such smaller denominations as the Issuer may approve) Euro 0.01 and such other denominations as the Issuer shall determine and notify to the Noteholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “**Exchange Notice**”) that replacement Euro-denominated Notes, Receipts and Coupons are available for exchange (*provided that* such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New Euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Notes to the Specified Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date (as specified in the applicable Pricing Supplement), it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest quotient or sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;
- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Agent, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in Euro.

(b) Definitions

In these Conditions, the following expressions have the following meanings:

“Established Rate” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into Euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“Euro” means the lawful currency of the Member States of the European Union that have adopted the single currency in accordance with the Treaty;

“Redenomination Date” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above, which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

“Treaty” means the Treaty establishing the European Community (signed in Rome on March 25, 1957), as amended from time to time.

6. Interest

(a) Interest on Fixed Rate Notes

(I) In the case of Fixed Rate Notes where Conditions 6(a)(I) is specified as being applicable in the applicable Pricing supplement, the following provisions will apply instead of Condition 6(a)(II):

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

In these Conditions:

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest for any Fixed Interest Period:

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Pricing Supplement:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period (as defined below) and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or;
 - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (i) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (ii) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360; and

In this Condition 6(a)(I):

“**Determination Period**” means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

“**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and

“**sub-unit**” means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

(II) In the case of Fixed Rate Notes where Conditions 6(a)(II) is specified as being applicable in the applicable Pricing supplement, the following provisions will apply instead of Condition 6(a)(I):

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined below), it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding day. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

The Paying Agent will cause the amount of interest payable per Calculation Amount for each Fixed Interest Period and the relevant Interest Payment Date to be notified to each of the Paying Agents and to be notified to Noteholders as soon as possible after their determination but in no event later than the fourth business day thereafter. The amount of interest payable per Calculation Amount and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 12, the accrued interest per Calculation Amount shall nevertheless continue to be calculated as previously by the Paying Agent in accordance with this Condition 6(a)(II) but no publication of the amount of interest payable per Calculation Amount so calculated need be made.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the actual number of days in the Fixed Interest Period concerned divided by 365, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In this Condition 6(a)(II):

“**business day**” means a day (other than a Saturday, Sunday or public holiday) upon which commercial banks are generally open for business and settlement of Renminbi payments in the Business Center as specified in the applicable Pricing Supplement; and

“**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and

“**sub-unit**” means, with respect to Renminbi, the lowest amount of such currency that is available as legal tender in the People’s Republic of China.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes:

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

- (A) the Interest Payment Date(s) (each an “**Interest Payment Date**”) in each year specified in the applicable Pricing Supplement; or
- (B) if no express Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, each an “**Interest Period**”).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 6(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below of this subparagraph (1) shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, “**Business Day**” means a day which is a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Hong Kong in the case of an issue of CMU Notes, in New York City in case of an issue of Registered Notes represented by a Global Note registered in the name of DTC and any Additional Business Center specified in the applicable pricing supplement; *provided that*, in relation to any payments, “**Business Day**” shall mean the Payment Day (as defined in Condition 8) applicable to such Payment.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Dealer under an interest rate swap transaction if the Dealer were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of Notes (the “**ISDA Definitions**”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“**LIBOR**”), the Euro-zone inter-bank offered rate (“**EURIBOR**”) or on the Hong Kong inter-bank offered rate (“**HIBOR**”) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), (i) “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the

ISDA Definitions, (ii) the definition of “**Banking Day**” in the ISDA Definitions shall be amended to insert after the words “**are open for**” in the second line the word “**general**” and (iii) “**Euro-zone**” means the region comprised of Member States of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Agent will be deemed to have discharged its obligations under Condition 6(b)(iv) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

(B) Screen Rate Determination for Floating Rate Notes

(1) Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR or Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(2) If the Relevant Screen Page is not available or, if in the case of Condition 6(b)(ii)(B)(1)(A) above, no such offered quotation appears or, in the case of Condition 6(b)(ii)(B)(1)(B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph the Issuer shall appoint, select and request each of the Reference Banks (as defined below) to provide the Determination Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Determination Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Determination Agent.

(3) If on any Interest Determination Date one only or none of the Reference Banks provides the Determination Agent with such offered quotations as provided in the preceding paragraph, the

Rate of Interest for the relevant Interest Period shall be the rate per annum which the Determination Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Determination Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Determination Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Determination Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), *provided that*, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

- (4) “**Reference Banks**” means, in the case of Condition 6(b)(ii)(B)(1)(A) above, those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of Condition 6(b)(ii)(B)(1)(B) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.
- (5) “**Determination Agent**” means an independent bank of international repute selected by and acting as an agent of the Issuer for the purposes of Conditions 6(b)(ii)(B) and notified to the Calculation Agent in writing. The Calculation Agent shall not be responsible for the calculations made by, or the actions or omissions of, the Determination Agent and shall not be liable for any losses caused thereby.
- (6) If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR, EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(C) Prime Rate Determination for Floating Rate Notes

(1) Where Prime Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will equal:

(A) the rate as published in H.15(519) (as defined below) under the heading “Bank Prime Loan” (the “**Prime Rate**”); or

(B) if such rate is not so published by 9:00 a.m. (New York City time) on the Interest Determination Date, the arithmetic mean (rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards) of the rates of interest publicly announced by each bank named on the Reuters Screen USPRIME1 (as defined below) as such bank’s prime rate or base lending rate as in effect on such Interest Determination Date, or

(C) if fewer than four such rates appear on the Reuters Screen USPRIME1 for such Interest Determination Date, the arithmetic mean (rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards) of the prime rates or base lending rates (quoted on the basis of the actual number of days in the year divided by 360) as of the close of business on such Interest Determination Date publicly announced by three major banks in New York City, selected and appointed by the Issuer and notified to the Calculation Agent, as each of their prime rates or base lending rates, in each case plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent, *provided that*, if the Prime Rate is not published in H.15(519) or fewer than three banks selected and appointed as aforesaid by the Issuer are quoting as mentioned in the previous sub-paragraph, the Rate of Interest with respect to such Interest Period shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(2) “**H.15(519)**” means the weekly statistical release entitled “Statistical Release H.15(519), Selected Interest Rates”, published by the Board of Governors of the United States Federal Reserve System, or any successor published publication.

(3) “**Reuters Screen USPRIME1**” means the display designed as page “USPRIME1” on the Reuters Monitor Money Rates Service (or such other page as may replace the USPRIME1 page on that service for the purpose of displaying prime rates or base lending rates of major United States banks).

(D) Federal Funds Rate Determination for Floating Rate Notes

(1) Where Federal Fund Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will equal the rate for Federal Funds (the “**Federal Funds Rate**”):

(A) as published in H.15(519) under the heading “Federal Funds (Effective)”; or

- (B) if such rate is not so published by 9:00 a.m. (New York City time) on the Interest Determination Date, then as published in Composite Quotations under the heading “Federal Funds/Effective Rate”, in each case plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent; or
- (2) if such rates are not published by 3:00 p.m. (New York City time) on the Interest Determination Date, the Calculation Agent shall determine the Rate of Interest on the Interest Determination Date as the arithmetic mean (rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards) of the rates for the last transaction in overnight Federal Funds arranged by three leading brokers of Federal Funds transactions in New York City, selected and appointed by the Issuer, as of 9:00 a.m. (New York City time) on such Interest Determination Date plus or minus (as appropriate) the Margin (if any); or
- (3) if the Federal Funds Rate is not determined in accordance with Condition 6(b)(ii)(D)(1) above or if fewer than three brokers selected and appointed as aforesaid by the Issuer are quoting as mentioned in the previous sub-paragraph, the Rate of Interest with respect to such Interest Period shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(E) Treasury Rate Determination for Floating Rate Notes

- (1) Where Treasury Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will equal the treasury bills rate (the “**Treasury Bills Rate**”) being:
 - (A) the rate for the auction on the relevant Interest Determination Date (for the purposes of this paragraph (E), as defined below) of direct obligations of the United States (“**Treasury Bills**”) having the Index Maturity specified in the applicable Pricing Supplement, as such rate is published in H.15(519) under the heading “U.S. Government Securities/Treasury Bills/Auction Average (Investment)”); or
 - (B) if such rate is not so published by 3:00 p.m. (New York City time) on the Interest Determination Date, the auction average rate (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as otherwise announced by the United States Department of the Treasury; or
 - (C) in the event that the results of the auction of Treasury Bills having the specified Index Maturity are not published or reported as provided in sub-paragraphs (E)(1)(A) or (E)(1)(B) above, by 3:00 p.m. (New York City time) on such Interest Determination Date, or if no such auction is held during such week, then the rate as published in H.15(519) under the heading “U.S. Government Securities/Treasury Bills/Secondary Market” on the Interest Determination Date for the Index Maturity specified and in the applicable Pricing Supplement; or
 - (D) in the event no such rate is published as provided in the previous sub-paragraph, by 3:00 p.m. (New York City time) on such Interest Determination Date, the yield to maturity (expressed

as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean (rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards) of the secondary market bid rates, as of approximately 3:30 p.m. (New York City time) on such Interest Determination Date, of three leading primary United States government securities dealers in New York City, selected and appointed by the Issuer, for the issue of Treasury Bills with a remaining maturity closest to the applicable Index Maturity, in each case plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent, *provided that*, if the Rate of Interest cannot be determined in accordance with Conditions 6(b)(ii)(E)(1)(A)-(D) above the Rate of Interest with respect to such Interest Period shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

- (2) For the purposes of this paragraph (E) only, the “**Interest Determination Date**” in respect of each Interest Period will be the day of the week in which the relevant Interest Period commences on which Treasury Bills would normally be auctioned. Treasury Bills are usually sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that such auction may be held on the preceding Friday. If, as a result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Interest Determination Date. If an auction date shall fall on the first day of an Interest Period, then, in respect of such Interest Period, the Treasury Bills Rate applicable to the Rate of Interest for the period up to (but excluding) the first Business Day immediately following such auction date will be the Treasury Bills Rate as determined at the last preceding Interest Determination Date, and thereafter the applicable Treasury Bills Rate shall be the Treasury Bills Rate determined on such Interest Determination Date.

(iii) Minimum and/or Maximum Interest Rate

If the applicable Pricing Supplement specifies a Minimum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Interest Rate, the Rate of Interest for such Interest Period shall be such Minimum Interest Rate. If the applicable Pricing Supplement specifies a Maximum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Interest Rate, the Rate of Interest for such Interest Period shall be such Maximum Interest Rate.

(iv) Determination of Rate of Interest and Calculation of Interest Amounts

The Calculation Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period and notify the Issuing and Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same. See Clause 8.6 and Schedule 10 of the Agency Agreement.

The Issuing and Paying Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest for any Interest Period:

- (1) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (2) if “**Actual/365 (Fixed)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (3) if “**Actual/365 (Sterling)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (4) if “**Actual/360**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (5) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (6) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

- (7) if “**30E/360 (ISDA)**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D2 will be 30.

(v) *Notification of Rate of Interest and Interest Amounts*

Provided that, if applicable, the Calculation Agent has notified the Issuing and Paying Agent, the Issuing and Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and the Noteholders as soon as practicable after their determination but in no event later than the fourth Relevant Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the Issuer and to the Noteholders. For the purposes of this paragraph, the expression “**Relevant Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London or, if the specified currency is Renminbi, Hong Kong.

(vi) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b), whether by the Issuing and Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, the Issuing and Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Issuing and Paying Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to provisions.

(c) *Dual Currency Notes*

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

(d) Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue (before, as well as after, judgment) until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given in accordance with Condition 17.

(f) Special Provisions Relating to Interest on Tier I Subordinated Notes

Notwithstanding any provisions to the contrary in these Terms and Conditions, the following will apply with respect to interest on the Tier I Subordinated Notes:

- (i) Interest on any Series of Tier I Subordinated Notes will be paid only out of the amount legally available under applicable Korean law for payment of dividends on equity of the Issuer or, if higher, the amount legally available under applicable Korean law for payment of interest on such Tier I Subordinated Notes (the “**Dividend Reserve**”). To the extent that the sum of (x) the amount of interest payable on any Series of Tier I Subordinated Notes on any Interest Payment Date (or, if applicable, during a fiscal year) and (y) the aggregate amount of interest and other distributions payable by the Issuer on the other Tier I Obligations during the fiscal quarter in which such Interest Payment Date falls (or, if applicable, during such fiscal year) exceeds the Dividend Reserve as of the relevant date (or, if applicable, for such fiscal year) pursuant to, and as calculated in accordance with, the requirements of applicable Korean law, the amount of interest payable on such Tier I Subordinated Notes on such Interest Payment Date (or, if applicable, during such fiscal year) will be reduced by an amount equal to the *pro rata* portion (calculated based on the relative aggregate amounts of interest and other distributions payable on each Tier I Obligation during such fiscal quarter or, if applicable, such fiscal year) of such excess.
- (ii) The Issuer may, in its sole discretion, elect not to pay, in whole or in part, any interest payable on any Series of Tier I Subordinated Notes on any Interest Payment Date; provided, however, that if the Issuer makes such an election, it will also make a similar election, in whole or in part on a *pro rata* basis, as applicable (to the fullest extent permitted by their respective terms and conditions), with respect to interest and other distributions that become payable on the other Tier I Obligations during the applicable Dividend Suspension Period (as defined below).
- (iii) The Tier I Subordinated Notes will not bear any interest during an Interest Cancellation Period (as defined below), and any interest payable on the Tier I Subordinated Notes on any Interest Payment Date falling within an Interest Cancellation Period will not be paid.

- (iv) Interest on the Tier I Subordinated Notes is non-cumulative. All amounts of such interest not paid in whole or in part pursuant to the preceding paragraphs will be deemed irrevocably cancelled, without the need for the consent of the holders of the Tier I Subordinated Notes, and will not be restored in any circumstances. For the avoidance of doubt, (A) any non-payment of interest, in whole or in part, by the Issuer, pursuant to the preceding paragraphs will not constitute an Event of Default under the Notes, (B) holders of the Tier I Subordinated Notes will not have any claim or entitlement to any amount of such unpaid interest, and (C) any and all amounts of such unpaid interest may be applied by the Issuer for any purpose, including without limitation for the satisfaction of its other obligations that are due and payable.
- (v) In the event that (x) any interest payable on any Series of Tier I Subordinated Notes on any Interest Payment Date will not be paid in whole or in part pursuant to the preceding paragraphs or (y) an Interest Cancellation Period has commenced or terminated, the Issuer will, no later than ten Business Days prior to the relevant Interest Payment Date or five Business Days after the commencement or termination of an Interest Cancellation Period, as applicable, provide notice of such non-payment or commencement/termination to the Paying Agents and to the holders of such Tier I Subordinated Notes in accordance with Condition 17, stating the reason for such non-payment (and specifying the amount of interest payable that will not be paid) or commencement/termination; provided, however, that the failure of the Issuer to provide such notice shall not affect the effectiveness of the cancellation of the applicable interest amounts.
- (vi) In the event that any interest payable on any Series of Tier I Subordinated Notes on any Interest Payment Date is not (or, if applicable, will not be) paid in whole or in part pursuant to the preceding paragraphs, the Issuer will not:
- (A) declare or pay any dividends or other distributions in cash with respect to any of its common shares; and
- (B) purchase, acquire or redeem any of its common shares or permit any of its Subsidiaries to do so;
- in each case during the applicable Dividend Suspension Period.

As used herein:

“Dividend Suspension Period” means: the period from and including the applicable Interest Payment Date (or, if applicable, the first day of the relevant fiscal year) to but excluding the earlier of (x) the next succeeding Interest Payment Date on which the interest payable on the applicable Series of Tier I Subordinated Notes on such date is paid in full (or, if applicable, the last day of the relevant fiscal year) and (y) the date of redemption in full or Write-Off (as defined in Condition 9) of the applicable Series of Tier I Subordinated Notes.

“Interest Cancellation Period” means any of the following: (x) the period during which either a “management improvement recommendation,” a “management improvement requirement” or a “management improvement order” has been issued by the FSC against the Issuer pursuant to Article 36, 37 or 38, respectively, of the Regulation on Supervision of Financial Holding Company and is pending; or (y) the period during which “emergency measures” have been imposed by the FSC or its chairman against the Issuer pursuant to Article 40 of the Regulation on Supervision of Financial Holding Company and are pending.

7. Payments

(a) Method of Payment

Subject as provided below:

- (i) payments in a Specified Currency other than Euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi, shall be Sydney, Auckland or Hong Kong, respectively); and
- (ii) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto (“FATCA”). References to “Specified Currency” will include any successor currency under applicable law.

(b) Payments in respect of Definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of definitive Bearer Notes not held in the CMU Service will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) and in each case payments will not be made by a transfer of funds to an account maintained by the payee in the United States or mailed to an address in the United States.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of any Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of the Bearer Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

Payments of installments of principal (if any) in respect of definitive Bearer Notes not held in the CMU Service, other than the final installment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final installment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant installment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive Bearer form (other than Dual Currency Notes or Index Linked Redemption Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 10) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Index Linked Note or Long Maturity Note in definitive Bearer form not held in the CMU Service becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Note**” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon *provided that* such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

In the case of definitive Bearer Notes held in the CMU Service, payment will be made at the direction of the bearer to the CMU Accountholders and such payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

If the due date for redemption of any definitive Bearer Note is not a Fixed Interest Date or an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Bearer Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner provided in paragraph (a) above and otherwise in the manner specified in the relevant Bearer Global Note (i) in the case of a Bearer Global Note lodged with the CMU Service, at the direction of the bearer to the CMU Accountholders, or (ii) in the case of a Bearer Global Note not lodged with the CMU Service, against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note (in the case of a Bearer Global Note not lodged with the CMU Service) by such Paying Agent or in the records of Euroclear and Clearstream, as applicable or (in the case of a Bearer Global Note lodged with the CMU Service) on withdrawal of such Bearer Global Note by the CMU Lodging Agent, and in such case such record shall be prima facie evidence that the payment in question has been made.

(d) Payments in respect of Registered Notes

Payments of principal (other than installments of principal (if any) prior to the final installments) in respect of each Registered Note (whether in definitive or global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar, any of the Paying Agents or, in the case of CMU Notes, the CMU Lodging Agent. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the “**Register**”) (i) where in global form, at the close of the business day (being for this purpose (x) in respect of Notes clearing through Euroclear and/or Clearstream, a day on which Euroclear and/or Clearstream are open for business, (y) in respect of Notes clearing through the CMU Service, a day on which the CMU Service is open for business, and (z) in respect of Notes clearing through the DTC, a day on which the DTC is open for business) immediately prior to the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) prior to the relevant due date. For these purposes, “**Designated Account**” means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and “**Designated Bank**” means (in the case of payment in a Specified Currency other than Euro) a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi, shall be Melbourne, Wellington or Hong Kong, respectively) and (in the case of a payment in Euro) any bank which processes payments in Euro.

Payments of interest and payments of installments of principal (other than the final installment) in respect of each Registered Note (i) where in global form, at the close of the business day (being for this purpose (i) (x) in respect of Notes clearing through Euroclear and/or Clearstream, a day on which Euroclear and Clearstream are open for business, (y) in respect of Notes clearing through the CMU Service, a day on which the CMU Service is open for business and (z) in respect of Notes clearing through the DTC, a day on which the DTC is open for business) immediately prior to the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth business day (whether or not such day is a business day) prior to the relevant due date (the “**Record Date**”) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on

redemption) and installments of principal (other than the final installment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final installment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

If payment in respect of any Registered Notes is required by transfer as referred to in paragraph (a) above, application for such payment must be made by the holder to the Registrar not later than the relevant Record Date.

In the case of Registered Notes (whether or not in global form) held in the CMU Service, payment of all amounts payable to the CMU Service or its sub-custodian as registered holder of a Registered Note (whether or not in global form) will be made at the direction of the registered holder to the CMU Accountholders and such payment shall discharge the obligations of the Issuer in respect of that payment.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) General provisions applicable to payments

The holder of a Global Note (if the Global Note is not lodged with the CMU Service), or the CMU Accountholder at the direction of the holder of a Global Note (if the Global Note is lodged with the CMU Service), shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, the CMU Service or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, the CMU Service or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note. No person other than the holder of such Global Note shall have any claim against the Issuer in respect of any payments due on such Global Note.

(f) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes “**Payment Day**” means any day which (subject to Condition 11) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in
 - (A) in the case of Notes in definitive form only, the relevant place of presentation;
 - (B) each Additional Financial Centre specified in the applicable Pricing Supplement; and

- (ii) either (A) in relation to any sum payable in a Specified Currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency (and which if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi shall be Melbourne, Wellington or Hong Kong, respectively); or (B) in relation to any sum payable in Euro, a day on which the TARGET 2 System is open; and/or
- (iii) in relation to any sum payable in one or more Additional Financial Centers specified in the applicable Pricing Supplement, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the Additional Financial Centers or, if no currency is indicated, generally in each of the Additional Financial Centers; and/or
- (iv) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an account holder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorized or required by law or regulation to be closed in New York City.

(g) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 10;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in installments, the Installment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortized Face Amount; and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10.

(h) Renminbi Currency Event

If “**Renminbi Currency Event**” is specified in the applicable Pricing Supplement and an Renminbi Currency Event, as determined by the Issuer acting in good faith, exists on a date for payment of any amount in respect of any Note, Receipt or Coupon, the Issuer’s obligation to make a payment in Renminbi under the terms of the Notes may be replaced by an obligation to pay such amount in the Relevant Currency (selected by the Issuer, if applicable, and converted at the Alternate Settlement Rate as of a time selected by the Alternate Settlement Rate Determination Agent as specified in the applicable Pricing Supplement).

Upon the occurrence of an Renminbi Currency Event, the Issuer shall give notice not less than five nor more than 30 days prior to the due date for payment to the Noteholders in accordance with Condition 17 stating the occurrence of the Renminbi Currency Event, giving details thereof and the action proposed to be taken in relation thereto.

For the purposes of this Condition 7(h) and unless stated otherwise in the applicable Pricing Supplement:

“**Alternate Settlement Rate**” means the spot rate, determined by the Alternate Settlement Rate Determination Agent, between Renminbi and the Relevant Currency, taking into consideration all available information which the Alternate Settlement Rate Determination Agent deems relevant (including, but not limited to, the pricing information obtained from the Renminbi non-deliverable market outside the PRC and/ or the Renminbi exchange market within the People’s Republic of China);

“**Governmental Authority**” means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong;

“**Relevant Currency**” means United States dollars or such other currency as may be specified in the applicable Pricing Supplement;

“**Renminbi Currency Event**” means any one of Renminbi Illiquidity, Renminbi Non-Transferability and Renminbi Inconvertibility;

“**Renminbi Illiquidity**” means the general Renminbi exchange market in Hong Kong becoming illiquid as a result of which the Issuer cannot obtain sufficient Renminbi in order to satisfy its obligation to pay interest or principal (in whole or in part) in respect of the Notes, as determined by the Issuer acting in good faith and in a commercially reasonable manner following consultation with two independent foreign exchange dealers of international repute active in the Renminbi exchange market in Hong Kong;

“**Renminbi Inconvertibility**” means the occurrence of any event that makes it impossible for the Issuer to convert any amount due in respect of the Notes in the general Renminbi exchange market in Hong Kong, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer, due to an event beyond the control of the Issuer, to comply with such law, rule or regulation); and

“**Renminbi Non-Transferability**” means the occurrence of any event that makes it impossible for the Issuer to deliver Renminbi between accounts inside Hong Kong or from an account inside Hong Kong to an

account outside Hong Kong or from an account outside Hong Kong to an account inside Hong Kong (including where the Renminbi clearing and settlement system for participating banks in Hong Kong is disrupted or suspended), other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer due to an event beyond the control of the Issuer, to comply with such law, rule or regulation).

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10.

8. Redemption and Purchase

(a) At Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

Notwithstanding any provisions to the contrary in these Terms and Conditions, the following will apply with respect to the redemption of the Tier I Subordinated Notes:

- (i) The Tier I Subordinated Notes are undated perpetual securities and shall have no fixed Maturity Date. Subject to Condition 3(c), the principal amount of the Tier I Subordinated Notes will become due and payable by the Issuer on the date on which voluntary or involuntary winding up proceedings are instituted in respect of the Issuer in accordance with, as the case may be, (i) a resolution passed at a shareholders' meeting of the Issuer, (ii) any provision of the Issuer's articles of incorporation or (iii) any applicable law or any decision of any judicial or administrative authority.
- (ii) The Tier I Subordinated Notes may not be redeemed at any time without the prior approval of the Financial Supervisory Service of Korea (the "FSS") or such other relevant regulatory authorities in Korea, to the extent such approval is necessary.

(b) Redemption for Tax Reasons

The Notes of a Series may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Issuing and Paying Agent and, in accordance with Condition 17, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 as a result of any change in, or amendment to, the laws or regulations of Korea or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including the cessation of tax exemptions presently applicable), or any execution of, or amendment to, any treaty or treaties affecting taxation to which Korea is a party, which change or amendment becomes effective on or after the Issue Date of the relevant Tranche of the Notes; and

- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided (1) in the case of Subordinated Notes, the prior approval of the Financial Supervisory Service of Korea or such other relevant regulatory authorities in Korea shall have been obtained, if necessary, and (2) that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Issuing and Paying Agent a certificate signed by two authorized officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of an independent legal adviser of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 8(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the Option of the Issuer (Issuer Call)

If the Issuer is specified in the applicable Pricing Supplement as having an option to redeem, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 17; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Issuing and Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date; provided, however, that in the case of Subordinated Notes, such redemption shall not be made within 5 years after the issuance date of such Notes, and shall be subject to the prior approval of the FSS or such other relevant regulatory authorities in Korea pursuant to the Detailed Regulations on the Supervision of the Financial Holding Company and the Detailed Regulations on the Supervision of the Banking Business of Korea or other successive regulations in effect at the applicable time relating to, *inter alia*, capital adequacy ratios, replacement capital and interest rates. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of definitive Notes, the Notes to be redeemed will be selected individually by lot (in such manner as the Issuer shall deem to be appropriate and fair) not more than 30 days prior to the date fixed for redemption (such date of selection, the "**Selection Date**") and a list of the notes called for redemption will be published in accordance with Condition 17 not less than 30 days prior to such date. In the case of a partial redemption of Notes represented by a Global Note, the relevant interests in the Notes to be redeemed will be selected in accordance with the rules of Euroclear and/or Clearstream (to be reflected in the records of Euroclear and Clearstream as either a pool factor or a reduction in nominal amount, at their discretion) and/or DTC and/or the CMU Service.

In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 17 not less than 15 days prior to the date fixed for

redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, *provided that*, such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this sub-paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 17 at least five days prior to the Selection Date.

(d) Redemption of the Senior Notes only at the Option of the Noteholders (Investor Put)

If the holders of Senior Notes are specified in the applicable Pricing Supplement as having an option to redeem, upon the holder of any Senior Note giving to the Issuer in accordance with Condition 17 not less than 15 nor more than 30 days' notice or such other period of notice as is specified in the applicable Pricing Supplement, the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not in part), such Senior Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 8(d) (*Redemption and Purchase — Redemption of the Senior Notes Only at the Option of the Noteholders (Investor Put)*) in any multiple of their lowest Specified Denomination.

If the Senior Note to be redeemed is in definitive form and is not held through Euroclear, Clearstream, DTC or the CMU Service, to exercise the right to require redemption of such Senior Note the holder of such Senior Note must deliver such Senior Note at the specified office of any Paying Agent (in the case of a Bearer Note) or any Transfer Agent (in the case of a Registered Note) at any time during normal business hours of such Paying Agent or Transfer Agent, as the case may be, falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or Transfer Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2 (*Transfers of Registered Notes*).

If the Senior Note to be redeemed is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, DTC or the CMU Service, to exercise the right to require redemption of such Senior Note, the holder of such Senior Note must, within the notice period, give notice to the Issuing and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) of such exercise in accordance with the standard procedures of Euroclear, Clearstream, DTC and the CMU Service (which may include notice being given on such holder's instruction by Euroclear, Clearstream, DTC, the CMU Service or any depositary, as the case may be, for them to the Issuing and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) by electronic means or notice given to the CMU Lodging Agent) in a form acceptable to Euroclear, Clearstream, DTC, the CMU Service and the CMU Lodging Agent from time to time and, if such Senior Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Issuing and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) or the CMU Lodging Agent, as the case may be, for notation accordingly.

If this Senior Note is in definitive form, the Put Notice must be accompanied by this Senior Note or evidence satisfactory to the Paying Agent concerned that this Senior Note will, following delivery of the Put Notice, be held to its order or under its control.

Any Put Notice given by a holder of any Senior Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Senior Note forthwith due and payable pursuant to Condition 12.

Each Senior Note should be presented for redemption together with all unmatured Coupons relating to it, failing which such Senior Note will be redeemed only against provision of such indemnity as the Issuer may require. Upon the date on which any Senior Note falls due for redemption or is purchased for cancellation, all unmatured Coupons appertaining thereto will become void and no payment will thereafter be made in respect thereto.

(e) Early Redemption Amounts

For the purpose of Condition 8(b) and Condition 12, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes but including Installment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the Pricing Supplement, at their nominal amount; or
- (iii) in the case of Zero Coupon Notes, at an amount (the “**Amortized Face Amount**”) equal to the sum of:

Early Redemption Amount = $RP \times (1 + AY)^y$ where:

“**RP**” means the Reference Price; and

“**AY**” means the Accrual Yield expressed as a decimal; and

“**y**” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each or such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) Installments

If the Notes are repayable in installments, they will be redeemed in the Installment Amounts and on the Installment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 8(e).

(g) Partly Paid Notes

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) Purchases etc.

The Issuer may at any time purchase Senior Notes at any price (*provided that*, in the case of Bearer Notes in definitive form, these are purchased together with all unmatured Receipts, Coupons and Talons appertaining thereto) in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent, the Registrar or the CMU Lodging Agent, as the case may be, for cancellation. If purchases are made by tender, tenders must be made available to all holders of Notes of this Series on the same terms. In case of the Subordinated Notes, the Issuer and any person or entity over which the Issuer exercises substantial control including any affiliated company or subsidiary of the Issuer (the “**Issuer Related Party**”) shall not purchase the Subordinated Notes nor provide, directly or indirectly, the fund to acquire the Subordinated Notes by providing any collateral, guaranty or loan in favor of the person or entity which will acquire such Notes. In addition, neither the Issuer nor any Issuer Related Party shall enhance, legally or economically, the payment seniority of the Subordinated Notes, nor provide, directly or indirectly through its affiliated company or subsidiary, any collateral or guaranty in favor of the person or entity which acquires such Notes.

(i) Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 8(h) (together with all unmatured Receipts and Coupons and Talons cancelled therewith) shall be forwarded to the Issuing and Paying Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and cannot be reissued or resold.

(j) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 8(a), 8(b), 8(c) or 8(d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8(e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) the date on which the full amount of the moneys payable has been received by the Issuing and Paying Agent, the Registrar or the CMU Lodging Agent, as the case may be, and notice to that effect has been given to the Noteholders either in accordance with Condition 17 or individually.

(k) *Obligation to redeem*

Upon the expiry of any notice as is referred to in Condition 8(b), 8(c) or 8(d), the Issuer shall be bound to redeem the Notes to which the notice referred at the relevant redemption price applicable at the date of such redemption together with, if appropriate, interest accrued to (but excluding) the relevant redemption date.

(l) *Redemption of Subordinated Notes for Tax non-deductibility or regulatory reasons*

Any Series of Tier I Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Issuing and Paying Agent (and the CMU Lodging Agent if applicable) and, in accordance with Condition 17, the Noteholders (which notice shall be irrevocable), if either a Tax Non-deductibility Event or a Regulatory Event (each as defined below) has occurred and is continuing; provided that (1) the prior approval of the FSS or such other relevant regulatory authorities in Korea shall have been obtained, if necessary and (2) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (x) the Issuer would cease to be able to claim the relevant tax deduction pursuant to such Tax Non-deductibility Event or (y) such Series of Tier I Subordinated Notes would cease to qualify (in whole or in part) as additional Tier I capital pursuant to such Regulatory Event, as applicable.

Any Series of Tier II Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Issuing and Paying Agent (and the CMU Lodging Agent if applicable) and, in accordance with Condition 17, the Noteholders (which notice shall be irrevocable), if a Regulatory Event (as defined below) has occurred and is continuing; provided that (1) the prior approval of the FSS or such other relevant regulatory authorities in Korea shall have been obtained, if necessary and (2) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which such Series of Tier II Subordinated Notes would cease to qualify (in whole or in part) as Tier II capital pursuant to such Regulatory Event.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Issuing and Paying Agent (1) a certificate signed by two duly authorized officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers of recognized standing to the effect that such Tax Non-deductibility Event or Regulatory Event, as applicable, has occurred and is continuing.

Notes redeemed pursuant to this Condition will be redeemed at their Final Redemption Amount, together (subject to Condition 6(f)) with interest accrued to (but excluding) the date of redemption.

As used herein:

“Regulatory Event” means, (i) with respect to any Series of Tier I Subordinated Notes, such Notes (after having qualified as such at the time of their issuance) will no longer qualify (in whole or in part) as additional Tier I capital of the Issuer under applicable Korean laws and regulations or (ii) with respect to any Series of Tier II Subordinated Notes, such Notes (after having qualified as such at the time of their issuance) will no longer

qualify (in whole or in part) as Tier II capital of the Issuer under applicable Korean laws and regulations, in the case of either (i) or (ii), as a result of a change in or amendment to, or a change in the application or official interpretation of, such laws or regulations; provided, however, that such change or amendment was not pending or foreseeable at the time of issuance of such Notes.

“**Tax Non-deductibility Event**” means, with respect to any Series of Tier I Subordinated Notes, the Issuer (after having been entitled to claim such a deduction at the time of issuance of such Notes) will no longer be entitled to claim a deduction in respect of interest paid on such Notes for purposes of Korean corporation tax under applicable Korean laws and regulations, as a result of a change in or amendment to, or a change in the application or official interpretation of, such laws or regulations; provided, however, that such tax non-deductibility cannot be avoided by the Issuer taking reasonable measures available to it.

9. Loss Absorption upon a Trigger Event in respect of Subordinated Notes

(a) Write-off on a Trigger Event

With respect to any Subordinated Notes, effective as of third Korean Business Day from the occurrence of a Trigger Event, each Subordinated Note, including the then outstanding principal amount thereof and any accrued but unpaid interest thereon, shall be irrevocably cancelled in whole, without the need for the consent of the holders of the Subordinated Notes (such cancellation being referred to herein as a “**Write-off**”, and “**Written-off**” shall be construed accordingly). Once the principal amount of, and any accrued but unpaid interest under, the Subordinated Notes have been Written-off, such amounts will not be restored in any circumstances, including where the relevant Trigger Event ceases to continue.

The Issuer shall provide a Trigger Event Notice to the holders of the Subordinated Notes, but the Write-off shall be effective irrespective of whether the Issuer has provided such Trigger Event Notice.

For the avoidance of doubt, any Write-off pursuant to this Condition 9(a) will not constitute an Event of Default under the Notes.

(b) Definitions

In these conditions and unless stated otherwise in the applicable Pricing Supplement:

“**Korean Business Day**” means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in Seoul, Korea;

“**Trigger Event**” means the designation of the Issuer as an “insolvent financial institution” pursuant to the Act on the Structural Improvement of the Financial Industry of Korea; and

“**Trigger Event Notice**” means the notice specifying that a Trigger Event has occurred, which shall be issued by the Issuer not more than two Korean Business Days after the occurrence of a Trigger Event to the holders of the Subordinated Notes and the Issuing and Paying Agent in accordance with Condition 17 and which shall state in reasonable detail the nature of the relevant Trigger Event.

10. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) presented for payment (where presentation is required) in Korea (provided the Note, Receipt or Coupon can also be presented at an office of a Paying Agent outside Korea); or
- (ii) where such withholding or deduction is imposed on a payment received by or on behalf of a holder of a Note, Receipt or Coupon who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of such holder (or fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant holder, if the relevant holder is an estate, nominee, trust or corporation) being or having been connected with a Tax Jurisdiction (as defined below) otherwise than merely by holding such Note, Receipt or Coupon; or
- (iii) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day (assuming that day to have been a Payment Day (as defined in Condition 7(f) Payments — Payment Day)); or
- (iv) where such withholding or deduction is imposed on a payment received by or on behalf of a holder of a Note, Receipt or Coupon who would have been able to avoid such withholding or deduction by presenting (where presentation is required) the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (v) where such withholding or deduction is imposed on a payment received by or on behalf of a holder of a Note, Receipt or Coupon who would have been able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim; or
- (vi) where such withholding or deduction is imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof or any law implementing an intergovernmental approach thereto; or
- (vii) any combination of paragraphs (i), (ii), (iii), (iv), (v) or (vi) above;

nor will additional amounts be paid with respect to any payment on a Note, Receipt or Coupon to a holder who is a fiduciary, a partnership, a limited liability company or a holder other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of a Tax Jurisdiction to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in a limited liability company or a beneficial owner who would not have been entitled to the additional amounts had that beneficiary, settlor, member, interest holder or beneficial owner been the holder.

As used herein:

- (i) “**Tax Jurisdiction**” means Korea or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Issuing and Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 17.

The obligation to pay additional amounts shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest or premium on, the Notes, Receipts or Coupons; *provided that*, except as otherwise set forth in these Terms and Conditions and in the Agency Agreement, the Issuer shall pay all stamp and other duties, if any, which may be imposed by Korea, the United Kingdom, the United States or any respective political subdivision or any taxing authority thereof or therein, with respect to the Agency Agreement or as a consequence of the initial issuance of the Notes.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note, Receipt or Coupon, such mention shall be deemed to include payment of additional amounts to the extent that, in such context, additional amounts are, were or would be payable in respect thereof.

11. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 10) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

12. Events of Default

(a) Events of Default applicable to Senior Notes only

The occurrence and continuance of one or more of the following events will constitute events of default (each an “**Event of Default**”) under the Notes:

- (i) *Non-payment*: default is made in the payment of any amount of principal or interest in respect of any of the Senior Notes on the due date for payment thereof and such default remains unremedied for, in the case of default in the payment of principal, seven days, or, in the case of default in the payment of interest, 14 days thereafter;

- (ii) *Breach of other obligations*: default is made in the performance or observance of any other obligation of the Issuer under or in respect of the Senior Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any holder of a Senior Note, has been delivered to the Issuer or to the specified office of the Issuing and Paying Agent;
- (iii) *Cross-acceleration*: any Indebtedness (as defined below) in aggregate exceeding US\$10,000,000 (or its equivalent in one or more other currencies) of the Issuer either (1) becoming due and payable prior to the due date for payment thereof by reason of acceleration following a default by the Issuer or (2) not being repaid by the Issuer at, and remaining unpaid after, maturity (as extended by the period of grace, if any) applicable thereto, or any guarantee given by the Issuer in respect of Indebtedness of any other person not being honored and remaining dishonored after becoming due and called; *provided that*, in the case of (1) above, if any such default under any such Indebtedness shall be cured or waived, then the default under the Notes shall be deemed to have been cured and waived;
- (iv) *Bankruptcy, etc.*: a court or administrative or other governmental agency or body having jurisdiction shall enter a decree or order for relief in respect of the Issuer in an involuntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of its property or ordering the winding up, dissolution or liquidation of its affairs, or shall otherwise adjudicate or find the Issuer to be bankrupt or insolvent and such decree or order shall remain unstayed and in effect for a period of 45 consecutive days; or
- (v) *Voluntary proceedings*: the Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of its property, or cease to carry on the whole or substantially the whole of its business or make any general assignment for the benefit of creditors, or enter into any composition with its creditors or take corporate action in furtherance of any such action.

In these Conditions:

- (1) “**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organization, state, agency of a state or other entity, whether or not having a separate legal personality; and
- (2) “**Indebtedness**” means all obligations created, incurred or assumed by a Person for the payment or repayment of moneys relating to or in connection with (a) any indebtedness of a Person in respect of moneys borrowed by it; (b) any indebtedness of a Person under acceptance or documentary credit facilities; (c) any indebtedness of a Person under bills, bonds, debentures, notes or similar instruments on which a Person is liable; (d) any obligations of a Person under leases which in accordance with accounting principles generally accepted in Korea are required to be capitalized for financial reporting purposes; (e) any indebtedness of a Person (whether actual or contingent) for moneys owing under any instrument entered into by a Person in respect of the acquisition cost of assets payment of which is deferred for a period in excess of six months after acquisition thereof, and (f) indebtedness of a Person (actual or contingent) under guarantees, security, indemnities or other commitments designed to assure any creditors in respect of the payment of any indebtedness of any other person.

In each and every such case of an Event of Default described in (i) through (v) above, unless the principal of all of the Notes shall already have become due and payable, the holders of not less than 25% in aggregate principal

amount of the Notes then outstanding, by written notice as provided in the Agency Agreement, may declare the entire principal of all the Notes, and the interest accrued thereon, to be due and payable immediately, provided however, that if any of the events specified in (iv) and (v) shall have occurred, the aggregate principal amount of the Notes then outstanding shall automatically become due and payable without regard to the giving of any such notice. If, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Issuer shall pay or deposit with the Issuing and Paying Agent a sum sufficient to pay all matured installments of interest upon all the Notes and the principal of any and all Notes that shall have become due otherwise than by acceleration (with interest upon such principal and, to the extent that the payment of such interest is enforceable under applicable law, on overdue installments of interest) and reasonable compensation and expenses of the Issuing and Paying Agent, and if any and all Events of Default under the Notes, other than the non-payment of the principal of Notes that shall have become due by acceleration, shall have been cured, waived or otherwise remedied, then and in every such case the holders of a majority in aggregate principal amount of the Notes then outstanding may, by written notice, waive all defaults and rescind and annul such declaration and its consequences.

(b) Events of Default applicable to Subordinated Notes only

- (i) If any Bankruptcy Event or Liquidation Event shall occur and be continuing (and provided that a Trigger Event has not occurred and is continuing) then, in any such event, the holder of any Subordinated Note may by written notice to the Issuer declare such Note to be forthwith due and payable upon receipt of such notice by the Issuer whereupon such Note shall become due and repayable at its principal amount plus accrued interest (if any).
- (ii) Except as expressly provided in this Condition 12(b), no holder of any Subordinated Note shall have any right to accelerate any payment of principal or interest in respect of the Subordinated Notes.
- (iii) The only action the holder of a Subordinated Note may take in Korea against the Issuer on acceleration of the Subordinated Notes is to prove claims in the liquidation or other applicable proceedings in respect of the Issuer in Korea (subject to the satisfaction of the relevant requirements of applicable laws).

13. Consolidation, Merger and Sale of Assets

Nothing contained in these Conditions shall prevent the Issuer from, without the consent of the Noteholders, Receiptholders or Couponholders, consolidating with, or merging into, or selling, transferring, leasing or conveying its assets as an entirety or substantially as an entirety to any corporation organized under the laws of the respective jurisdiction of its incorporation; *provided* that (i) any successor corporation expressly assumes the applicable obligations of the Issuer under the Notes and the Agency Agreement, (ii) after giving effect to the transaction, with respect to the Issuer or any such successor corporation, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, and (iii) the Issuer has delivered to the Issuing and Paying Agent a certificate executed by a duly authorized officer of the Issuer and an opinion of counsel as to matters of law stating that such consolidation, merger, sale, transfer, lease or conveyance and, if a supplemental agency agreement is required in connection with such transaction, such supplemental agency agreement comply with the Agency Agreement and the Notes and that all conditions precedent herein provided for relating to such transaction have been complied with.

14. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issuing and Paying Agent or the relevant Paying Agent (in the case of Bearer Notes,

Receipts, Coupons and Talons) or of the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the Issuing and Paying Agent or the Registrar, as the case may be, may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. Agents

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any of the same acts, *provided that*:

- (i) there will at all times be an Issuing and Paying Agent and a Registrar;
- (ii) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Registrar and Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or any other relevant authority (and in the case of Bearer Notes, outside the United States);
- (iii) there will at all times be a Paying Agent and a Transfer Agent with a specified office in a city in continental Europe;
- (iv) there will at all times be a Registrar and a Transfer Agent each having a specified office in New York City;
- (v) so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the “SGX- ST”) and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the SGX-ST.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the second paragraph of Condition 7(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency or of a Paying Agent failing to become or ceasing to become exempt from withholding pursuant to FATCA, when it shall be of immediate effect) after not less than 30 nor more than 45 days’ prior notice thereof shall have been given to the Noteholders in accordance with Condition 17.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust for or with any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent and for relief from responsibility in certain circumstances, and entitles any of them to enter into business transactions with the Issuer without being liable to account to the Noteholders, Receiptholders or Couponholders for any resulting profit.

16. Exchange of Talons

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Note to which it appertains) a further Talon, subject to the provisions of Condition 14. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

17. Notices

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to holders at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth day after the date of such mailing.

All notices regarding the Bearer Notes shall be published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the Financial Times.

The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may (*provided that*, in the case of Notes listed on a stock exchange, the stock exchange agrees), so long as the Global Note(s) for this Series is or are held in its/their entirety on behalf of (i) Euroclear, Clearstream and/or DTC, be substituted, in relation only to this Series, for such publication as aforesaid, the delivery of the relevant notice to Euroclear, Clearstream and/or DTC for communication by them to the holders of the Notes of this Series and (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a manner specified by those rules. Any such notice shall be deemed to have been given to the holders of the Notes one day after the day on which the said notice was given to Euroclear, Clearstream, DTC or the persons shown in the relevant CMU Instrument Position Report.

Notices or demands to be given or made by any holder of the Notes shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Issuing and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes).

While any of the Notes are represented by a Global Note, such notice or demand may be given or made by any holder of a Note to the Issuing and Paying Agent or, the Registrar through Euroclear, Clearstream and/or DTC or, in the case of Notes lodged with the CMU Service, by delivery by such holder of such notice to the CMU Lodging Agent in Hong Kong, as the case may be, in such manner as the Issuing and Paying Agent and Registrar and Euroclear, Clearstream, the CMU Service and/or DTC, as the case may be, may approve for this purpose.

18. Meetings of Noteholders, Modification and Waiver

(a) Meetings requiring majority consent

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by (i) Extraordinary Resolution or (ii), if in the case of any Notes Condition 18(b) is specified in the applicable Pricing Supplement as being applicable, the affirmative vote of each Noteholder of such Series then outstanding, of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than 10% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons to which Condition 18(b) is not specified as applicable (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

(b) Meetings requiring unanimous consent

If this Condition 18(b) is specified in the applicable Pricing Supplement as being applicable to the Notes of any Series then, notwithstanding anything herein to the contrary, no action at any meeting of Noteholders of such Series, and no modification, amendment, or supplement to the Notes, these Terms and Conditions or relevant provisions of the Agency Agreement, may:

- (i) change the due date for the payment of the principal (including premium or redemption amounts, if any, and, in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, in respect of any Note of such Series;
- (ii) reduce the principal amount (including premium or redemption amounts, if any, and, in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) in respect of any Note of such Series, the portion of such principal amount which is payable upon acceleration of the maturity of such Notes, the interest rate thereon or the premium payable upon redemption thereof;
- (iii) change the obligation of the Issuer to pay additional amounts on any Note of such Series pursuant to Condition 10;
- (iv) change the Specified Currency in which or the required places at which payment with respect to principal (including premium or redemption amounts, if any, and, in the case of Zero Coupon Notes, the Amortized Face Amount or other amount payable in respect thereof) or interest, if any, in respect of Notes of such Series is payable;

- (v) impair the right to institute suit for the enforcement of any such payment on or with respect to any Note of such Series;
- (vi) amend the procedures provided for or the circumstances under which the Notes of such Series may be redeemed;
- (vii) reduce the proportion of the principal amount of Notes of such Series the consent of the Noteholders of which is necessary to modify or amend the Agency Agreement or these Terms and Conditions or to make, take or give consent, waiver or other action provided hereby or thereby to be made, taken or given; or
- (viii) reduce the percentage of aggregate principal amount of Notes outstanding required for the adoption of a resolution or the quorum required at any meeting of Noteholders at which a resolution is adopted, in each case, unless such action or modification, amendment or supplement is approved by the affirmative vote of all Noteholders of such Series then outstanding.

(c) Modifications

The Issuing and Paying Agent and the Issuer may agree, subject to Condition 18(b) (if applicable) and without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of any provisions of the Notes, the Receipts, the Coupons, the Conditions or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons, the Conditions or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any determination as to whether any modification is prejudicial to the interests of the Noteholders of the Notes, the Receipts and the Coupons pursuant to the Conditions and the Agency Agreement shall be made solely by the Issuer and none of the Agents shall have any responsibility or liability whatsoever with respect to such determination. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 17 as soon as practicable thereafter.

19. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes; *provided that*, in the case of Bearer Notes initially represented by interests in a Temporary Bearer Global Note exchangeable for interests in a Permanent Bearer Global Note or definitive Bearer Notes, such consolidation will occur only upon certification of non-U.S. beneficial ownership and exchange of interests in the Temporary Bearer Global Note for interests in the Permanent Bearer Global Note or definitive Bearer Notes; provided further that, further notes must (A) be issued with no more than a de minimis amount of original issue discount, or (B) be part of a “qualified reopening” for United States federal income tax purposes.

20. Provision of Information

The Issuer has covenanted in the Program Agreement that for so long as any Notes remain outstanding and are “restricted securities” (as defined in Rule 144(a)(3) under the Securities Act), the Issuer shall, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any Noteholder, Receiptholder or Couponholder of, or beneficial owner of an interest in, such Notes, Receipts or Coupons in connection with any resale thereof and to any prospective purchaser designated by such Noteholder, Receiptholder or Couponholder or beneficial owner, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

21. Governing Law and Submission to Jurisdiction

The Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, the laws of the State of New York, except that that in the case of Subordinated Notes, Conditions 3(b) and 3(c) is governed by and shall be construed in accordance with Korean law. The Issuer will agree that any legal action, suit, or proceeding arising out of or based upon the Agency Agreement, the Notes, the Receipts or the Coupons may be instituted in any New York State or U.S. Federal court located in the Borough of Manhattan, The City of New York. The Issuer will appoint Shinhan Bank, New York Branch as its authorized agent upon whom process may be served in connection with any such action and will irrevocably consent to the jurisdiction of any such court in respect of any such proceeding. The Issuer will also waive, to the extent permissible under applicable law, any objection which the Issuer may now or hereafter have to the laying of venue of any such proceeding and any claim that such proceeding brought in such court has been brought in an inconvenient forum.

USE OF PROCEEDS

The net proceeds from each issue of the Notes will be applied by the Issuer for its general corporate purposes or such other purposes as may be specified in the applicable Pricing Supplement.

EXCHANGE RATES

The following table sets forth, the Market Average Exchange Rate for the last day of, and the average for, the periods indicated. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

<u>Year Ended December 31,</u>	<u>At End of</u> <u>Period</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
		<i>(Won per US\$1.00)</i>		
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
2018 (through June 19)	1,104.4	1,072.8	1,104.4	1,057.6
January	1,071.5	1,066.7	1,071.5	1,061.3
February	1,071.0	1,079.6	1,094.3	1,068.0
March	1,066.5	1,071.9	1,081.9	1,064.3
April	1,076.2	1,067.7	1,079.7	1,057.6
May	1,081.3	1,076.4	1,083.8	1,066.6
June (through June 19).....	1,104.4	1,078.3	1,104.4	1,067.9

Source: Seoul Money Brokerage Services, Ltd.

Note:

(1) Represents the average of the Market Average Exchange Rate over the relevant period.

RISK FACTORS

In addition to other information contained in this offering circular, you should consider carefully the risks described below and included in “Item 3. Key Information — Risk Factors” in the Annual Report on Form 20-F. These risks are not the only ones that the Issuer faces. Additional risks not currently known to the Issuer or those which the Issuer currently believes are immaterial may also impair its business operations. The Issuer’s business, financial condition or results of operations could be materially adversely affected by any of these risks.

Risks Relating to Our Overall Business

The implementation of IFRS 9 and K-IFRS 1109 with effect from January 1, 2018 renders certain of the Issuer’s historical financial information as at and for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2017 not directly comparable with that of the Issuer’s financial information after January 1, 2018.

With effect from January 1, 2018, IFRS 9 ‘Financial Instruments’ and K-IFRS 1109 ‘Financial Instruments’ have replaced in entirety existing guidance in IAS 39 and K-IFRS 1039, respectively. Following the adoption of IFRS 9 and K-IFRS 1109, the Issuer is required to re-classify and re-measure (including impairment measurement) certain of its financial instruments from January 1, 2018 without requiring any restatement of the corresponding figures of the prior period. In particular and among other changes made in line with IFRS 9 and K-IFRS 1109, the Issuer is permitted to adjust its shareholder equity from January 1, 2018 without requiring any restatement of the corresponding figures of the prior period where the difference between the new carrying amount and original carrying amount would be recognized in retained earnings and other reserves from January 1, 2018. As there is no requirement of any restatement by the Issuer of affected financial figures, with the implementation of IFRS 9 and K-IFRS 1109, certain of the Issuer’s historical financial information as at and for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2017 is not directly comparable against that of the Issuer’s financial information after January 1, 2018. Investors must therefore exercise caution when making comparisons of any financial figures after January 1, 2018 against the Issuer’s historical financial figures prior to January 1, 2018 and when evaluating the Issuer’s financial condition, results of operations and results. For further information regarding IFRS 9, see “Item 5.A. Operating Results — Critical Accounting Policies — New Standards and Interpretations Not Yet Adopted” in the Annual Report on Form 20-F and Note 3 of the notes to the audited consolidated annual financial statements included therein. For further information regarding K-IFRS 1109, see Note 41 of the notes to unaudited consolidated interim financial statements included in this offering circular.

The implementation of IFRS 9 and K-IFRS 1109 may cause the Issuer to increase its allowance for impairment losses to cover expected credit loss on its loan portfolio and other financial instruments and may increase volatility in the Issuer’s profit or loss.

Following the adoption of IFRS 9 and K-IFRS 1109, the “incurred loss” model under the existing guidance for loans, debt instruments, lease receivables, contractual assets and financial guarantee contracts has been replaced with a forward-looking “expected credit loss” model, and therefore impairment losses are likely to be recognized earlier, on a more forward-looking basis and on a broader scope of financial instruments than using the incurred loss model under the previous guidance. Accordingly, as of January 1, 2018, the Issuer increased its credit loss allowance from ₩2,579 billion to ₩3,226 billion as a result of adopting IFRS 9 and K-IFRS 1109. See “Item 5.A. Operating Results — Critical Accounting Policies — New Standards and Interpretations Not Yet Adopted” in the Annual Report on Form 20-F and Note 41 of the notes to unaudited consolidated interim financial statements included in this offering circular. IFRS 9 and K-IFRS 1109 also introduce additional requirements for

a financial asset to be classified as measured at amortized costs or fair value through other comprehensive income compared to the previous guidance, respectively and therefore would potentially increase the proportion of financial assets that are measured at fair value through profit or loss, thereby increasing volatility in the Issuer's profit or loss. See "Item 5.A. Operating Results — Critical Accounting Policies — New Standards and Interpretations Not Yet Adopted" in the Annual Report on Form 20-F, Note 3 of the notes to the audited consolidated annual financial statements included therein and Note 3 of the notes to unaudited consolidated interim financial statements included in this offering circular.

Risks Relating to the Notes

Capitalized terms used but not defined in this section shall have the meanings given to them in the "Terms and Conditions of the Notes".

The Notes issued under the Program may have limited liquidity.

The Notes when issued may constitute a new issue of securities for which there will be no existing trading market. Although the Dealers may make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice. No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the liquidity and market price of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including, among others:

- prevailing interest rates;
- the Issuer's results of operations, financial condition and prospects;
- the rate of exchange between Won and the currency of the Notes;
- political and economic developments in and affecting Korea and other regions;
- the financial condition and stability of the Korean financial and other sectors; and
- the market conditions for similar securities.

In addition, if definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The Notes are unsecured obligations, the repayment of which may be jeopardized in certain circumstances.

Because the Notes are unsecured obligations, their repayment may be compromised if:

- the Issuer enters into bankruptcy, liquidation, reorganization or other winding-up procedures;

- there is a default in payment under the Issuer’s future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer’s indebtedness.

If any of these events occurs, the Issuer’s assets may not be sufficient to pay amounts due on any of the Notes.

The Notes may be redeemed by the Issuer in certain circumstances.

The Notes may be redeemable at the option of the Issuer, in whole but not in part, on any of the optional redemption dates specified in the applicable Pricing Supplement at their outstanding principal amount together (if applicable) with interest accrued to (but excluding) the date of redemption. Furthermore, the Notes may be redeemable at the option of the Issuer, in whole but not in part, at their outstanding principal amount together (if applicable) with interest accrued to (but excluding) the date of redemption, upon the occurrence of certain changes in applicable tax laws and regulations which (i) require the Issuer to pay additional amounts on payments of principal and interest in respect of the Notes due to withholding or deduction required by law or (ii) in the case of Notes that are Tier I Subordinated Notes, cause the Issuer to no longer be entitled to claim a deduction in respect of interest paid on the Tier I Subordinated Notes for purposes of Korean corporation tax. In addition, the Notes that are Subordinated Notes may be redeemed by the Issuer, in whole but not in part, at their outstanding principal amount together (if applicable) with interest accrued to (but excluding) the date of redemption, upon the occurrence of a regulatory event that would cause the Subordinated Notes to no longer qualify as (in case of the Tier I Subordinated Notes) additional Tier I capital or (in case of the Tier II Subordinated Notes) Tier II capital (as the case may be) of the Issuer. Such redemptions at the option of the Issuer are subject to necessary prior approval by the FSS or such other relevant regulatory authorities in Korea. See “*Terms and Conditions of the Notes — Redemption and Purchase.*”

Accordingly, holders of the Notes should not rely on being able to hold the Notes until their maturity date. The date on which the Issuer elects to redeem the Notes may not align with the preference of holders of the Notes, and such election by the Issuer may be disadvantageous to holders of the Notes in light of market conditions or the individual circumstances of such holders. In addition, if the Notes are redeemed prior to their maturity date, there is no guarantee that the holders of the Notes will be able to reinvest the amounts received upon redemption at a rate that will provide the same return as the investment in the Notes.

The Notes that are Subordinated Notes are subordinated and have only limited rights of acceleration.

The relevant Pricing Supplement may specify that the Notes will be Tier I Subordinated Notes or Tier II Subordinated Notes, as the case may be, which will be subordinated obligations of the Issuer. Tier I Subordinated Notes are subordinated obligations that rank junior to Senior Indebtedness of the Issuer, including all liabilities of the Bank (other than the Tier I Obligations) and all equity that constitutes Tier II capital of the Issuer under applicable Korean laws and regulations. Tier II Subordinated Notes are subordinated obligations that rank junior to Senior Indebtedness of the Issuer, including all liabilities of the Bank (other than the Tier II Obligations and the Tier I Obligations). Payments on the Subordinated Notes will be subordinate in right of payment upon the occurrence of a Subordination Event to the prior payment in full of any and all such Senior Indebtedness of the Issuer. As a consequence of these subordination provisions, if any of such events should occur, the holders of the Subordinated Notes may recover proportionately less than the holders of the Issuer’s Senior Indebtedness. As of March 31, 2018, all of the Issuer’s outstanding liabilities (including borrowings, call money, guarantees and acceptances and other liabilities, but excluding provisions) would rank senior to the Subordinated Notes, except for subordinated debt which would rank *pari passu* with the Subordinated Notes. As of March 31, 2018, the Issuer had subordinated debt securities issued in Won of ₩3,700 billion and subordinated debt securities issued in foreign currencies of ₩1,866 billion.

Only those events described herein regarding the Issuer's bankruptcy or liquidation will permit a holder of a Subordinated Note to accelerate payment of such Subordinated Notes. In such event, the only action the holder may take in Korea against the Issuer is to make a claim in the Issuer's liquidation or other applicable proceeding. Furthermore, if the Issuer's indebtedness were to be accelerated, its assets may be insufficient to repay in full borrowings under all such debt instruments, including the Notes.

In addition, subject to complying with applicable regulatory requirements in respect of the Issuer's leverage and capital ratios, there is no restriction on the amount or type of other securities or indebtedness that the Issuer may issue or incur, as the case may be, that rank senior to, or pari passu with, the Subordinated Notes. The issue of any such other securities or the incurrence of any such other indebtedness may reduce the amount, if any, recoverable by holders of the Subordinated Notes on a liquidation or winding-up of the Issuer and may increase the likelihood of a non-payment or reduction of interest on the Subordinated Notes. The issue of any such other securities or the incurrence of any such other indebtedness might also have an adverse impact on the market price of the Subordinated Notes and the ability of holders to sell the Subordinated Notes.

Holders of Notes that are Subordinated Notes will have no creditor objection rights in connection with any future merger, capital reduction, split-off or merger-after-split-off of the Issuer.

Under the Korean Commercial Code, a Korean company that has resolved to merge with another entity is required to provide notice of the impending merger to its creditors and, if any creditor raises an objection to the merger during the applicable creditor objection period, to either repay the relevant debt owed to such creditor or provide adequate collateral to secure such debt. In addition, similar creditor objection rights are also applicable in the case of a capital reduction, split-off or merger-after-split-off of a Korean company under the Korean Commercial Code. However, pursuant to Condition 3(c) of the Terms and Conditions of the Notes, holders of Subordinated Notes will be deemed to have waived, and agreed not to exercise, any such creditor objection rights that may arise in connection with a merger, capital reduction, split-off or merger after split-off of the Issuer. Accordingly, holders of Subordinated Notes will have no creditor objection rights in connection with any future merger, capital reduction, split-off or merger-after-split-off of the Issuer.

The Notes that are Subordinated Notes may be fully written off upon the occurrence of certain trigger events, in which case holders of the Notes will lose all of their investment.

The Subordinated Notes will be subject to loss absorption provisions pursuant to which the Issuer will irrevocably effect a full write-off of the outstanding principal amount and accrued but unpaid interest on the Subordinated Notes (without the need for the consent of the holders) upon the occurrence of certain trigger event tied to the performance and viability of the Issuer. A trigger event would be the designation of the Issuer as an "insolvent financial institution" pursuant to the Act on Structural Improvement of the Financial Industry of Korea. Such write-off will be in effect on the third business day in Korea from the occurrence of such trigger event.

Under Article 2 of the Act on Structural Improvement of the Financial Industry, an "insolvent financial institution" is defined as a financial institution that is:

- determined by the FSC or the Deposit Insurance Committee (the "DIC") established within the Korea Deposit Insurance Corporation (the "KDIC"), based on an actual survey of such financial institution's business operations as (i) having liabilities that exceed its assets (each as valued and calculated in accordance with standards established by the FSC), or (ii) facing apparent difficulty in its normal operations because its liabilities exceed its assets (each as valued and calculated in accordance with standards established by the FSC) as a result of the occurrence of a major financial scandal or the accrual of non-performing loans;

- subject to a suspension of payment of claims (including deposits) or repayment of money borrowed from other financial institutions; or
- determined by the FSC or the DIC to be unable to make payments of claims (including deposits) or repayments of money borrowed, without external support or additional borrowings (other than borrowings accruing from ordinary course financial transactions).

In the event that the Subordinated Notes are written off, such written-off amount will be irrevocably lost and holders of the Subordinated Notes will cease to have any claims for any principal amount and accrued but unpaid interest on the Subordinated Notes. See “*Terms and Conditions of the Notes — Loss Absorption upon a Trigger Event in respect of Subordinated Notes*”.

Potential investors should consider the risk that, due to the existence of such loss absorption features, a holder of Subordinated Notes may lose all of its investment in such Subordinated Notes in the event that a trigger event occurs.

The applicable Korean laws and regulations relating to the trigger events and loss absorption features of capital instruments like the Subordinated Notes are relatively new and have yet to be tested. There is considerable uncertainty as to the circumstances under which the relevant Korean regulatory authorities will decide to effect a trigger event with respect to a particular financial institution. The occurrence of a trigger event with respect to the Issuer is therefore inherently unpredictable and is subject to factors that are outside the control of the Issuer, which will make it difficult for investors to anticipate when, if at all, a write-off of the Subordinated Notes will take place. Accordingly, the trading behavior with respect to the Subordinated Notes may not follow trading behavior associated with other types of securities of the Issuer or other issuers. Any indication that the Issuer is trending towards a possible trigger event could have a material adverse effect on the market price of the Subordinated Notes. A potential investor should not invest in the Subordinated Notes unless it has knowledge and expertise to evaluate how the Subordinated Notes will perform under changing market conditions and the resulting effect on the likelihood of a write-down and on the market value of the Notes.

Under Article 37 of the Depositor Protection Act, any entity which intends to acquire, merge with, acquire the business of or succeed the rights and obligations under the financial transactions of “insolvent or similar financial institution” (including an “insolvency-threatened financial institution”) or a financial holding company which has such financial institution as its subsidiary or its second- or third-tier subsidiary under the Financial Holding Companies Act may apply to the KDIC for the financial assistance, and under Article 38 of the Depositor Protection Act, the KDIC (upon a resolution by the DIC) may provide financial assistance to an insured financial institution (such as the Issuer) that becomes an insolvent or similar financial institution or a financial holding company which has such financial institution as its subsidiary or its second- or third-tier subsidiary under the Financial Holding Companies Act, where there exists an application for financial assistance under Article 37 of the Depositor Protection Act, or where it is deemed necessary for making acquisition of, merger with, acquisition the business of or succession of the rights and obligations under the financial transactions of such institution smoothly or where the improvement of the financial structure of such institution is deemed necessary for the protection of depositors and the preservation of order in credit transactions. An “insolvency-threatened financial institution” is defined under Article 2 of the Depositor Protection Act as a financial institution determined by the DIC as having a high possibility of becoming an insolvent financial institution due to its weak financial standing. The financial assistance to be provided can take the form of a loan or deposit of funds, a purchase of assets, a guarantee or assumption of obligations and an equity injection or contribution.

In addition, under Article 8 of the Act on Structural Improvement of the Financial Industry, if the financial institution which is in financial trouble but not yet designated as the insolvent financial institution voluntarily

merges with another financial institution for the improvement of its financial structure, the Government may provide financial assistance to the merged financial institution through: (i) the KDIC, (ii) the purchase by the Government's Public Capital Management Fund of certain securities held or issued by the merged financial institution (such as bonds issued by the Government or local governments or bonds guaranteed by the Government or subordinated notes issued by the merged financial institution), and (iii) a capital injection by the Government of state-owned assets into the merged financial institution.

In light of the size and scale of the Issuer and its relative importance to the Korean financial system, it is possible that, prior to the occurrence of a trigger event that leads to a write-off of the Subordinated Notes, the Issuer will be classified as an insolvency-threatened financial institution and receive some form of financial assistance from the KDIC, or that the Government will decide to provide other forms of financial assistance or capital support to the Issuer. However, since the provision of any such financial assistance or capital support would be at the discretion of the KDIC or the Government, as applicable, there is no guarantee that the Issuer will receive any financial assistance or capital support prior to the occurrence of a trigger event or that any such financial assistance or capital support received by the Issuer will be sufficient to prevent the occurrence of a trigger event leading to a write-off of the Subordinated Notes.

Pursuant to Condition 9 of the Terms and Conditions of the Notes, the Issuer will issue a Trigger Event Notice not more than two Korean Business Days after the occurrence of a Trigger Event, confirming that a Trigger Event has occurred. Although the Issuer will notify the Issuing and Paying Agent and the holders of the Subordinated Notes not more than two Korean Business Days after the occurrence of a Trigger Event, there may be a delay between a Trigger Event and the time that the clearing systems and the holders of the Subordinated Notes are notified of the occurrence of the relevant Trigger Event. Such delay may exceed several days during which trading and settlement in the Subordinated Notes may continue. Any such delay will not change or delay the effect of a Trigger Event or the Issuer's obligations under the Subordinated Notes or the rights of the Subordinated Noteholders.

The clearing systems are expected to suspend all clearance and settlement of transfers of the Subordinated Notes by the Subordinated Noteholders following receipt of a Trigger Event Notice, and any transfer of Subordinated Notes which are scheduled to settle after commencement of such suspension is expected to be rejected by clearing systems and will not be settled within the clearing systems.

It is possible that transfers that are initiated prior to any suspension following receipt by the clearing systems of a Trigger Event Notice and scheduled to settle on a date before the clearing systems commence such suspension will be settled through the clearing system even though such transfers were initiated after the Trigger Event. In such circumstances, transferees of the Subordinated Notes may be required to pay consideration through the clearing systems even though, upon the occurrence of a Trigger Event, no amounts under the Subordinated Notes will thereafter become due, and such transferees will have no rights whatsoever under the Conditions or the Subordinated Notes to take any action or enforce any rights whatsoever against the Issuer. The settlement of the Subordinated Notes following a Trigger Event will be subject to procedures of the clearing system for the time being in effect.

The Agency Agreement contains certain protections and disclaimers as applicable to the Agents in relation to Condition 9 of the Terms and Conditions of the Notes. Each holder of Subordinated Notes are deemed to have authorized, directed and requested the taking of any and all necessary action to give effect to any loss absorption feature and any Write-off following the occurrence of the Trigger Event.

The Notes that are Tier I Subordinated Notes have no fixed maturity date and holders of the Tier I Subordinated Notes have no right to call for redemption of the Tier I Subordinated Notes.

The Tier I Subordinated Notes are undated perpetual securities and accordingly have no fixed final maturity date. Subject to the subordination provisions of Condition 3(c) of the Terms and Conditions of the Notes, the principal amount of the Tier I Subordinated Notes will become due and payable by the Issuer on the date on which voluntary or involuntary winding-up proceedings are instituted in respect of the Issuer in accordance with, as the case may be, (i) a resolution passed at a shareholders' meeting of the Issuer, (ii) any provision of the Issuer's articles of incorporation or (iii) any applicable law or any decision of any judicial or administrative authority. In addition, the holders of Tier I Subordinated Notes have no right to call for the redemption of the Tier I Subordinated Notes. Although the Issuer may redeem the Tier I Subordinated Notes at its option on any of the optional redemption dates specified in the applicable Pricing Supplement or at any time for certain tax or regulatory reasons, there are limitations on redemption of the Tier I Subordinated Notes, including a requirement to obtain the necessary prior approval of the FSS or such other relevant regulatory authorities in Korea. See "*Terms and Conditions of the Notes — Redemption and Purchase.*" Accordingly, there is no guarantee as to whether or when the Tier I Subordinated Notes will be redeemed.

Interest payments on the Notes that are Tier I Subordinated Notes are discretionary and are not cumulative.

Interest on Tier I Subordinated Notes may not be paid in full, or at all. The Issuer may elect, in its sole discretion, to not pay any interest, or to pay only partial interest, on Tier I Subordinated Notes on any interest payment date for any reason. In addition, Tier I Subordinated Notes will not bear any interest, and any interest payable on Tier I Subordinated Notes on any interest payment date will not be paid, during an interest cancellation period, which will be triggered upon the issuance of a management improvement recommendation, a management improvement requirement or a management improvement order, or the imposition of emergency measures, by the FSC against the Issuer.

Article 38 of the Regulation on Supervision of Financial Holding Company provides that the FSC shall issue a management improvement order to a financial holding company where:

- the financial holding company constitutes an "insolvent financial institution" under the Act on Structural Improvement of the Financial Industry;
- the bank holding company (among the financial holding company)'s combined Tier I and Tier II capital adequacy ratio is less than 2.0% or its Tier I capital adequacy ratio is less than 1.5% or its Tier I common equity capital ratio is less than 1.2%; or
- the financial holding company has difficulty continuing its normal operations, even though it has previously become subject to a management improvement requirement under Article 37(1), and has been urged (but has failed) to implement a management improvement plan under Article 41(6), of the Regulation on Supervision of Financial Holding Company.

Prior to issuing a management improvement order to a financial holding company, the FSC would be expected to (i) issue a management improvement recommendation to such financial holding company (for example, if (in case of a bank holding company) its combined Tier I and Tier II capital adequacy ratio is less than 8.0% or its Tier I capital adequacy ratio is less than 6.0% or its Tier I common equity capital ratio is less than 4.5%) under Article 36 of the Regulation on Supervision of Financial Holding Company and (ii) subject such bank to a

management improvement requirement (for example, if (in case of a bank holding company) its combined Tier I and Tier II capital adequacy ratio is less than 6.0% or its Tier I capital adequacy ratio is less than 4.5% or its Tier I common equity capital ratio is less than 3.5%) under Article 37 of the Regulation on Supervision of Financial Holding Company.

Article 40(1) of the Regulation on Supervision of Financial Holding Company provides that the FSC or its chairman shall impose emergency measures on a financial holding company where:

- it becomes impracticable or impossible for the financial holding company to conduct normal business operations due to the occurrence of events such as, among others, a strike or work stoppage; or
- there is a manifest risk of bankruptcy or insolvency of the financial holding company or the financial holding company is unable to repay money borrowed.

Such emergency measures may include (i) a prohibition on repayment of debts by the financial holding company; (ii) a prohibition on extension of credit to the subsidiary, etc. by the financial holding company; (iii) a prohibition on issuance of corporate bonds or borrowing funds by the financial holding company; and (iv) mandatory dispositions of the financial holding company's assets under Article 40(2) of the Regulation on Supervision of Financial Holding Company.

Furthermore, interest on any Series of Tier I Subordinated Notes will be paid only out of such amounts legally available to the Issuer from time to time under applicable Korean law for payment of dividends on equity of the Issuer (or, if higher, such amounts for payment of interest on such Tier I Subordinated Notes). Under the Korean Commercial Code, the Issuer may pay an annual dividend only out of the excess of its net assets, on a non-consolidated basis, over the sum of (i) its stated capital (i.e., paid-in capital), (ii) the total amount of its capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period, (iii) the earned surplus reserve to be set aside for the annual dividend and (iv) any increase in net assets caused by the valuation of assets and liabilities performed in accordance with Korean accounting principles, against which no unrealized loss is set off. Depending on the ability of the Issuer to meet certain capital ratios, such amounts legally available to the Issuer under the Korean Commercial Code are subject to further restrictions pursuant to Article 25 of the Regulation on Supervision of Financial Holding Company, which sets forth upper limits on the amounts a financial holding company may use from its legally available amounts under the Korean Commercial Code to pay discretionary dividends, including discretionary interest payments on capital securities such as the Tier I Subordinated Notes. Specifically, the Issuer would be able to use only a certain percentage (ranging from 0% to 60%, depending on the degree of the shortfall in the applicable capital adequacy ratios) of its annual consolidated net income (attributable to the controlling shareholder) as stated in its latest audited financial report after deducting the regulatory reserve for credit loss (attributable to the controlling shareholder) if its Tier I common equity capital ratio, Tier I capital adequacy ratio or combined Tier I and Tier II capital adequacy ratio were to fall below 7.125%, 8.625% or 10.625%, respectively. Such minimum required thresholds applicable to the Tier I common equity capital ratio, Tier I capital adequacy ratio and combined Tier I and Tier II capital adequacy ratio of the Issuer are scheduled to increase to 8%, 9.5% and 11.5%, respectively, on January 1, 2019. The foregoing thresholds have been calculated based on (i) an additional capital conservation buffer of 1.875% in 2018, with such buffer to increase to 2.5% in 2019, (ii) a potential counter-cyclical capital buffer set at 0% (which may be subject to change within the range of 0 to 2.5% based on the FSC's determination on a quarterly basis) and (iii) an additional capital requirement of 0.75% for being designated as one of four domestic systemically important bank holding companies in 2018, with such potential requirement to increase to 1.0% in 2019. See *“Item 3.D. Risk Factors — We and our subsidiaries need to maintain our capital ratios above minimum required levels, and the failure to so maintain could result in the suspension of some or all of our operations”* and *“Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Capital Adequacy”* in the Annual Report on Form 20-F.

To the extent the aggregate amount of interest and other distributions payable on any Series of Tier I Subordinated Notes and other Tier I obligations exceed such amounts legally available to the Issuer, the aggregate amount of interest payable on such Tier I Subordinated Notes would be reduced by an amount equal to the *pro rata* portion of such excess. Moreover, because the Issuer is entitled to not pay interest on any interest payment date in its sole discretion, it may choose to do so even if amounts are legally available for payment of dividends or interest. See “*Terms and Conditions of the Notes — Interest — Special Provisions Relating to Interest on Tier I Subordinated Notes.*”

Interest payments on the Tier I Subordinated Notes are not cumulative. Accordingly, if interest is not paid or is reduced on any interest payment date as a result of any of the foregoing, such unpaid interest will be irrevocably lost, and holders of Tier I Subordinated Notes will not be entitled to receive such unpaid interest on any subsequent interest payment date or any other date, whether or not funds are, or subsequently become, available. Any non-payment of interest by the Issuer will not constitute an event of default under the Tier I Subordinated Notes. Due to these interest cancellation features, the trading behavior with respect to the Tier I Subordinated Notes may not follow trading behavior associated with other types of securities of the Issuer or other issuers. A potential investor should not invest in Tier I Subordinated Notes unless it has knowledge and expertise to evaluate how the Tier I Subordinated Notes will perform under changing market conditions and the resulting effect on the likelihood of an interest cancellation and on the market value of the Tier I Subordinated Notes.

Non-payment of interest may adversely affect the trading price of the Notes that are Tier I Subordinated Notes.

If interest is not paid on the Tier I Subordinated Notes on any interest payment date, the Tier I Subordinated Notes may trade at a price which is lower than the issue price or the prevailing market price prior to such interest payment date. The sale of the Tier I Subordinated Notes during any period of non-payment of interest thereon may result in the holder receiving lower returns on the investment than a holder who continues to hold the Tier I Subordinated Notes until the interest payments resume (if at all). In addition, because of the interest cancellation provisions applicable to the Tier I Subordinated Notes, the market price of the Tier I Subordinated Notes may be more volatile than that of other securities that are not subject to such provisions.

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except to QIBs in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. In addition, subject to the conditions set forth in the Notes and the Agency Agreement or otherwise specified in the applicable Pricing Supplement, a Note may be transferred only if the principal amount of Notes transferred is at least US\$200,000. For a further discussion of the transfer restrictions applicable to the Notes, see “*Subscription and Sale and Transfer and Selling Restrictions*”.

Risks Relating to the Renminbi Notes

A description of risks which may be relevant to an investor in Notes denominated in Renminbi (“Renminbi Notes”) are set out below.

Renminbi is not freely convertible, and there are significant restrictions on the remittance of Renminbi into and outside the PRC which may adversely affect the liquidity of the Renminbi Notes.

Renminbi is not freely convertible at present. The government of the PRC (the “**PRC Government**”) continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC Government of control over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

However, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system.

Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually. In recent years, the People’s Bank of China (“**PBoC**”) and the Ministry of Commerce of the PRC have issued circulars providing guidance on simplifying certain remittance requirements for settlement of capital account items. However, such circulars are relatively new and are subject to interpretation and application by the relevant authorities in the PRC.

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, the Issuer’s ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong, Singapore and Taiwan. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC Government will continue to gradually liberalize control over cross-border remittance of Renminbi in the future, that the pilot schemes for Renminbi cross-border utilization will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the Issuer’s ability to source Renminbi to finance its obligations under Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and the Issuer’s ability to source Renminbi outside the PRC to service the Renminbi Notes.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBoC has entered into settlement agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the “**Renminbi Clearing Banks**”), including but not limited to Hong Kong and is in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the “**Settlement Arrangements**”), the current size of Renminbi-denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi

business participating banks do not have direct Renminbi liquidity support from the PBoC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the settlement arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service the Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in the Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The Issuer will make all payments of interest and principal with respect to the Renminbi Notes in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of the investment made by a holder of the Renminbi Notes in U.S. dollars or any other foreign currency terms will decline.

Payments with respect to the Renminbi Notes may be made only in the manner designated in the Renminbi Notes.

Except in the limited circumstances where the Renminbi is not available for delivery outside the PRC, all payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates held with the common depositary or common safekeeper, as the case may be, for Clearstream, Euroclear or the CMU Service, as the case may be, by transfer to a Renminbi bank account maintained in Hong Kong, or (ii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations of Clearstream, Euroclear or the CMU Service, as the case may be. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

Investment in the Renminbi Notes is subject to interest rate risks.

The PRC government has gradually liberalized its regulation of interest rates in recent years. Further liberalization may increase interest rate volatility. Consequently, the trading price of the Renminbi Notes will vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Notes before their maturity, they may receive an offer lower than the amount they have invested.

Gains on the transfer of the Renminbi Notes may be subject to income tax under PRC tax laws.

Under the New Enterprise Income Tax Law and its implementation rules, any gains realized on the transfer of Renminbi Notes by holders who are deemed under the New Enterprise Income Tax Law as non-resident

enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. However, there remains uncertainty as to whether the gains realized from the transfer of the Renminbi Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the relevant laws and rules. According to an arrangement between the PRC and Hong Kong, for the avoidance of double taxation, noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Renminbi Notes.

Therefore, if a noteholder, being a non-resident enterprise, is required to pay any PRC income tax on gains on the transfer of the Renminbi Notes (such enterprise income tax is currently levied at the rate of 10% of the gross proceeds, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such non-resident enterprise holders of Renminbi Notes reside that reduces or exempts the relevant tax), the value of their investment in the Renminbi Notes may be materially and adversely affected.

Similarly, if a noteholder, as a non-resident individual holder, is required to pay any PRC income tax on gains on the transfer of the Renminbi Notes (such individual income tax is currently levied at the rate of 20% of the gross proceeds, unless there is an applicable tax treaty between the PRC and the jurisdiction in which the relevant non-resident individual holder of the Renminbi Notes resides that reduces or exempts the relevant tax), the value of such noteholder's investment in the Renminbi Notes may be affected.

Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in the Renminbi Notes, the appropriate tools to analyze that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Renminbi Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in the Renminbi Notes.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

CAPITALIZATION AND INDEBTEDNESS

The following table shows the Issuer's capitalization as of March 31, 2018. Except for the U.S. dollar amounts, this information has been derived from the Issuer's unaudited consolidated interim financial statements as of and for the three months ended March 31, 2018 and related notes included elsewhere in this offering circular.

	As of March 31, 2018	
	<i>(in billions of Won)</i>	<i>(in millions of U.S. dollars)⁽¹⁾</i>
Liabilities:		
Deposits	₩250,965	US\$235,316
Financial liabilities at fair value through profit or loss	2,287	2,144
Trading liabilities	—	—
Financial liabilities designated at fair value through profit of loss	8,364	7,842
Derivative liabilities	3,045	2,855
Borrowings	26,842	25,168
Debt securities issued	52,326	49,063
Liabilities for defined benefit obligations	47	44
Provisions	476	446
Current tax payable	360	338
Deferred tax liabilities	19	18
Liabilities under insurance contracts	24,952	23,396
Other liabilities	30,850	28,927
	₩400,534	US\$375,559
Stockholder's equity:		
Capital stock, par value ₩5,000		
Authorized: 2,000,000,000 shares issued and outstanding: 1,585,615,506 fully paid common shares	₩ 2,645	US\$ 2,480
Hybrid bond	424	398
Capital surplus	9,887	9,271
Capital adjustments	(397)	(372)
Accumulated other comprehensive income	(816)	(765)
Retained earnings	20,705	19,414
Non-controlling interests	706	662
Total stockholder's equity	33,154	31,087
Total capitalization⁽²⁾	₩433,688	US\$406,646

Notes:

- (1) The U.S. dollar amounts have been translated into Won at ₩1,066.5 to US\$1.00, the Market Average Exchange Rate as announced by Seoul Money Brokerage Services, Ltd. on March 31, 2018.
- (2) Represents the sum of total liabilities and stockholder's equity.

SELECTED FINANCIAL INFORMATION

The selected financial data presented below should be read in conjunction with the Issuer’s audited consolidated financial statements and related notes thereto and the section entitled Item 5. “*Operating Results*” and other historical financial information contained in the Annual Report on Form 20-F as well as the Issuer’s unaudited consolidated interim financial statements and related notes thereto included in this offering circular.

The selected consolidated financial data as of and for the three months ended March 31, 2017 and 2018 set forth below have been derived from the Issuer’s unaudited consolidated interim financial statements and related notes included elsewhere in this offering circular. The Issuer’s consolidated interim financial statements as of and for the three months ended March 31, 2017 and 2018 have been reviewed by KPMG Samjong Accounting Corp.

The Issuer’s consolidated annual financial statements contained in the Annual Report on Form 20-F and incorporated by reference in this offering circular are prepared in accordance with IASB-IFRS. The Issuer’s consolidated interim financial statements are prepared in accordance with K-IFRS, which differs in certain significant respects from IASB-IFRS and generally accepted accounting principles in other countries, including the United States, and they may not be indicative of the Issuer’s results of operations for the full year 2018. The Issuer believes that, the application of IASB-IFRS as opposed to K-IFRS, or vice versa, on the Issuer’s consolidated financial statements does not result in a significant difference to the financial information presented therein.

Beginning January 1, 2018, the Issuer has adopted IFRS 9 ‘Financial Instruments’ and K-IFRS 1109 ‘Financial Instruments’ which have replaced in entirety existing guidance in IAS 39 and K-IFRS 1039, respectively. As there is no requirement of any restatement by the Issuer of affected financial figures, with the implementation of IFRS 9 and K-IFRS 1109, certain of the Issuer’s historical financial information as at and for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2017 is not directly comparable against that of the Issuer’s financial information after January 1, 2018. See “*Risk Factors — Risks relating to Our Overall Business — The implementation of IFRS 9 and K-IFRS 1109 with effect from January 1, 2018 renders certain of the Issuer’s historical financial information as at and for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2017 not directly comparable with that of the Issuer’s financial information after January 1, 2018*” and “*Risk Factors — The implementation of IFRS 9 and K-IFRS 1109 may cause the Issuer to increase its allowance for impairment losses to cover expected credit loss on its loan portfolio and other financial instruments and may increase volatility in the Issuer’s profit or loss*”.

Consolidated Income Statement Data

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018	Three Months Ended March 31, 2018 ⁽¹⁾
	(In billions of Won and millions of US\$, except per common share data)		
Interest income	₩ 2,819	₩ 3,161	\$ 2,964
Interest expense	(950)	(1,102)	(1,033)
Net interest income	1,869	2,058	1,930
Fees and commission income	965	1,071	1,004
Fees and commission expense	(577)	(587)	(550)
Net fees and commission income	388	484	454
Net insurance loss	(108)	(130)	(121)
Dividend income	77	18	17
Net gain on financial assets at fair value through profit or loss	—	16	15

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018	Three Months Ended March 31, 2018 ⁽¹⁾
(In billions of Won and millions of US\$, except per common share data)			
Net gain on financial assets at fair value through profit or loss (overlay approach)	—	51	48
Net trading income	362	—	—
Net gain on financial assets designated at fair value through profit or loss	—	53	50
Net loss on financial instruments designated at fair value through profit or loss	(421)	—	—
Net foreign currency transaction gain	118	61	57
Net gain on disposal of financial asset at fair value through other comprehensive income	—	6	5
Net gain on disposal of available-for-sale financial assets	54	—	—
Net loss on disposal of securities at amortized cost	—	—	—
Provision for credit loss allowance	—	(180)	(169)
Impairment losses on financial assets	(89)	—	—
General and administrative expenses	(1,065)	(1,087)	(1,019)
Other operating income (expenses), net	115	(174)	(163)
Operating income	1,298	1,176	1,103
Equity method income (loss)	(0)	14	13
Other non-operating income, net	8	5	5
Profit before income taxes	1,306	1,194	1,120
Income tax expense	298	325	305
Profit for the year	₩ 1,007	₩ 869	\$ 815
Other comprehensive income (loss) for the year, net of income tax			
Items that are or may be reclassified to profit or loss:			
Gain on financial asset at fair value through other comprehensive income	₩ —	₩ 16	\$ 15
Loss on financial asset at fair value through profit or loss (overlay approach)	—	(37)	(35)
Net change in unrealized fair value of available-for-sale financial assets	1	—	—
Equity in other comprehensive loss of associates	(12)	(4)	(4)
Foreign currency translation adjustments for foreign operations	(110)	14	13
Net change in unrealized fair value of cash flow hedges	1	(6)	(6)
Other comprehensive income (loss) of separate account	0	(3)	(3)
	(119)	(20)	(19)
Items that will never be reclassified to profit or loss: ...			
Remeasurements of defined benefit liability	(1)	(1)	(1)
Equity in other comprehensive income of associates ...	0	0	0
Valuation gain on financial asset at fair value through other comprehensive income	—	12	11

	<u>Three Months Ended</u> <u>March 31, 2017</u>	<u>Three Months Ended</u> <u>March 31, 2018</u>	<u>Three Months Ended</u> <u>March 31, 2018⁽¹⁾</u>
(In billions of Won and millions of US\$, except per common share data)			
Loss on disposal of financial asset at fair value through other comprehensive income	—	(2)	(2)
Changes in own credit risk on financial liabilities designated at fair value through profit or loss	—	0	0
	<u>(1)</u>	<u>9</u>	<u>8</u>
Total other comprehensive loss, net of income tax	<u>(120)</u>	<u>(11)</u>	<u>(10)</u>
Total comprehensive income for the year	<u>₩ 887</u>	<u>₩ 858</u>	<u>\$ 805</u>
Net income attributable to:			
Equity holders of the Issuer	₩ 997	₩ 858	\$ 805
Non-controlling interest	10	11	10
Total comprehensive income attributable to:			
Equity holders of the Issuer	877	847	794
Non-controlling interest	10	11	10
Earnings per share:			
Basic earnings per share in Won and US\$ ⁽²⁾	2,090	1,799	1.69
Dilutive earnings per share in Won and US\$ ⁽³⁾	2,090	1,799	1.69

Notes:

- (1) Won amounts are expressed in U.S. Dollar at the rate of ₩1,066.5 to US\$1.00, the Market Average Exchange Rate as announced by Seoul Money Brokerage Services, Ltd. on March 31, 2018 for the convenience of readers. No representation is made that the Won or U.S. Dollar amounts referred to above could have been or could be converted into U.S. Dollars or Won, as the case may be, at any particular rate or at all.
- (2) Basic earnings per share are calculated by dividing net income available to holders of the Issuer's common shares by the weighted average number of common shares issued and outstanding for the relevant period.
- (3) Dilutive earnings per share are calculated in a manner consistent with basic earnings per share, while giving effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common shares were converted into or exercised for common shares. Common shares issuable upon conversion of redeemable convertible preferred shares are potentially dilutive.

Consolidated Balance Sheet Data

	<u>As of December 31, 2017</u>	<u>As of March 31, 2018</u>	<u>As of March 31, 2018⁽¹⁾</u>
(In billions of Won and millions of US\$, except per common share data)			
Assets			
Cash and due from banks at amortized cost	₩ —	₩ 18,013	\$ 16,890
Cash and due from banks	22,669	—	—
Financial assets at fair value through profit or loss ...	—	40,658	38,123
Trading assets	28,464	—	—
Financial assets designated at fair value through profit or loss (K-IFRS 1109)	—	152	143
Financial assets designated at fair value through profit or loss (K-IFRS 1039)	3,579	—	—
Derivative assets	3,400	2,418	2,267
Securities at fair value through other comprehensive income	—	36,459	34,186

	As of December 31, 2017	As of March 31, 2018	As of March 31, 2018 ⁽¹⁾
(In billions of Won and millions of US\$, except per common share data)			
Available-for-sale financial assets	42,117	—	—
Securities at amortized cost	—	24,858	23,308
Held-to-maturity financial assets	24,991	—	—
Loans at amortized cost	—	277,838	260,514
Loans	275,566	—	—
Property and equipment	3,022	2,981	2,795
Intangible assets	4,273	4,290	4,023
Investments in associates	631	622	583
Current tax receivable	25	27	25
Deferred tax assets	592	590	553
Investment properties	418	420	394
Other assets	16,552	24,344	22,826
Assets held for sale	8	20	19
Total assets	<u>₩426,307</u>	<u>₩433,688</u>	<u>\$406,646</u>
Liabilities			
Deposits	₩249,419	₩250,965	\$235,317
Financial liabilities at fair value through profit or loss	—	2,287	2,144
Trading liabilities	1,848	—	—
Financial liabilities designated at fair value through profit or loss (K-IFRS 1109)	—	8,364	7,842
Financial liabilities designated at fair value through profit or loss (K-IFRS 1039)	8,298	—	—
Derivative liabilities	3,488	3,045	2,855
Borrowings	27,587	26,842	25,168
Debt securities issued	51,341	52,326	49,063
Liability for defined benefit obligations	7	47	44
Provisions	429	476	446
Current tax payable	349	360	338
Deferred tax liabilities	10	19	18
Liabilities under insurance contracts	24,515	24,952	23,396
Other liabilities	25,313	30,850	28,926
Total liabilities	<u>₩392,603</u>	<u>₩400,534</u>	<u>\$375,559</u>
Equity			
Capital stock	₩ 2,645	₩ 2,645	\$ 2,480
Hybrid bond	424	424	398
Capital surplus	9,887	9,887	9,271
Capital adjustments	(398)	(397)	(372)
Accumulated other comprehensive income	(530)	(816)	(765)
Retained earnings	20,792	20,705	19,414
Total equity attributable to equity holders of the Group	32,820	32,448	30,425
Non-controlling interest	883	706	662
Total equity	<u>₩ 33,704</u>	<u>₩ 33,154</u>	<u>\$ 31,087</u>
Total liabilities and equity	<u>₩426,307</u>	<u>₩433,688</u>	<u>\$406,646</u>

Note:

- (1) Won amounts are expressed in U.S. Dollar at the rate of ₩1,066.5 to US\$1.00, the Market Average Exchange Rate as announced by Seoul Money Brokerage Services, Ltd. on March 31, 2018 for the convenience of readers. No representation is made that the Won or U.S. Dollar amounts referred to above could have been or could be converted into U.S. or Won, as the case may be, at any particular rate or at all.

Selected Ratios

Profitability Ratios and Other Data

	Three Months Ended March 31, 2018
	(In percentages)
Net income attributable to the Group as a percentage of:	
Average total assets ⁽¹⁾	0.81%
Average total Group stockholders' equity ⁽¹⁾	10.70
Net interest spread ⁽²⁾	1.96
Net interest margin ⁽³⁾	2.16
Efficiency ratio ⁽⁴⁾	84.90
Cost to income ratio ⁽⁵⁾	44.49
Cost-to-average assets ratio ⁽¹⁾⁽⁶⁾	6.29
Equity to average asset ratio ⁽¹⁾⁽⁷⁾	7.61

Notes:

- (1) Average total assets (including average interest-earning assets), liabilities (including average interest-bearing liabilities) and stockholder's equity are based on (a) daily balances for Shinhan Bank and (b) quarterly balances for other subsidiaries.
- (2) Represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (3) Represents the ratio of net interest income to average interest-earning assets.
- (4) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income. Efficiency ratio is used as a measure of efficiency for banks and financial institutions. Efficiency ratio may be reconciled to comparable line items in the Issuer's income statements for the periods indicated as follows:

	Three Months Ended March 31, 2018
	(In billions of Won, except percentages)
Non-interest expense (A).....	₩6,713
<i>Divided by</i>	
The sum of net interest income and non-interest income (B).....	7,907
Net interest income.....	2,058
Non-interest income.....	5,849
Efficiency ratio ((A) as a percentage of (B))	84.90%

Notes:

- (5) Represents the ratio of general and administrative expenses to the sum of net interest income, net fee and commission income, net gain on financial assets and liabilities at fair value through profit or loss and net other operating income.

- (6) Represents the ratio of non-interest expense to average total assets.
- (7) Represents the ratio of average stockholders' equity to average total assets.

Asset Quality Ratios

	As of March 31, 2018
	(In billions of Won, except percentages)
Total gross loans	₩ 280,326
Total allowance for loan losses	₩ 2,904
Allowance for loan losses as a percentage of total loans	1.04%
Impaired loans ⁽¹⁾	₩ 1,817
Impaired loans as a percentage of total loans	0.65%
Allowance as a percentage of impaired loans	159.84%
Allowance as a percentage of total assets	0.67%

Note:

- (1) Impaired loans include (i) loans for which the borrower has defaulted under Basel standards applicable during the relevant period and (ii) loans that qualify as “troubled debt restructurings” applicable during the relevant period.

Capital Ratios

	As of March 31, 2018
	(Percentages)
Group BIS ratio ⁽¹⁾	14.86%
Total capital adequacy ratio of Shinhan Bank	16.04
Adjusted equity capital ratio of Shinhan Card ⁽²⁾	22.62
Solvency ratio for Shinhan Life Insurance ⁽³⁾	174.27

Notes:

- (1) Under the guidelines of the Financial Services Commission applicable to financial holding companies, the minimum requisite capital ratio applicable to the Issuer is the Bank for International Settlement (“BIS”) ratio of 8%. The computation is based on our consolidated financial statements in accordance with K-IFRS. See “Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Capital Adequacy” in the Annual Report on Form 20-F.
- (2) Represents the ratio of total adjusted shareholders' equity to total adjusted assets and is computed in accordance with the guidelines issued by the Financial Services Commission for credit card companies. Under these guidelines, a credit card company is required to maintain a minimum adjusted equity capital ratio of 8%. This computation is based on the consolidated financial statements of the credit card company prepared in accordance with K-IFRS. See “Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Credit Card Companies — Capital Adequacy” in the Annual Report on Form 20-F
- (3) Solvency ratio is the ratio of the solvency margin to the standard amount of solvency margin as defined and computed in accordance with the guidelines issued by the Financial Services Commission for life insurance companies. Under these guidelines, Shinhan Life Insurance is required to maintain a minimum solvency ratio of 100%. See “Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Insurance Companies — Capital Adequacy” in the Annual Report on Form 20-F.

The Financial Services Commission regulations require that capital ratios be computed based on our consolidated financial statements under IASB-IFRS and K-IFRS and regulatory guidelines. The following table sets forth our

capital ratios computed on the basis of our consolidated financial statements under IASB-IFRS and K-IFRS and the regulatory guidelines of the Financial Services Commission.

	<u>As of March 31, 2018</u>
	(In billions of Won, except percentages)
Risk-weighted assets	₩210,177
Total risk-adjusted capital	₩ 31,238
Tier I capital	₩ 28,228
Tier I common equity capital	₩ 27,481
Capital adequacy ratio (%)	14.86%
Tier I capital adequacy ratio (%)	13.43%
Common equity capital adequacy ratio (%)	13.08%

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Please see "Item 5. Operating and Financial Review and Prospects" in the Annual Report on Form 20-F.

HISTORY AND DEVELOPMENT OF THE ISSUER

Please see “Item 4.A. History and Development of the Company” in the Annual Report on Form 20-F.

BUSINESS

Please see “Item 4.B. Business Overview,” “Item 4.C. Organizational Structure,” “Item 4.D. Properties,” “Item 6.D. Employees” and “Item 8.A. Consolidated Statements and Other Financial Information — Legal Proceedings” in the Annual Report on Form 20-F.

The following discussion supplements and should be read together with the discussion under “Item 8.A. Consolidated Statements and Other Financial Information — Legal Proceedings” in the Annual Report on Form 20-F.

Legal Proceedings

It has been recently reported in the press that certain of the Issuer’s subsidiaries are currently under investigation by the Prosecutors’ Office of Korea for allegedly illegally influencing the hiring process of new employees and manipulating hiring standards for certain candidates. The Issuer believes that the Issuer and its subsidiaries have robust and fair internal procedures for hiring new employees. However, it is difficult to predict the results of this investigation and the potential impact it may have on the Issuer or the price of the Notes. Accordingly we cannot assure you that this investigation and related events will not have an adverse effect on the Issuer or the price of the Notes.

ASSETS AND LIABILITIES

Please see “Item 4.B. Business Overview — Description of Assets and Liabilities” in the Annual Report on Form 20-F.

RISK MANAGEMENT

Please see “Item 4.B. Business Overview — Risk Management” in the Annual Report on Form 20-F.

MANAGEMENT

Please see “Item 6.A. Directors and Senior Management,” “Item 6.B. Compensation,” “Item 6.C. Board Practices” and “Item 6.E. Share Ownership” in the Annual Report on Form 20-F.

TRANSACTIONS WITH RELATED PARTIES

Please see “Item 7.B. Related Party Transactions” in the Annual Report on Form 20-F.

PRINCIPAL SHAREHOLDERS

Please see “Item 7.A. Major Shareholders” in the Annual Report on Form 20-F.

TAXATION

United States Federal Income Taxation

The following discussion is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of Notes as of the date hereof.

The discussion set forth below is applicable to United States Holders (as defined below) (i) who are residents of the United States for purposes of the current income tax treaty between the United States and Korea (the “**Treaty**”); (ii) whose Notes are not, for purposes of the Treaty, attributable to a permanent establishment in Korea; and (iii) who otherwise qualify for the full benefits of the Treaty.

Except where noted, this summary deals only with United States Holders that hold Notes as capital assets. Furthermore, this summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- a tax-exempt organization;
- an insurance company;
- a person holding the Notes as part of a hedging, integrated, conversion or constructive sale transaction or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a partnership or other pass-through entity for United States federal income tax purposes;
- a person whose “functional currency” is not the U.S. dollar;
- a person required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement; or
- a United States expatriate.

As used herein, a “**United States Holder**” means a beneficial owner of a Note that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the “**Code**”), and final, temporary and proposed regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below.

This summary does not discuss Subordinated Notes, Notes with a maturity of greater than 30 years, the impact of a redenomination of a Note, Notes that by their terms may be retired for an amount less than their principal amount and Notes subject to special rules. The tax treatment of certain Notes may be specified, and the tax treatment of any Subordinated Notes will be specified, in the applicable Pricing Supplement. In general, United States federal income tax law imposes significant limitations on United States Holders of Bearer Notes. United States Holders should consult their tax advisors regarding the restrictions and penalties imposed under United States federal income tax law with respect to Bearer Notes and any other tax consequences with respect to the acquisition, ownership and disposition of any of these Notes.

The discussion below assumes that all Notes issued pursuant to this offering circular will be classified for United States federal income tax purposes as the Issuer’s indebtedness and you should note that in the event of an alternative characterization, the tax consequences would differ, possibly materially, from those discussed below. The Issuer will summarize any special United States federal tax considerations relevant to a particular issue of the Notes in the applicable Pricing Supplement.

In addition, the following discussion assumes that the Issuer will not be acting through a branch other than its office in Korea. If the Issuer acts through a branch in the United States with respect to a particular issuance of Notes, the United States federal income tax consequences of holding such Notes will be discussed in the applicable Pricing Supplement.

If a partnership (or other pass-through entity for United States federal income tax purposes) holds Notes, the tax treatment of a partner in the partnership (or an owner of an interest in the pass-through entity) will generally depend upon the status of the partner (or owner) and the activities of the partnership (or other pass-through entity). If you are a partner in a partnership (or an owner of an interest in any other pass-through entity) holding Notes, you should consult your tax advisors.

This summary does not represent a detailed description of the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare contribution tax on net

investment income or the effects of any state, local or non-United States tax laws. **If you are considering the purchase of Notes, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the ownership of the Notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

Payments of Interest

Except as set forth below, interest on a Note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for United States federal income tax purposes.

In addition to interest on the Notes (which includes any Korean tax withheld from the interest payments you receive), you will be required to include in income any additional amounts paid in respect of such Korean tax withheld. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Korean taxes withheld in excess of the rate allowed by the Treaty will not be eligible for credit against your United States federal income tax liability. Interest income (including any additional amounts) on a Note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered “passive category income.” You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Original Issue Discount

If you own Notes issued with original issue discount (“**OID**”, and such Notes, “**original issue discount Notes**”), such as a Zero Coupon Note, you will be subject to special tax accounting rules, as described in greater detail below. In that case, you should be aware that you generally must include OID in gross income as interest in advance of the receipt of cash attributable to that income. However, you generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent those payments do not constitute “qualified stated interest,” as defined below. Notice will be given in the applicable Pricing Supplement when the Issuer determines that a particular Note will be issued with OID.

Additional rules applicable to Notes that are denominated in or determined by reference to a currency other than the U.S. dollar (“**foreign currency Notes**”) and that are issued with OID are described under “— *Foreign Currency Notes*” below.

A Note with an “issue price” that is less than its stated redemption price at maturity (the sum of all payments to be made on the Note other than “qualified stated interest”) generally will be issued with OID if that difference is at least 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity (or, in the case of an Installment Note, the weighted average maturity). The “**issue price**” of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold to the public for money. The term “**qualified stated interest**” means stated interest that is unconditionally payable in cash or in property, other than debt instruments of the Issuer, and meets all of the following conditions:

- it is payable at least once per year;

- it is payable over the entire term of the Note; and
- it is payable at a single fixed rate or, subject to certain conditions, based on one or more interest indices.

The Issuer will give you notice in the applicable Pricing Supplement when it determines that a particular Note will bear interest that is not qualified stated interest.

If you own a Note issued with de minimis OID, which is discount that is not OID because it is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity (or, in the case of an Installment Note, the weighted average maturity), you generally must include the de minimis OID in income at the time principal payments on the Notes are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

Certain of the Notes may contain provisions permitting them to be redeemed prior to their stated maturity date at the Issuer's option and/or at your option. Original issue discount Notes containing those features may be subject to rules that differ from the general rules discussed herein. If you are considering the purchase of original issue discount Notes with those features, you should carefully examine the applicable Pricing Supplement and should consult your own tax advisors with respect to those features since the tax consequences to you with respect to OID will depend, in part, on the particular terms and features of the Notes.

If you own original issue discount Notes with a maturity upon issuance of more than one year, you generally must include OID in income (as ordinary income) in advance of the receipt of some or all of the related cash payments using the "constant yield method" described in the following paragraphs.

The amount of OID that you must include in income if you are the initial holder of an original issue discount Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which you held that Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. The "accrual period" for an original issue discount Note may be of any length and may vary in length over the term of the Note, *provided that* each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period other than the final accrual period is an amount equal to the excess, if any, of:

- the Note's "adjusted issue price" at the beginning of the accrual period multiplied by its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over
- the aggregate of all qualified stated interest allocable to the accrual period.

OID allocable to a final accrual period is the difference between the amount payable at maturity, other than a payment of qualified stated interest, and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "**adjusted issue price**" of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period, determined without regard to the amortization of any acquisition or bond premium, as described below, and reduced by any payments previously made on the Note other than qualified stated interest. Under these rules, you will have to include in income increasingly greater amounts of OID in successive accrual periods.

Floating Rate Notes are subject to special OID rules. In the case of an original issue discount Note that is a Floating Rate Note, both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if either:

- the interest on a Floating Rate Note is based on more than one interest index; or
- the principal amount of the Note is indexed in any manner.

The discussion above generally does not address Notes providing for contingent payments. You should carefully examine the applicable Pricing Supplement regarding the United States federal income tax consequences of the holding and disposition of any Notes providing for contingent payments.

You may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. You should consult with your own tax advisors about this election.

Korean withholding taxes may be imposed at times that differ from the times at which you are required to include interest or OID in income for United States federal income tax purposes and this disparity may limit the amount of foreign tax credit available.

Short-Term Notes

In the case of Notes having a term of one year or less (“**short-term Notes**”), all payments, including all stated interest, will be included in the stated redemption price at maturity and will not be qualified stated interest. As a result, you will generally be taxed on the discount instead of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a short-term Note, unless you elect to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method United States Holders of short-term Notes are not required to include accrued discount in their income currently unless they elect to do so, but may be required to include stated interest in income as the income is received. United States Holders that report income for United States federal income tax purposes on the accrual method and certain other United States Holders are required to accrue discount on short-term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. If you are not required, and do not elect, to include discount in income currently, any gain you realize on the sale, exchange, redemption, retirement or other disposition of a short-term Note will generally be ordinary income to you to the extent of the discount accrued by you through the date of sale, exchange, redemption, retirement or other disposition. In addition, if you do not elect to currently include accrued discount in income you may be required to defer deductions for a portion of your interest expense with respect to any indebtedness attributable to the short-term Notes.

Market Discount

If you purchase a Note for an amount that is less than its stated redemption price at maturity (or, in the case of an original issue discount Note, its adjusted issue price), the amount of the difference will be treated as “market

discount” for United States federal income tax purposes, unless that difference is less than a specified de minimis amount. Under the market discount rules, you will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the market discount that you have not previously included in income and are treated as having accrued on the Note at the time of the payment or disposition.

In addition, you may be required to defer, until the maturity of the Note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness attributable to the Note. You may elect, on a Note-by-Note basis, to deduct the deferred interest expense in a tax year prior to the year of disposition. You should consult your own tax advisors before making this election.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless you elect to accrue on a constant interest method. You may elect to include market discount in income currently as it accrues, on either a ratable or constant interest method, in which case the rule described above regarding deferral of interest deductions will not apply. This election will apply to all debt instruments with market discount you acquire on or after the first day of the first taxable year for which the election is made. This election may not be revoked without the consent of the Internal Revenue Service (the “IRS”).

Acquisition Premium, Amortizable Bond Premium

If you purchase an original issue discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest, you will be considered to have purchased that Note at an “acquisition premium.” Under the acquisition premium rules, the amount of OID that you must include in gross income with respect to the Note for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

If you purchase a Note (including an original issue discount Note) for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest, you will be considered to have purchased the Note at a “premium” and, if it is an original issue discount Note, you will not be required to include any OID in income. You generally may elect to amortize the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under your regular accounting method. Special rules limit the amortization of premium in the case of convertible debt instruments. If you do not elect to amortize bond premium, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of the Note. Any election to amortize the premium will apply to all notes (other than notes the interest on which is excludible from gross income for United States federal income tax purposes) held by you at the beginning of the first taxable year to which the election applies or thereafter acquired, and is irrevocable without the consent of the IRS.

Sale, Exchange, Redemption, Retirement and Other Disposition of Notes

Your adjusted tax basis in a Note will, in general, be your cost for that Note, increased by OID, market discount or any discount with respect to a short-term Note that you previously included in income, and reduced by any amortized premium and any cash payments on the Note other than qualified stated interest. Upon the sale, exchange, redemption, retirement or other disposition of a Note, you will recognize gain or loss equal to the difference between the amount you realize upon the sale, exchange, redemption, retirement or other disposition (less an amount equal to any accrued and unpaid qualified stated interest, which will be taxable as interest income to the extent not previously included in income) and your adjusted tax basis in the Note. Except as

described above with respect to certain short-term Notes or with respect to market discount, with respect to gain or loss attributable to changes in exchange rates as discussed below with respect to foreign currency Notes and with respect to contingent payment debt instruments which this summary generally does not discuss, that gain or loss will be capital gain or loss and will be long-term capital gain or loss if you have held the Note for more than one year. Long-term capital gains of non-corporate United States Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized by you on the sale, exchange, retirement or other disposition of a Note will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any Korean tax imposed upon a disposition of a Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

Foreign Currency Notes

Payments of Interest. If you receive interest payments made in a currency other than the U.S. dollar (a “**foreign currency**”) and you use the cash basis method of accounting, you will be required to include in income the U.S. dollar value of the amount received, determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received regardless of whether the payment is in fact converted into U.S. dollars. You will not recognize exchange gain or loss with respect to the receipt of such payment.

If you use the accrual method of accounting, you may determine the amount of income recognized with respect to such interest in accordance with either of two methods. Under the first method, you will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods (or portions thereof) during which such interest accrued. Under the second method, you may elect to translate interest income at the spot rate on:

- the last day of the accrual period,
- the last day of the taxable year if the accrual period straddles your taxable year, or
- the date the interest payment is received if such date is within five business days of the end of the accrual period.

Any election made under the second method will apply to all debt instruments held by you at the beginning of the first taxable year to which the election applies or thereafter acquired, and will be irrevocable without the consent of the IRS.

If you use the accrual method of accounting, upon receipt of an interest payment on a Note (including, upon the sale of a Note, the receipt of proceeds which include amounts attributable to accrued interest previously included in income), you will recognize exchange gain or loss in an amount equal to the difference between the U.S. dollar value of such payment (determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received) and the U.S. dollar value of the interest income you previously included in income with respect to such payment. Exchange gain or loss will generally be treated as United Source ordinary income or loss.

Original Issue Discount. OID on a Note that is also a foreign currency Note will be determined for any accrual period in the applicable foreign currency and then translated into U.S. dollars, in the same manner as interest

income accrued by a holder on the accrual basis, as described above. You will recognize exchange gain or loss when OID is paid (including, upon the sale of a Note, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference between the U.S. dollar value of such payment (determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received) and the U.S. dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a Note will be viewed:

- first, as the receipt of any stated interest payments called for under the terms of the Note,
- second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first, and
- third, as the receipt of principal.

Market Discount and Bond Premium. The amount of market discount includible in income with respect to a foreign currency Note will generally be determined by translating the market discount determined in the foreign currency into U.S. dollars at the spot rate on the date the foreign currency Note is retired or otherwise disposed of. If you have elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period. You will recognize exchange gain or loss with respect to market discount which is accrued currently using the approach applicable to the accrual of interest income as described above.

Bond premium on a foreign currency Note will be computed in the applicable foreign currency. If you have elected to amortize the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortized, exchange gain or loss will be realized based on the difference between spot rates at such time and the time of acquisition of the foreign currency Note.

If you elect not to amortize bond premium, you must translate the bond premium computed in the foreign currency into U.S. dollars at the spot rate on the maturity date and such bond premium will constitute a capital loss which may be offset or eliminated by exchange gain.

Sale, Exchange, Redemption, Retirement and Other Disposition of Foreign Currency Notes. Upon the sale, exchange, redemption, retirement or other disposition of a foreign currency Note, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, redemption, retirement or other disposition (less an amount equal to any accrued and unpaid qualified stated interest, which will be taxed as interest for United States federal income tax purposes to the extent not previously included in income) and your adjusted tax basis in the foreign currency Note. Your initial tax basis in a foreign currency Note generally will be your U.S. dollar cost. If you purchased a foreign currency Note with foreign currency, your cost generally will be the U.S. dollar value of the foreign currency amount paid for such foreign currency Note determined at the time of such purchase. If your foreign currency Note is sold, exchanged, redeemed, retired, or otherwise disposed of for an amount denominated in foreign currency, then your amount realized generally will be based on the spot rate of the foreign currency on the date of sale, exchange, redemption, retirement or other disposition. If you are a cash method taxpayer and the foreign currency Notes are traded on an established securities market, foreign currency paid or received is translated into U.S. dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of foreign currency Notes traded on an established securities market, *provided that* the election is applied consistently.

Except as described above with respect to “Short-Term Notes” and “Market Discount,” and subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, redemption, retirement or other disposition, the foreign currency Note has been held for more than one year. Long-term capital gains of non-corporate United States Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized by you on the sale, exchange, redemption, retirement or other disposition of a foreign currency Note will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any Korean tax imposed upon a disposition of a foreign currency Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

A portion of your gain or loss with respect to the principal amount of a foreign currency Note may be treated as exchange gain or loss. Exchange gain or loss will generally be treated as United States source ordinary income or loss. For these purposes, the principal amount of the foreign currency Note is your purchase price for the foreign currency Note calculated in the foreign currency on the date of purchase, and the amount of exchange gain or loss recognized is equal to the difference between (i) the U.S. dollar value of the principal amount determined on the date of the sale, exchange, redemption, retirement or other disposition of the foreign currency Note and (ii) the U.S. dollar value of the principal amount determined on the date you purchased the foreign currency Note (or, in each case, on the settlement date of such disposition or purchase, if the foreign currency Note is traded on an established securities market and you are a cash basis or electing accrual basis taxpayer, as described above). The amount of exchange gain or loss will be limited to the amount of overall gain or loss realized on the disposition of the foreign currency Note.

Exchange Gain or Loss with Respect to Foreign Currency. Your tax basis in the foreign currency received as interest on a foreign currency Note or on the sale, exchange, redemption, retirement, or other disposition of a foreign currency Note will be equal to the U.S. dollar value of the foreign currency, determined at the time the foreign currency is received. Any gain or loss recognized by you on a sale, exchange or other disposition of the foreign currency will be ordinary income or loss and generally will be United States source gain or loss.

Dual Currency Notes. If so specified in an applicable Pricing Supplement relating to a foreign currency Note, the Issuer may have the option to make all payments of principal and interest scheduled after the exercise of such option in a currency other than the specified currency. Applicable United States Treasury regulations generally (i) apply the principles contained in the regulations governing contingent payment debt instruments to Dual Currency Notes in the “predominant currency” of the Dual Currency Notes and (ii) apply the rules discussed above with respect to foreign currency Notes with OID for the translation of interest and principal into U.S. dollars. If you are considering the purchase of Dual Currency Notes, you should carefully examine the applicable Pricing Supplement and should consult your own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

Reportable Transactions. Treasury regulations issued under the Code meant to require the reporting of certain tax shelter transactions could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the Treasury regulations, certain transactions are required to be reported to the IRS, including, in certain circumstances, a sale, exchange, redemption, retirement or other disposition of a foreign currency Note or foreign currency received in respect of a foreign currency Note to the extent that such sale, exchange, redemption, retirement or other disposition results in a tax loss in excess of a threshold amount. If you are considering the purchase of a foreign currency Note, you should consult with your own tax advisors to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement). The IRS may impose penalties on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction.

Index Linked Notes

The tax treatment of a United States Holder of Index Linked Notes will depend on factors including the specific index or indices used to determine indexed payments on the Note and the amount and timing of any contingent payments of principal and interest. Persons considering the purchase of Index Linked Notes should carefully examine the applicable Pricing Supplement and should consult their own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments of principal, interest (including OID) and premium paid on Notes and to the proceeds of sale of a Note paid to you (unless you are an exempt recipient). A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or a certification of exempt status, or if you fail to report in full dividend and interest income.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the IRS.

Certain United States Holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their tax return for each year in which they hold an interest in the Notes. You are urged to consult your own tax advisors regarding information reporting requirements relating to your ownership of the Notes.

Additional Withholding Requirements

Under Sections 1471 through 1474 of the Code, such sections commonly referred to as “FATCA”, a “foreign financial institution” (as specifically defined under FATCA) that enters into an agreement with the U.S. Treasury Department may be required to withhold 30% from certain “foreign passthru payments” made to holders that fail to comply with certain certification and/or information reporting requirements. The term “foreign passthru payment” has not yet been defined by the IRS but is intended to capture payments that are non-U.S. source but are attributable to a U.S.-source payment. Debt obligations issued before the date which is six months after the publication of final regulations defining the term foreign passthru payment would be grandfathered and therefore not subject to the FATCA rules for foreign passthru payment withholding. In addition, United States Treasury regulations and other official guidance provide that a foreign financial institution would not be required to withhold on foreign passthru payments until the later of January 1, 2019, or the date of publication of final regulations defining the term foreign passthru payment. Prospective investors should consult their tax advisors regarding the application of the FATCA rules to an investment in the Notes.

Additional Tax Considerations

Persons considering the purchase of Notes should carefully examine the applicable Pricing Supplement and should consult their own tax advisors regarding any special United States federal income tax consequences not discussed herein that may be applicable to the holding and disposition of Notes offered under the Program.

Korean Taxation

Republic of Korea

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-Korean corporations (“**Non-Residents**”) depends on whether they have a “permanent establishment” (as defined under Korean law and any applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

Tax on Interest

Interest on the Notes paid to Non-Residents is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the “**STTCL**”), so far as the Notes are “foreign currency denominated bonds” issued outside Korea under the STTCL. The term “foreign currency denominated bonds” in this context is not defined under the STTCL. In this regard, the Korean tax authority issued a ruling on September 1, 1990 to the effect that “a notes issuance facility, commercial paper issued in U.S. dollars or Euros or a banker’s acceptance” are not treated as the “foreign currency denominated bonds.”

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to interest on the Notes, for a Non-Resident without a permanent establishment in Korea, would be 14% of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10% of the income tax or corporation tax (raising the total tax rate to 15.4%). The tax is withheld by the payer or us.

The tax rates may be reduced by an applicable tax treaty, convention or agreement between Korea and the resident country of the recipient of the income. In order to obtain the benefit of a reduced rate available under applicable tax treaties, a Non-Resident holder must submit an application for entitlement to reduced tax rate to the party liable for the withholding before the receipt of the relevant interest payment (if there is no change in the contents of such application, it is not required to submit such application again within three years thereafter), together with a certificate of the Non-Resident holder’s tax residence issued by a competent authority of the Non-Resident holder’s resident country. An overseas investment vehicle (which is defined as an organization established in a foreign jurisdiction that manages funds collected through investment solicitation by way of acquiring, disposing, or otherwise investing in proprietary targets and then distributes the outcome of such management to investors, subject to certain exceptions) is also required to obtain the application for entitlement to reduced tax rate from the beneficial owners and submit a report of overseas investment vehicle to the party liable for the withholding, together with a schedule of beneficial owners of the income. The relevant tax treaties are discussed below.

The tax is withheld by the payer of the interest. As the duty to withhold the tax is required to be on the payer, Korean law does not entitle the person who has suffered the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if he subsequently produces evidence that he was entitled

to have his tax withheld at a lower rate, except in certain limited circumstances. Starting with refund claims made on or after January 1, 2009, however, a Non-Resident that was subject to withholding of Korean tax on interest is entitled to claim refund of over-withheld tax directly from the Korean tax authorities with satisfactory evidence within three years from the tenth day in the month following the month in which the payments of interest are made. On or after January 1, 2015, the period to claim refund of over-withheld tax was extended to five years.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Notes to other Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents with or without permanent establishments in Korea from the transfer taking place outside Korea of the Notes are currently exempt from taxation by virtue of the STTCL, *provided that* the issuance of the Notes is deemed to be an issuance of foreign currency denominated bonds outside of Korea under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable tax treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11% (including local income tax) of the gross realization proceeds or (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22% (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law to allow offsetting of gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of the notes issued by Korean companies. The purchaser or any other designated withholding agent of the Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the instruments being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the gross realization proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the competent Korean tax office. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or such withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, either as a seller of Notes or a purchaser or withholding agent who is obliged to withhold such tax, through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

In addition, in order to obtain the benefit of a tax exemption available under applicable tax treaties, a Non-Resident holder should submit to the purchaser or the withholding agent an application for tax exemption, together with a certificate of the Non-Resident holder's tax residence issued by a competent authority of the Non-Resident holder's residence country. An overseas investment vehicle (subject to certain exceptions) is also required to obtain an application for tax exemption along with a certificate of tax residence from the beneficial owners and submit to the purchaser or the withholding agent a report of overseas investment vehicle thereafter, together with an application for tax exemption and a schedule of beneficial owners. The purchaser or the withholding agent is required to submit such application to its district tax office no later than the ninth day of the month following the month in which sales proceeds are paid. However, this requirement does not apply to exemptions under Korean tax law such as the STTCL.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (b) all property located in Korea that passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10% to 50% according to the value of the relevant property and the identity of the parties involved. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and, consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the holders in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by us. No securities transaction tax will be imposed upon the transfer of the Notes.

Tax Treaties

At the date of this offering circular, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, The Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on interest is reduced, generally to between 5% and 16.5% (including local income tax), and the tax on capital gains is often eliminated.

The special withholding tax system took effect July 1, 2006. Under the system, there is a special procedure to apply the Korea-Malaysia tax treaty on certain Korean source income. Payments made to the residents of Labuan, Malaysia will be subject to the default Korean withholding tax rates (generally 15.4% for interest and the lower of 11% of the gross realization proceeds or 22% of the gain made for capital gain (including local income tax)) rather than the reduced or exempted rate available under the Korea-Malaysia tax treaty. A Labuan taxpayer, however, will be given an opportunity to get a refund by proving that it is entitled to the tax treaty benefits as a beneficial owner of the income and a real resident of Labuan, Malaysia. A Labuan taxpayer may also file an application with the National Tax Service (the "NTS") for confirmation that it is entitled to the tax treaty benefits and obtain an advance confirmation from the NTS prior to receiving Korean source income.

Each Non-Resident holder should inquire whether he is entitled to the benefit of a tax treaty with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or the Issuer a certificate as to his residence. In the absence of sufficient proof, the payer or the Issuer must withhold taxes in accordance with the above discussion.

Withholding and Gross Up

As mentioned above, interest on the Notes that are foreign currency denominated bonds issued outside Korea is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL.

However, in the event that the payer or the Issuer is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in “*Terms and Conditions of the Notes — Taxation*”) the Issuer has agreed to pay (subject to the customary exceptions as set out in “*Terms and Conditions of the Notes — Taxation*”) such additional amounts as may be necessary in order that the net amounts received by the holder of any Note after such withholding or deduction shall equal the respective amounts which would have been received by such holder in the absence of such withholding or deduction.

Proposed Financial Transactions Tax (“FTT”)

The European Commission has published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, and Spain (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional European Union Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase and holding of the Notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, “**Similar Laws**”), and entities whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement (each, a “**Plan**”).

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an “**ERISA Plan**”) and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary’s duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are “parties in interest,” within the meaning of ERISA, or “disqualified persons,” within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Notes by an ERISA Plan with respect to which the Issuer or a Dealer is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or “**PTCEs**,” that may apply to the acquisition and holding of the Notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide limited relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, *provided that* neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan pays no more than adequate consideration in connection with the transaction. Each

of the above-noted exemptions contains conditions and limitations on its application. Fiduciaries of ERISA Plans considering acquiring and/or holding the Notes in reliance on these or any other exemption should carefully review the exemption to assure it is applicable. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the Notes should not be acquired or held by any person investing “plan assets” of any Plan, unless such acquisition and holding will not constitute a non-exempt prohibited transaction under Title I of ERISA and Section 4975 of the Code, or a similar violation of any applicable Similar Laws.

Representation

Accordingly, by acceptance of a Note or any beneficial interest therein, each purchaser and subsequent transferee of a Note or any beneficial interest therein will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Note or any beneficial interest therein constitutes assets of any Plan or (ii) the acquisition and holding of the Note or any beneficial interest therein by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws.

The following representations are intended to comply with the DOL’s Reg. Sections 29 C.F.R. 2510.3-21(a) and (c)(1) as promulgated on April 8, 2016 (81 Fed. Reg. 20,997). If these regulations are revoked, repealed or no longer effective, these representations shall be deemed to be no longer in effect. If a purchaser or transferee is using assets of any ERISA Plan to acquire the Notes, such ERISA Plan, purchaser and transferee will be deemed to represent and warrant that (i) neither the Issuer or a Dealer (collectively, the “Transaction Parties”) has acted or will act as the ERISA Plan’s fiduciary, or has been or will be relied upon for any advice, with respect to the ERISA Plan’s decision to acquire, hold, sell, exchange or provide any consent with respect to the Notes and none of the Transaction Parties will at any time be relied on as the ERISA Plan’s fiduciary with respect to any decision with respect to the Notes and (ii) the decision to invest in the Notes has been and at all times will be made at the recommendation or direction of an independent fiduciary (“Independent Fiduciary”) within the meaning of U.S. Code of Federal Regulations 29 C.F.R. Section 2510.3-21(c)(1), as amended from time to time (the “Fiduciary Rule”), who (a) is independent of the Transaction Parties; (b) is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies (within the meaning of the Fiduciary Rule); (c) is a fiduciary (under ERISA and/or Section 4975 of the Code) with respect to the ERISA Plan’s investment in the Notes and is responsible for exercising independent judgment in evaluating the investment in the Notes; (d) is either (I) a bank as defined in Section 202 of the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”), or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency of the United States; (II) an insurance carrier which is qualified under the laws of more than one state of the United States to perform the services of managing, acquiring or disposing of assets of such an ERISA Plan; (III) an investment adviser registered under the Advisers Act or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the state (referred to in such paragraph (1)) in which it maintains its principal office and place of business; (IV) a broker dealer registered under the U.S. Securities Exchange Act of 1934, as amended; and/or (V) an Independent Fiduciary that holds or has under management or control total assets of at least \$50 million and will at all times that such ERISA Plan holds any of the Notes, hold or have under management or control total assets of at least \$50 million and in the case of an ERISA Plan that is an IRA, is not the IRA owner, a beneficiary of the IRA or a relative of an owner or beneficiary of the IRA; and (e) is aware of and acknowledges that (I) none of the Transaction Parties are undertaking or will undertake to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the ERISA Plan’s investment in Notes, and (II) the Transaction Parties have a financial interest in the ERISA Plan’s investment in the Notes on account of the fees and other remuneration they expect to receive

in connection with the transactions contemplated hereunder and that it has been fairly informed of the existence and nature of such financial interests.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering acquiring the Notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the acquisition and holding of the Notes.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (together, the “**Clearing Systems**”) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arranger, any Dealer nor any party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct Participant, either directly or indirectly (“**Indirect Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (“**Rules**”), DTC makes book-entry transfers of Registered Notes among direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“**DTC Notes**”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the U.S. Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“**Owners**”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“**Beneficial Owner**”) is in turn to be recorded on the direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct Participants, by direct Participants to Indirect Participants, and by direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with

domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of direct Participants) and the records of direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note.

The Issuer expects DTC to credit accounts of direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Issuing and Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “*Subscription and Sale and Transfer and Selling Restrictions*”, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian (“**Custodian**”) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

CMU

Unless otherwise specified in the applicable Pricing Supplement, CMU Notes will initially be issued in registered form and represented by a global certificate (the “**CMU Global Note**”) registered in the name of HKMA, in its capacity as operator of the CMU and shall be delivered to and held by a sub-custodian nominated by the HKMA as operator of the CMU, or the CMU operator. The CMU Global Note will be held for the account of CMU members who have accounts with the CMU operator, or the CMU participants. For persons seeking to hold a beneficial interest in the Notes through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with the CMU operator. Interests in the CMU Global Note will only be shown on, and transfers of interests will be effected through, records maintained by the CMU operator.

Because the CMU operator can act only on behalf of the CMU participants, who in turn may act on behalf of persons who hold interests through them, or indirect participants, the ability of persons having interests in the CMU Global Note to pledge such interests to persons or entities that are not CMU participants, or otherwise take action in respect of such interests, may be affected by the lack of definitive notes.

While the CMU Global Note representing the Notes is held by or on behalf of the CMU operator, payments of interest or principal will be made to the persons for whose account a relevant interest in the CMU Global Note is credited as being held by the CMU operator at the relevant time, as notified to the Issuing and Paying Agent by the CMU operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the CMU operator. So long as the Notes are represented by the CMU Global Note that is held by or on behalf of the CMU operator, such payment by the Issuer will discharge the Issuer's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

Payments, transfers, exchanges and other matters relating to interests in the CMU Global Note may be subject to various policies and procedures adopted by the CMU operator from time to time. None of the Issuer, the Issuing and Paying Agent, the Registrar, the Paying Agents, the CMU Lodging Agent or any other Agent will have any responsibility or liability for any aspect of the CMU operator's records relating to, or for payments made on account of, interests in the CMU Global Note, or for maintaining, supervising or reviewing any records relating to such interests.

For so long as all of the Notes are represented by the CMU Global Note and such CMU Global Note is held on behalf of the CMU operator, notices to Noteholders may be given by delivery of the relevant notice to the persons shown in a CMU instrument position report issued by the CMU operator on the business day preceding the date of dispatch of such notice as holding interests in the CMU Global Note for communication to the CMU participants. Any such notice shall be deemed to have been given to the Noteholders on the second business day on which such notice is delivered to the persons shown in the relevant CMU instrument position report as aforesaid. Indirect participants will have to rely on the CMU participants (through whom they hold the Notes, in the form of interests in the global certificate) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU participants.

The CMU operator is under no obligation to maintain or continue to operate the CMU and the CMU operator is under no obligation to perform or continue to perform the procedures described above. Accordingly, the CMU and such procedures may be discontinued or modified at any time. None of the Issuer, the Issuing and Paying Agent, the Registrar, the Paying Agents, the CMU Lodging Agent or any other Agent will have any responsibility for the performance by the CMU operator or the CMU participants of their respective obligations under the rules and procedures governing their operations.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in an amended and restated program agreement dated March 15, 2016, as supplemented and amended from time to time (the “**Program Agreement**”), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase or procure purchasers for Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Program Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Program and the issue of Notes under the Program and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may to the extent permitted by applicable laws and regulations engage in transactions that stabilize, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilizing or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilization activities are subject to certain prescribed time limits in certain jurisdictions.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor, that, prior to its purchase of the Notes has delivered to the Registrar an IAI Investment Letter in the form as set forth below or (c) it is the beneficial owner of such Notes and (a) it is outside the United States and is not a U.S. person and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;
- (ii) that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the

Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;

- (iv) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Notes initially offered in the United States to QIBs will be represented by one or more Restricted Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A “**QUALIFIED INSTITUTIONAL BUYER**” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL “**ACCREDITED INVESTOR**” (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “**INSTITUTIONAL ACCREDITED INVESTOR**”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH NOTE OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) TO NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

THIS NOTE AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH NOTE SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

(vii) that the Notes offered in reliance on Rule 144A will be represented by the Restricted Note. Before any interest in the Restricted Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws;

(viii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. state securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS A PART.”;

(ix) that the Notes offered in reliance on Regulation S will be represented by the Unrestricted Note. Prior to the expiration of the distribution compliance period, before any interest in the Restricted Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws; and

(x) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see “*Form of the Notes*”.

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of this and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in this and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts’ investment for an indefinite period of time;
- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least US\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than US\$200,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, US\$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least US\$200,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, US\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except (i) to QIBs in reliance on Rule 144A, (ii) to Institutional Accredited Investors, that, prior to their purchase of the Notes have furnished an IAI Investment Letter and (iii) in accordance with Regulation S under the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (“**Regulation S Notes**”) each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Program will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an applicable exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is US\$200,000 (or the approximate equivalent thereof in any other currency).

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

By acceptance of a Note, each purchaser and subsequent transferee of a Note will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Notes constitutes assets of any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), any plan, individual retirement account or other arrangement that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the “**Code**”), or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, “**Similar Laws**”), or an entity whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement or (ii) the acquisition and holding of the Notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, or a similar violation under any applicable Similar Laws.

European Economic Area

Unless the final terms (or pricing supplement, as the case may be) in relation to the Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and

each further Dealer appointed under the Program will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the offering circular as supplemented by the final terms (or pricing supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the final terms (or pricing supplement, as the case may be) in relation to the Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State no offer of Notes which are the subject of the offering contemplated by the offering circular may be made to the public in that Relevant Member State other than:

- (a) to any legal entity which is a “qualified investor” as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than “qualified investors” as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall result in a requirement for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplemental prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (“FSMA”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the “**FIEA**”). Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “**SFA**”). Each Dealer represents, warrants and agrees, and each further Dealer appointed under the Program will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) pursuant to Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that:

- (a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"), by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance of Hong Kong and any rules made under that Ordinance.

People's Republic of China

Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that it has not offered or sold and will not offer or sell the Notes, directly or indirectly, in the PRC (for such purposes, not including Hong Kong, Macau or Taiwan), except as permitted by the securities laws of the PRC.

Canada

Prospective Canadian investors are advised that the information contained within this Offering Circular, and additionally, the relevant final terms or any other offering material relating to the Notes has not been prepared with regard to matters that may be of particular concern to Canadian investors. Accordingly, prospective Canadian investors should consult with their own legal, financial and tax advisers concerning the information contained within this Offering Circular, the relevant final terms or any other offering material relating to the Notes and as to the suitability of an investment in the Notes in their particular circumstances.

The offer and sale of the Notes in Canada will only be made under exemptions from the requirement to file a prospectus with the Canadian securities regulators and will be made only by authorized dealer representatives that are properly registered under the laws of the relevant Canadian jurisdictions or, alternatively, that are entitled to rely on exemptions from the dealer registration requirements in the relevant Canadian jurisdictions.

The Notes may be sold on a private placement basis only to purchasers purchasing, or deemed to be purchasing, as principal that are both accredited investors, as defined in NI 45-106 Prospectus Exemptions (“**NI 45-106**”) or subsection 73.3(1) of the Securities Act (Ontario), and that are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in compliance with the prospectus and registration requirements of applicable Canadian securities laws or in reliance upon available exemptions from, or in a transaction not subject to, such requirements.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular, the relevant final terms or any other offering material constituting an “offering memorandum” under applicable Canadian securities laws (including any amendment to any such documents) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (“**NI 33-105**”), any offering of Notes under this Offering Circular, and additionally, the relevant terms or any other offering material relating to the Notes, will be conducted in reliance upon an exemption from the disclosure requirements that may otherwise apply to underwriter conflicts of interest under NI 33-105.

Each individual Canadian purchaser resident in Ontario will be deemed to have represented to and agreed with the relevant Issuer and the Dealer that:

- (a) such purchaser has been notified: (i) of the requirement to provide information (“**personal information**”) pertaining to the purchaser as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106

(including its name, address, telephone number and the number and value of any securities purchased), which Form 45-106F1 is required to be filed under NI 45-106; (ii) that such personal information will be delivered to the Ontario Securities Commission (the “OSC”) in accordance with NI 45-106, and is being collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario for the purposes of the administration and enforcement of such legislation; and (iii) that the public official in Ontario who can answer questions about the OSC’s indirect collection of such personal information is the Administrative Support Clerk at the CSO, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-3684;

- (b) such purchaser has authorized the indirect collection of the personal information by the OSC and acknowledges that its name, address, telephone number and other specified information, including the number and aggregate purchase price of the securities it has purchased may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable laws; and
- (c) by purchasing such securities, each such purchaser consents to the disclosure of such information.

Upon receipt of this Offering Circular, each Canadian purchaser hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Notes described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de cette prospectus de base, chaque acheteur canadien confirme par les présentes qu’il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d’achat ou tout avis) soient rédigés en anglais seulement.

Germany

Each Dealer has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Sale Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of September 9, 1998, as amended, or any other laws applicable in the Federal Republic of Germany.

Korea

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that no Notes have been or will be offered, sold, delivered or transferred, directly or indirectly, in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Act of Korea and the Enforcement Decree thereof) for a period of one year from the date of issuance of the Notes, except (i) in the case where, pursuant to Article 2-2-2, Paragraph 2, Item 3 of the Regulations on the Issuance of Securities and Public Disclosure of Korea, if the Notes are issued as straight bonds other than equity-linked bonds, such as convertible bonds, bonds with warrants and exchangeable bonds, the Notes may be sold, delivered or transferred between or among Korean Qualified Institutional Investors as specified in Article 2-2, Paragraph 2, Item 4 of the above-mentioned regulations, provided that all of the following requirements are satisfied: (1) the Notes shall be issued in a currency other than the Won and the principal and interest shall be paid in a currency other than the Won, (2) at least 80% of the aggregate issuance amount of the Notes shall be allocated to those other than Korean residents (which applies only to the Notes acquired from the Issuer or any underwriter at the time of issuance), (3) the Notes shall be those listed on a major overseas securities market specified by the governor of the FSS, those registered with or reported to a foreign

financial investment supervisory agency of the country in which a major overseas market is established, or those for which any other procedure that may be deemed a public offering is completed, (4) measures shall be taken to state the condition that the Notes shall not be transferred to any Korean resident other than Korean Qualified Institutional Investors at the time of issuance or within one year from the date of issuance of the Notes on the face of such Notes (limited to cases where any physical instrument is issued), the underwriting agreement, subscription agreement or offering document and (5) the Issuer and the Dealer(s) (limited to cases where a Dealer is appointed) shall take measures under foregoing items (1) through (4) and the Issuer and the Dealer(s) shall severally or jointly preserve evidential documents in relation thereto; or (ii) as otherwise permitted by applicable Korean laws and regulations.

Each Dealer has undertaken and each further Dealer appointed under the Program will be required to undertake to ensure that any securities dealer to which it sells the Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

Switzerland

The offering circular is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the offering circular nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations and neither the offering circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Republic of Italy

The offering of any Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, any Notes in the Republic of Italy in a solicitation to the public, and that sales of Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Each Joint Lead Manager has represented and agreed that it will not offer, sell or deliver any Notes or distribute copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy except:

- (1) to Qualified Investors (investitori qualificati), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (“**Decree No. 58**”) and as defined under Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended (“**CONSOB Regulation No. 11971**”);
or
- (2) in other circumstances where an express exemption from compliance with the public offering restrictions applies, as provided under Article 100 of Decree No. 58 or CONSOB Regulation No. 11971.

Any offer, sale or delivery of any Notes or distribution of copies of this offering circular and any supplement thereto or any other document relating to the Notes in the Republic of Italy must:

- (a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended (the

“**Banking Act**”), Decree No. 58 and CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and any other applicable laws and regulations; and

- (b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time and/or any other Italian authority.

Please note that in accordance with Article 100-bis of the Consolidated Financial Services Act, where no exemption from the rules on public offerings applies under (1) and (2) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Consolidated Financial Services Act and CONSOB Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

General

Each Dealer has agreed and each further Dealer appointed under the Program will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorization

The establishment of the Program and each issuance of any Notes thereunder have been duly authorized by the resolutions of the Board of Directors of the Issuer dated May 17, 2018. Each issue of Notes under the Program will be authorized by the Board of Directors of the Issuer at the time of issue or at a meeting held annually to approve the issue of Notes to be issued in the following fiscal year.

Listing of Notes on the SGX-ST

Application will be made to the SGX-ST in connection with the Program and application will be made for the listing and quotation of any Notes that may be issued under the Program which are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies).

Documents Available

From the date hereof and so long as Notes are capable of being issued under the Program, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (i) the Articles of Incorporation (together with English translations) of the Issuer;
- (ii) the auditors' report and the audited consolidated financial statements of the Issuer in respect of the financial years ended December 31, 2015, 2016 and 2017;
- (iii) the most recently published audited consolidated and (if applicable) the most recently published interim financial statements of the Issuer;
- (iv) the Program Agreement, the Agency Agreement and any supplements and amendments thereto, the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this offering circular;
- (vi) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (except that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this offering circular and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. The Issuer may also apply to have the Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. For persons seeking to hold a beneficial interest in the CMU Notes held in a global certificate through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with HKMA as the CMU operator. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers (if any) for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Independent Auditors

The consolidated financial statements as of December 31, 2016 and 2017 and for each of the years in the three-year period ended December 31, 2017 prepared in accordance with IASB-IFRS, included in the Annual Report on Form 20-F and incorporated by reference in this offering circular, have been audited by KPMG Samjong Accounting Corp., independent auditors, as stated in its audit report included in the Annual Report on Form 20-F and incorporated by reference in this offering circular.

With respect to the unaudited consolidated interim financial statements as of March 31, 2018 and for the three-month period ended March 31, 2017 and 2018, included in this offering circular, KPMG Samjong Accounting Corp. have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included in this offering circular states that they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their separate report on such information should be restricted in light of the limited nature of the review procedures applied.

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Independent Auditors' Review Report

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

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the "Group"), which comprise the condensed consolidated interim statement of financial position as of March 31, 2018, the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2018 and 2017 and notes (collectively, the condensed consolidated interim financial information), comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' review responsibility

Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No.1034 *Interim Financial Reporting*.

Other matters

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

The consolidated statement of financial position of the Group as of December 31, 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated March 7, 2018, expressed an unqualified opinion. The accompanying consolidated statement of financial position of the Group as of December 31, 2017, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

/s/ KPMG Samjong Accounting Corp.
Seoul, Korea
May 15, 2018

This report is effective as of May 15, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Interim Statements of Financial Position

As of March 31, 2018 and December 31, 2017

(Unaudited)

<i>(In millions of won)</i>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Assets			
Cash and due from banks at amortized cost	4,7,41	₩ 18,013,498	-
Cash and due from banks	4,8,41	-	22,668,598
Financial assets at fair value through profit or loss	4,9,41	40,658,156	-
Trading assets	4,10,41	-	28,464,296
Financial assets designated at fair value through profit or loss (K-IFRS 1109)	4,11,41	151,566	-
Financial assets designated at fair value through profit or loss (K-IFRS 1039)	4,12,41	-	3,579,057
Derivative assets	4,13,41	2,417,935	3,400,178
Securities at fair value through other comprehensive income	4,14,41	36,458,781	-
Available-for-sale financial assets	4,15,41	-	42,116,937
Securities at amortized cost	4,14,41	24,857,390	-
Held-to-maturity financial assets	4,15,41	-	24,990,680
Loans at amortized cost	4,16,41	277,838,015	-
Loans	4,17,41	-	275,565,766
Property and equipment		2,980,697	3,021,772
Intangible assets	40	4,290,102	4,273,321
Investments in associates	18	621,690	631,294
Current tax receivable		26,985	25,015
Deferred tax assets		589,654	592,283
Investment property		419,823	418,303
Other assets	4,41	24,343,912	16,551,958
Assets held for sale		19,888	7,550
Total assets	₩	433,688,092	426,307,008
Liabilities			
Deposits	4,41	₩ 250,965,418	249,419,224
Financial liabilities at fair value through profit or loss	4,19,41	2,286,835	-
Trading liabilities	4,20,41	-	1,848,490
Financial liabilities designated at fair value through profit or loss (K-IFRS 1109)	4,21,41	8,364,279	-
Financial liabilities designated at fair value through profit or loss (K-IFRS 1039)	4,22,41	-	8,297,609
Derivative liabilities	4,13,41	3,044,579	3,487,661
Borrowings	4,41	26,842,146	27,586,610
Debt securities issued	4,23,41	52,325,800	51,340,821
Liabilities for defined benefit obligations	24	47,295	7,144
Provisions	25	475,763	428,958
Current tax payable		360,371	348,830
Deferred tax liabilities	40	18,855	9,982

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Interim Statements of Financial Position (Continued)
As of March 31, 2018 and December 31, 2017
(Unaudited)

<i>(In millions of won)</i>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Liabilities under insurance contracts	26	₩ 24,952,054	24,515,288
Other liabilities	4,41	<u>30,850,367</u>	<u>25,312,773</u>
Total liabilities		<u>400,533,762</u>	<u>392,603,390</u>
Equity	27		
Capital stock		2,645,053	2,645,053
Hybrid bonds		423,921	423,921
Capital surplus		9,887,335	9,887,335
Capital adjustments		(397,007)	(398,035)
Accumulated other comprehensive loss	41	(815,547)	(529,734)
Retained earnings	40,41	<u>20,704,546</u>	<u>20,791,681</u>
Total equity attributable to equity holders of Shinhan Financial Group Co., Ltd.		32,448,301	32,820,221
Non-controlling interests		<u>706,029</u>	<u>883,397</u>
Total equity		<u>33,154,330</u>	<u>33,703,618</u>
Total liabilities and equity	₩	<u>433,688,092</u>	<u>426,307,008</u>

See accompanying notes to the consolidated interim financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Interim Statements of Comprehensive Income
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

<i>(In millions of won)</i>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Interest income			
Financial assets at fair value through other comprehensive income and at amortized cost	₩	2,998,690	-
Financial assets at fair value through profit or loss		162,021	-
Loans and receivables and investment securities		-	2,678,789
Short-term trading securities		-	140,350
		3,160,711	2,819,139
Interest expense		(1,102,414)	(949,928)
Net interest income	28	<u>2,058,297</u>	<u>1,869,211</u>
Fees and commission income		1,071,033	965,075
Fees and commission expense		(587,412)	(577,485)
Net fees and commission income	29	<u>483,621</u>	<u>387,590</u>
Insurance income		1,131,096	1,172,124
Insurance expenses		(1,260,827)	(1,280,409)
Net insurance loss	26	<u>(129,731)</u>	<u>(108,285)</u>
Dividend income		17,908	77,216
Net gain on financial assets at fair value through profit or loss		16,125	-
Net gain on financial assets at fair value through profit or loss (overlay approach)		50,630	-
Net trading income		-	361,515
Net gain on financial assets designated at fair value through profit or loss		53,152	-
Net loss on financial instruments designated at fair value through profit or loss		-	(421,167)
Net foreign currency transaction gain		60,617	117,645
Net gain on disposal of financial asset at fair value through other comprehensive income	14	5,544	-
Net gain on disposal of available-for-sale financial assets	15	-	53,723
Net loss on disposal of securities at amortized cost	14	(3)	-
Provision for credit loss allowance	30	(179,527)	-
Impairment losses on financial assets	31	-	(89,146)
General and administrative expenses	32	(1,087,021)	(1,064,803)
Other operating income (expenses), net		(173,773)	114,761
Operating income		1,175,839	1,298,260
Equity method income (loss)	18	13,574	(395)
Other non-operating income, net		4,631	7,850
Profit before income taxes		<u>1,194,044</u>	<u>1,305,715</u>
Income tax expense	34	325,008	298,461
Profit for the period		<u>869,036</u>	<u>1,007,254</u>

See accompanying notes to the consolidated interim financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Interim Statements of Comprehensive Income (Continued)
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

<i>(In millions of won, except earnings per share)</i>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Other comprehensive income (loss) for the period, net of income tax	27		
Items that are or may be reclassified to profit or loss:			
Gain on financial asset at fair value through other comprehensive income	₩	15,757	-
Loss on financial asset at fair value through profit or loss (overlay approach)		(36,707)	-
Net change in unrealized fair value of available-for-sale financial assets		-	745
Equity in other comprehensive loss of associates		(4,332)	(12,404)
Foreign currency translation adjustments for foreign operations		13,755	(109,594)
Net change in unrealized fair value of cash flow hedges		(6,365)	1,442
Other comprehensive income of separate account		(2,580)	413
		<u>(20,472)</u>	<u>(119,398)</u>
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		(900)	(1,031)
Equity in other comprehensive income of associates		25	163
Valuation gain on financial asset at fair value through other comprehensive income		11,747	-
Loss on disposal of financial asset at fair value through other comprehensive income		(1,739)	-
Changes in own credit risk on financial liabilities designated at fair value through profit of loss		(24)	-
		<u>9,109</u>	<u>(868)</u>
Total other comprehensive income (loss), net of income tax		<u>(11,363)</u>	<u>(120,266)</u>
Total comprehensive income for the period	₩	<u>857,673</u>	<u>886,988</u>
Profit for the period attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	₩	857,549	997,098
Non-controlling interests		11,487	10,156
	₩	<u>869,036</u>	<u>1,007,254</u>
Total comprehensive income attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	₩	847,000	877,406
Non-controlling interests		10,673	9,582
	₩	<u>857,673</u>	<u>886,988</u>
Earnings per share:	35		
Basic and diluted earnings per share in won	₩	<u>1,799</u>	<u>2,090</u>

See accompanying notes to the consolidated interim financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Interim Statements of Changes in Equity

For the three-month period ended March 31, 2017
(Unaudited)

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.							Total	
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total		Non-controlling interests
Balance at January 1, 2017	₩ 2,645,053	498,316	9,887,335	(458,461)	(102,583)	18,640,038	31,109,698	635,282	31,744,980
Total comprehensive income for the period									
Profit for the period	-	-	-	-	-	997,098	997,098	10,156	1,007,254
Other comprehensive income (loss), net of income tax:									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	856	-	856	(111)	745
Equity in other comprehensive loss of associates	-	-	-	-	(12,241)	-	(12,241)	-	(12,241)
Foreign currency translation adjustments	-	-	-	-	(109,136)	-	(109,136)	(458)	(109,594)
Net change in unrealized fair value of cash flow hedges	-	-	-	-	1,442	-	1,442	-	1,442
Other comprehensive income of separate account	-	-	-	-	413	-	413	-	413
Remeasurements of defined benefit plans	-	-	-	-	(1,026)	-	(1,026)	(5)	(1,031)
Total other comprehensive loss	-	-	-	-	(119,692)	-	(119,692)	(574)	(120,266)
Total comprehensive income (loss)	-	-	-	-	(119,692)	997,098	877,406	9,582	886,988
Other changes in equity									
Dividends	-	-	-	-	-	(687,589)	(687,589)	-	(687,589)
Dividends to hybrid bonds	-	-	-	-	-	(6,160)	(6,160)	-	(6,160)
Change in other capital adjustments	-	-	-	62,545	-	(61,512)	1,033	-	1,033
Change in other non-controlling interests	-	-	-	-	-	-	-	(11,114)	(11,114)
	-	-	-	62,545	-	(755,261)	(692,716)	(11,114)	(703,830)
Balance at March 31, 2017	₩ 2,645,053	498,316	9,887,335	(395,916)	(222,275)	18,881,875	31,294,388	633,750	31,928,138

See accompanying notes to the consolidated interim financial statements.

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

For the three-month period ended March 31, 2018
(Unaudited)

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.								
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at December 31, 2017	₩ 2,645,053	423,921	9,887,335	(398,035)	(529,734)	20,790,599	32,819,139	883,397	33,702,536
Measurement period adjustments for business combination (Note 40)	-	-	-	-	-	1,082	1,082	-	1,082
Adoption effect of K-IFRS 1109, net of tax (Note 41)	-	-	-	-	(277,011)	(251,855)	(528,866)	(3,155)	(532,021)
Balance at January 1, 2018 (adjusted)	2,645,053	423,921	9,887,335	(398,035)	(806,745)	20,539,826	32,291,355	880,242	33,171,597
Total comprehensive income for the period	-	-	-	-	-	857,549	857,549	11,487	869,036
Profit for the period	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of income tax:	-	-	-	-	25,765	-	25,765	-	25,765
Gain on financial asset at fair value through other comprehensive income	-	-	-	-	25,765	-	25,765	-	25,765
Loss on financial asset at fair value through profit or loss (overlay approach)	-	-	-	-	(36,707)	-	(36,707)	-	(36,707)
Equity in other comprehensive loss of associates	-	-	-	-	(4,307)	-	(4,307)	-	(4,307)
Foreign currency translation adjustments	-	-	-	-	14,569	-	14,569	(814)	13,755
Net change in unrealized fair value of cash flow hedges	-	-	-	-	(6,365)	-	(6,365)	-	(6,365)
Other comprehensive income of separate account	-	-	-	-	(2,580)	-	(2,580)	-	(2,580)
Remeasurements of defined benefit plans	-	-	-	-	(900)	-	(900)	-	(900)
Changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	-	(24)	-	(24)	-	(24)
Total other comprehensive loss	-	-	-	-	(10,549)	-	(10,549)	(814)	(11,363)
Total comprehensive income (loss)	-	-	-	-	(10,549)	857,549	847,000	10,673	857,673
Other changes in equity	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(687,589)	(687,589)	-	(687,589)
Dividends to hybrid bonds	-	-	-	-	-	(4,406)	(4,406)	-	(4,406)
Change in other capital adjustments	-	-	-	1,028	-	913	1,941	-	1,941
Change in other non-controlling interests	-	-	-	-	-	-	-	(184,886)	(184,886)
Other	-	-	-	1,028	-	(691,082)	(690,054)	(184,886)	(874,940)
Balance at March 31, 2018	₩ 2,645,053	423,921	9,887,335	(397,007)	(815,547)	20,704,546	32,448,301	706,029	33,154,330

See accompanying notes to the consolidated interim financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Interim Statements of Cash Flows

For the three-month periods ended March 31, 2018 and 2017

(Unaudited)

<i>(In millions of won)</i>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities			
Profit before income taxes	₩	1,194,044	1,305,715
Adjustments for:			
Interest income		(3,160,711)	(2,819,139)
Interest expense		1,102,414	949,928
Dividend income		(17,908)	(77,216)
Net fees and commission expense		42,870	42,962
Net insurance loss		540,828	660,720
Net loss on financial assets at fair value through profit or loss		53,117	-
Net gain on financial assets at fair value through profit or loss (overlay approach)		(50,630)	-
Net trading gain		-	(355,792)
Net foreign currency translation loss (gain)		51,132	(49,691)
Net gain on financial assets designated at fair value through profit or loss		(134,166)	-
Net loss on financial instruments designated at fair value through profit or loss		-	280,896
Net gain on disposal of financial asset at fair value through other comprehensive income		(5,544)	-
Net gain on disposal of available-for-sale financial assets		-	(53,723)
Net loss on disposal of securities at amortized cost		3	-
Provision for credit loss allowance		179,527	-
Provision for credit losses		-	82,109
Impairment losses on other financial assets		-	7,037
Employee costs		56,859	48,071
Depreciation and amortization		68,835	65,490
Other operating expenses (income)		176,071	(614,229)
Equity method loss (income), net		(13,574)	395
Other non-operating expense, net		267	829
		<u>(1,110,610)</u>	<u>(1,831,353)</u>
Changes in assets and liabilities:			
Cash and due from banks at amortized cost		4,177,394	-
Due from banks		-	(3,041,023)
Financial assets at fair value through profit or loss		(1,198,991)	-
Due from banks at fair value		(34,781)	-
Loans at fair value		(150,607)	-
Trading assets and liabilities		-	(2,071,412)
Financial asset designated at fair value through profit or loss (K-IFRS 1109)		238,335	-
Financial instruments designated at fair value through profit or loss (K-IFRS 1039)		-	(494,262)
Derivative instruments		327,207	46,248
Loans at amortized cost		(5,090,102)	-
Loans		-	(1,043,199)
Other assets		(8,450,407)	(2,904,936)

See accompanying notes to the consolidated interim financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Interim Statements of Cash Flows (Continued)

For the three-month periods ended March 31, 2018 and 2017

(Unaudited)

<i>(In millions of won)</i>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Deposits	₩	2,667,017	199,299
Liabilities for defined benefit obligations		(130)	(31,473)
Provisions		(18,425)	(16,990)
Other liabilities		5,352,562	8,782,547
		<u>(2,180,928)</u>	<u>(575,201)</u>
Income taxes paid		(103,047)	(6,119)
Interest received		3,100,517	2,620,721
Interest paid		(1,327,358)	(979,591)
Dividends received		29,962	66,210
		<u>(397,420)</u>	<u>600,382</u>
Net cash provided by (used in) operating activities			
Cash flows from investing activities			
Proceeds from disposal of financial assets at fair value through other comprehensive income		5,677,556	-
Acquisition of financial assets at fair value through other comprehensive income		(4,698,055)	-
Proceeds from disposal of available-for-sale financial assets		-	6,443,798
Acquisition of available-for-sale financial assets		-	(7,242,175)
Proceeds from disposal of financial assets at amortized cost		201,797	-
Acquisition of financial assets at amortized cost		(611,448)	-
Proceeds from maturity of held-to-maturity financial assets		-	271,157
Acquisition of held-to-maturity financial assets		-	(1,087,514)
Proceeds from disposal of property and equipment		1,525	349
Acquisition of property and equipment		(23,747)	(19,530)
Proceeds from disposal of intangible assets		363	4,198
Acquisition of intangible assets		(32,564)	(20,330)
Proceeds from disposal of investments in associates		26,521	2,110
Acquisition of investments in associates		(9,602)	(181,822)
Proceeds from disposal of investment property		446	-
Acquisition of investment property		(108)	(79)
Proceeds from disposal of assets held for sale		1,632	3,146
Other, net		(2,891)	(20,645)
Proceeds from settlement of hedging derivative financial instruments for available-for-sale financial assets		43,952	21,842
Settlement of hedging derivative financial instruments for available-for-sale financial assets		(227)	(7,078)
		<u>575,150</u>	<u>(1,832,573)</u>
Net cash provided by (used in) investing activities			

See accompanying notes to the consolidated interim financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Interim Statements of Cash Flows (Continued)

For the three-month periods ended March 31, 2018 and 2017

(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash flows from financing activities			
Net increase (decrease) in borrowings	₩	(306,472)	626,910
Proceeds from debt securities issued		4,088,703	3,590,178
Repayments of debt securities issued		(3,069,616)	(2,396,164)
Other liabilities		396	3,666
Dividends paid		(27,069)	(42,318)
Proceeds from settlement of hedging derivative financial instruments for debt securities issued		5,892	9,459
Settlement of hedging derivative financial instruments for debt securities issued		(476)	-
Decrease in non-controlling interests		(184,806)	(6,547)
Net cash provided by financing activities		<u>506,552</u>	<u>1,785,184</u>
Effect of exchange rate fluctuations on cash and cash equivalents held			
		<u>(27,143)</u>	<u>(22,700)</u>
Increase in cash and cash equivalents		657,139	530,293
Cash and cash equivalents at beginning of period	37	<u>6,236,650</u>	<u>5,632,536</u>
Cash and cash equivalents at end of period	37 ₩	<u>6,893,789</u>	<u>6,162,829</u>

See accompanying notes to the consolidated interim financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

1. Reporting entity

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

(a) Controlling company

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

1. Reporting entity (continued)

Investor	Investee(*1)	Location	Date of financial information	Ownership (%)	
				2018	2017
Shinhan Investment Corp.	SHINHAN SECURITIES VIETNAM CO., LTD.	Vietnam	March 31	100.0	100.0
"	PT. Shinhan Sekuritas Indonesia	Indonesia	"	99.0	99.0
Shinhan BNP Paribas Asset Management Co., Ltd.	Shinhan BNP Paribas Asset Management (Hong Kong) Limited	Hong Kong	"	100.0	100.0

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

1. Reporting entity (continued)

(c) Consolidated structured entities

Consolidated structured entities are as follows:

Category	Consolidated structured entities	Description
Trust	18 trusts managed by Shinhan Bank including development trust	A trust is consolidated when the Group as a trustee is exposed to variable returns, for example, if principle or interest amounts of the entrusted properties falls below guaranteed amount, the Group should compensate it; and the Group has the ability to affect those returns.
Asset-Backed Securitization	MPC Yulchon Green I and 90 others	An entity for asset backed securitization is consolidated when the Group has the ability to dispose assets or change the conditions of the assets, is exposed to variable returns and has the ability to affect the variable returns providing credit enhancement and purchases of subordinated securities.
Structured Financing	SHPE Holdings One Co., Ltd. and 2 others	An entity established for structured financing relating to real estate, shipping, or mergers and acquisitions is consolidated, when the Group has granted credit to the entity, has sole decision-making authority of these entities due to the entities default, and is exposed to, or has rights to related variable returns.
Investment Fund	KoFC Shinhan Frontier Champ 2010-4 PEF and 60 others	An investment fund is consolidated, when the Group manages or invests assets of the investment funds on behalf of other investors, or has the ability to dismiss the manager of the investment funds, and is exposed to, or has rights to, the variable returns.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

(In millions of won)

1. Reporting entity (continued)

(d) Summarized financial information of the subsidiaries

i) Condensed financial position for the Group's subsidiaries as of March 31, 2018 and December 31, 2017 are as follows:

		2018			2017		
		Total assets	Total liabilities	Total equities	Total assets	Total liabilities	Total equities
Shinhan Financial Group (Separate)	₩	29,250,538	8,385,605	20,864,933	27,639,783	7,447,705	20,192,078
Shinhan Bank		330,366,037	308,030,508	22,335,529	324,314,242	301,660,298	22,653,944
Shinhan Card Co., Ltd.		26,377,528	20,728,639	5,648,889	26,367,562	20,092,443	6,275,119
Shinhan Investment Corp.		28,371,198	25,175,102	3,196,096	28,644,288	25,391,599	3,252,689
Shinhan Life Insurance Co., Ltd.		29,843,147	28,275,673	1,567,474	29,719,359	27,987,427	1,731,932
Shinhan Capital Co., Ltd.		5,469,991	4,797,256	672,735	5,315,366	4,603,786	711,580
Jeju Bank		5,699,654	5,298,887	400,767	5,562,924	5,158,123	404,801
Shinhan Credit Information Co., Ltd.		22,833	7,538	15,295	22,726	8,144	14,582
Shinhan Alternative Investment Management Inc.		86,836	76,087	10,749	86,902	76,250	10,652
Shinhan BNP Paribas Asset Management Co., Ltd.		171,222	25,775	145,447	174,839	18,286	156,553
SHC Management Co., Ltd.		9,454	201	9,253	9,438	190	9,248
Shinhan Data System		38,030	23,174	14,856	39,799	24,446	15,353
Shinhan Savings Bank		1,281,697	1,133,438	148,259	1,287,170	1,139,533	147,637
Shinhan AITAS Co., Ltd.		57,854	6,621	51,233	58,158	6,209	51,949
Shinhan REITs Management Co., Ltd		28,914	142	28,772	29,319	71	29,248

(*1) Condensed financial information of the subsidiaries is based on the subsidiaries' consolidated financial information, if applicable.

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

(In millions of won)

1. Reporting entity (continued)

ii) Condensed comprehensive income statement for the Group's subsidiaries for the three-month periods ended March 31, 2018 and 2017 were as follows:

	2018			2017		
	Operating income	Net income (loss)	Total comprehensive income (loss)	Operating income	Net income (loss)	Total comprehensive income (loss)
Shinhan Financial Group (separate)	₩ 1,428,248	1,364,873	1,364,873	948,932	888,647	888,647
Shinhan Bank	4,280,076	600,596	661,905	8,529,152	534,578	420,181
Shinhan Card Co., Ltd.	1,158,076	138,254	129,218	1,542,468	401,388	410,552
Shinhan Investment Corp.	1,990,565	96,971	93,999	1,998,769	45,956	38,088
Shinhan Life Insurance Co., Ltd.	1,419,558	33,827	(26,003)	1,680,248	30,770	27,883
Shinhan Capital Co., Ltd.	80,238	25,793	24,961	93,775	18,583	16,443
Jeju Bank	53,387	5,448	6,130	49,856	8,342	7,937
Shinhan Credit Information Co., Ltd.	9,311	690	690	6,005	(266)	(266)
Shinhan Alternative Investment Management Inc.	1,059	96	185	517	(73)	(73)
Shinhan BNP Paribas Asset Management Co., Ltd.	19,917	5,644	5,418	17,084	3,991	3,951
SHC Management Co., Ltd.	27	5	5	102	80	80
Shinhan Data System	21,126	(536)	(536)	18,049	117	117
Shinhan Savings Bank.	21,513	4,037	4,021	17,377	1,990	1,910
Shinhan AITAS Co., Ltd.	10,594	1,420	1,420	9,897	1,735	1,735
Shinhan REITs Management Co., Ltd	(600)	(477)	(477)	-	-	-

(*1) Condensed financial information of the subsidiaries is based on the subsidiaries' consolidated financial information, if applicable.

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

2. Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”), as prescribed in the *Act on External Audits of Corporations*.

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, *Interim Financial Reporting* as part of the period covered by the Group’s K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2017. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

(b) Use of estimates and judgments

The preparation of the condensed consolidated interim 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.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2017, except for the details described in Note 3.

- Credit loss allowance

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

3. Significant accounting policies

Except for the new standards and the amendment to the following standard, which are applied from January 1, 2018, the accounting policies applied by the Group in these condensed separate interim financial statements are the same as those applied by the Group in its separate financial statements as of and for the year ended December 31, 2017.

(a) K-IFRS No. 1109, 'Financial Instruments'

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

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

In principle, K-IFRS No. 1109 should be applied retrospectively. However, there are clauses exempting to restate the comparative information with respect to classification, measurement of financial instruments, and impairment. In addition, for hedge accounting, the new standard will be applied prospectively except for certain cases such as accounting for the time value of options.

i) Classification and measurement of financial assets

The Group classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss on the basis of both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset as shown in the following table. If a hybrid contract contains a host that is a financial asset, the entire hybrid contract is classified as a financial asset without separating an embedded derivative.

Business Model	Contractual cash flow characteristics	
	Solely payments of principal and interest	Others
For the collection of the contractual cash flows	Measured at amortized cost(*1)	Measured at fair value through profit or loss(*2)
For both the collection of the contractual cash flows and selling financial assets	Measured at fair value through other comprehensive income(*1)	Same as above
For selling financial assets and others	Measured at fair value through profit or loss	Same as above

(*1) A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

(*2) A designation at fair value through other comprehensive income is allowed only if the financial instrument is the equity investment that is not held for trading (irrevocable). Upon disposal, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to retained earnings.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

3. Significant accounting policies (continued)

The Group applies the overlay approach to designated financial assets related to insurance contracts in accordance with K-IFRS No. 1104. The Group reclassifies the amount reported in profit or loss for the designated financial assets applying K-IFRS No. 1109 to the amount that would have been reported in profit or loss for the designated financial assets if the Group had applied K-IFRS No. 1039.

ii) Classification and measurement of financial liabilities

Where a financial liability is designated at fair value through profit or loss, the fair value change of the financial liability attributable to the changes of the credit risk of the financial liability shall be presented in other comprehensive income; such other comprehensive income shall not be subsequently reclassified to profit or loss. However, the Group may present the fair value change as profit or loss if the aforementioned accounting treatment would cause or enlarge an accounting mismatch.

iii) Impairment: Financial assets and contract assets

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

3. Significant accounting policies (continued)

iv) Hedge accounting

K-IFRS No. 1109 maintains the mechanics of hedge accounting (i.e. fair value hedge, cash flow hedge, hedge of a net investment in a foreign operation) as defined in K-IFRS 1039, whereas a principle-based hedge accounting requirements that focuses on an entity's risk replaced the complex and rule-based hedge accounting requirements of K-IFRS No. 1039. Additionally, qualifying hedged items and qualifying hedging instruments have been expanded and hedge accounting requirements have been eased by eliminating a subsequent hedge effectiveness assessment and a quantitative test (80~125%).

The Group's consolidated interim statements of financial position, comprehensive income, changes in equity and cash flows, and notes to the condensed consolidated financial statements as of and for the three-month period ended March 31, 2018 have been prepared in accordance with K-IFRS No. 1109, and the accompanying comparative consolidated financial statements as of December 31, 2017 and for the three-month period ended March 31, 2017 have not been retrospectively restated.

Details on the adjustments to the carrying amounts of financial assets and financial liabilities, the adjustments to the loss allowance, and the effects on equity as a result of initial application of K-IFRS No. 1109 are presented in Note 41.

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

The Group has applied K-IFRS No. 1115, 'Revenue from Contracts with Customers', which replaces existing revenue recognition guidance, including K-IFRS No. 1018, 'Revenue', K-IFRS No. 1011, 'Construction Contracts', K-IFRS No. 2031, 'Revenue-Barter Transactions Involving Advertising Services', K-IFRS No. 2113, 'Customer Loyalty Programmes', K-IFRS No. 2115, 'Agreement for the Construction of Real Estate', and K-IFRS No. 2118, 'Transfers of Assets from Customers.'

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

Effects on equity as a result of initial application of K-IFRS No. 1115 are included in Note 41.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

4. Financial risk management

(a) Overview

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

The principal risks to which the Group is exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. These risks are recognized, measured, controlled and reported in accordance with risk management guidelines established at the company level and at the subsidiary level.

i) Risk management organization

The Group risk management system is organized along with the following hierarchy: from the top and at the Company level, the Group Risk Management Committee, the Group Risk Management Council, the Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committees and the Risk Management Team of the relevant subsidiary.

The Group Risk Management Committee, which is under the supervision of the controlling company's Board of Directors, sets the basic group wide risk management policies and strategies. The controlling company's Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council, whose members consist of the controlling company's Chief Risk Officer and the risk management team heads of each of subsidiaries, coordinates the risk management policies and strategies at the group level as well as at the subsidiary level among each of subsidiaries.

Each of subsidiaries also has a separate Risk Management Committee, Risk Management Working Committee and Risk Management Team, whose tasks are to implement the group wide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the group wide guidelines. The Group also has the Group Risk Management Team, which supports the controlling company's Chief Risk Officer in his or her risk management and supervisory role.

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

4. Financial risk management (continued)

ii) Risk management framework

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

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

4. Financial risk management (continued)

(b) Credit risk

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

i) Techniques, assumptions and input variables used to measure impairment

i-1) Determining significant increases in credit risk since initial recognition

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

i-1-1) Measuring the risk of default

The Group assigns an internal credit risk rating to each individual exposure based on observable data and historical experiences that have been found to have a reasonable correlation with the risk of default. The internal credit risk rating is determined by considering both qualitative and quantitative factors that indicate the risk of default, which may vary depending on the nature of the exposure and the type of borrower.

i-1-2) Measuring term structure of probability of default

The Group accumulates information after analyzing the information regarding exposure to credit risk and default information by the type of product and borrower and results of internal credit risk assessment. For some portfolios, the Group uses information obtained from external credit rating agencies when performing these analyses.

The Group applies statistical techniques to estimate the probability of default for the remaining life of the exposure from the accumulated data and to estimate changes in the estimated probability of default over time.

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4. Financial risk management (continued)

i-1-3) Significant increases in credit risk

The Group uses the indicators defined as per portfolio to determine the significant increase in credit risk and such indicators generally consist of changes in the risk of default estimated from changes in the internal credit risk rating, qualitative factors, days of delinquency, and others. The method used to determine whether credit risk of financial instruments has significantly increased after the initial recognitions is summarized as follows:

<u>Corporate exposures</u>	<u>Retail exposures</u>	<u>Card exposures</u>
Significant change in credit ratings	Significant change in credit ratings	Significant change in credit ratings
Continued past due more than 30 days	Continued past due more than 30 days	Continued past due more than 7 days(personal card)
Loan classification of and below precautionary	Loan classification of and below precautionary	Loan classification of and below precautionary
Borrower with early warning signals	Borrower with early warning signals	Specific pool segment
Negative net assets	Specific pool segment	
Adverse audit opinion or disclaimer of opinion	Loans relating to constructor whose collective loans are insolvent	
Interest coverage ratios of below 1 for consecutive three years		
Negative cash flows from operating activities for consecutive two years		

The Group considers the credit risk of financial instrument has been significantly increased since initial recognition if a specific exposure is past due more than 30 days (however, for a specific portfolio if it is past due more than 7 days). The Group counts the number of days past due from the earliest date on which the Group has not fully received the contractual payments from the borrower and does not consider the grace period granted to the borrower.

The Group regularly reviews the criteria for determining if there have been significant increases in credit risk from the following perspective.

- A significant increase in credit risk shall be identified prior to the occurrence of default.
- The criteria established to judge the significant increase in credit risk shall have a more predictive power than the criteria for days of delinquency.
- As a result of applying the judgment criteria, financial instruments shall not be to move too frequently between the 12-months expected credit losses measurement and the lifetime expected credit losses measurement.

4. Financial risk management (continued)

i-2) Modified financial assets

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, the Group assesses whether there has been a significant increase in the credit risk of the financial instrument by comparing the risk of a default occurring at initial recognition based on the original, unmodified contractual terms and the risk of a default occurring at the reporting date based on the modified contractual terms.

The Group may adjust the contractual cash flows of loans to customers who are in financial difficulties in order to manage the risk of default and enhance the collectability (hereinafter referred to as 'debt restructuring'). These adjustments generally involve extension of maturity, changes in interest payment schedule, and changes in other contractual terms.

Debt restructuring is a qualitative indicator of a significant increase in credit risk and the Group recognizes lifetime expected credit losses for the exposure expected to be the subject of such adjustments. If a borrower faithfully makes payments of contractual cash flows that were modified in accordance with the debt restructuring or if the borrower's internal credit rating has recovered to the level prior to the recognition of the lifetime expected credit losses, the Group recognizes the 12-months expected credit losses for that exposure again.

i-3) Risk of default

The Group considers a financial asset to be in default if it meets one or more of the following conditions:

- if a borrower is overdue 90 days or more from the contractual payment date,
- if the Group judges that it is not possible to recover principal and interest without enforcing the collateral on a financial asset

The Group uses the following indicators when determining whether a borrower is in default:

- qualitative factors (e.g. breach of contract terms),
- quantitative factors (e.g. if the same borrower does not perform more than one payment obligations to the Group, the number of days past due per payment obligation. However, in the case of a specific portfolio, the Group uses the number of days past due for each financial instrument)
- internal data and external data

The definition of default applied by the Group generally conforms to the definition of default defined for regulatory capital management purposes; however, depending on the situations, the information used to determine whether a default has incurred and the extent thereof may vary.

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4. Financial risk management (continued)

i-4) Reflection of forward-looking information

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

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

The Group identified the key macroeconomic variables needed to forecast credit risk and credit losses for each portfolio as follows by analyzing past experience data and drew correlations across credit risk for each variable.

Key macroeconomic variables	Correlation with credit risk
Economic growth	Negative
Consumer price index	Negative
Benchmark rate	Positive
10-year Korea Treasury Bond	Positive
3-year Corporate Bond	Positive
KOSPI	Negative

The predicted correlations between the macroeconomic variables and the risk of default, used by the Group, were derived based on data from the past nine years.

4. Financial risk management (continued)

i-5) Measurement of expected credit losses

Key variables used in measuring expected credit losses are as follows:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

These variables have been estimated from historical experience data by using the statistical techniques developed internally by the Group and have been adjusted to reflect forward-looking information.

Estimates of PD over a specified period are estimated by reflecting characteristics of counterparties and their exposure, based on a statistical model at a specific point of time. The Group uses its own information to develop a statistical credit assessment model used for the estimation, and additional information observed in the market is considered for some portfolios such as a group of large corporates. When a counterparty or exposure is concentrated in specific grades, the method of measuring PD for that grades would be adjusted, and the PD by grade is estimated by considering contract expiration of the exposure.

LGD refers to the expected loss if a borrower defaults. The Group calculates LGD based on the experience recovery rate measured from past default exposures. The model for measuring LGD is developed to reflect type of collateral, seniority of collateral, type of borrower, and cost of recovery. In particular, LGD for retail loan products uses loan to value (LTV) as a key variable. The recovery rate reflected in the LGD calculation is based on the present value of recovery amount, discounted at the effective interest rate.

EAD refers to the expected exposure at the time of default. The Group derives EAD reflecting a rate at which the current exposure is expected to be used additionally up to the point of default within the contractual limit. EAD of financial assets is equal to the total carrying amount of the asset, and EAD of loan commitments or financial guarantee contracts is calculated as the sum of the amount expected to be used in the future.

When measuring expected credit losses on financial assets, the Group reflects a period of expected credit loss measurement based on a contractual maturity. The Group takes into consideration of the extension rights held by a borrower when deciding the contractual maturity.

Risk factors of PD, LGD and EAD are collectively estimated according to the following criteria:

- Type of products
- Internal credit risk rating
- Type of collateral
- Loan to value (LTV)
- Industry that the borrower belongs to
- Location of the borrower or collateral
- Days of delinquency

The criteria classifying groups is periodically reviewed to maintain homogeneity of the group and adjusted if necessary. The Group uses external benchmark information to supplement internal information for a particular portfolio that did not have sufficient internal data accumulated from the past experience.

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4. Financial risk management (continued)

i-6) Write-off of financial assets

The Group writes off a portion of or entire loan or debt security that is not expected to receive its principal and interest. In general, the Group conducts write-off when it is deemed that the borrower has no sufficient resources or income to repay the principal and interest. Such determination on write-off is carried out in accordance with the internal rules of the Group and is carried out with the approval of an external institution, if necessary. Apart from write-off, the Group may continue to exercise its right of collection under its own recovery policy even after the write-off of financial assets.

ii) *Maximum exposure to credit risk*

Exposure to credit risk is the exposure related to due from banks, loans, investments in debt securities, derivative transactions, off-balance sheet accounts such as loan commitment. The exposures of due from banks and loans were classified into government, bank, corporation, retail based on the exposure classification criteria of BASEL III credit risk weights.

The Group's maximum exposure to credit risk without taking into account of any collateral held or other credit enhancements as of March 31, 2018 and December 31, 2017 are as follows:

	<u>2018</u>
Due from banks and loans at amortized cost (*1)(*3):	
Banks	₩ 13,935,408
Retail	126,889,677
Government	10,544,650
Corporations	122,333,019
Card receivable	20,077,904
	<u>293,780,658</u>
Financial asset at fair value through profit or loss	37,994,406
Financial asset designated at fair value through profit or loss	79,763
Securities at fair value through other comprehensive income	35,845,395
Securities at amortized cost	24,857,390
Derivative assets	2,417,935
Other financial assets(*1)(*2)	19,749,066
Financial guarantee contracts	3,431,645
Loan commitments and other credit liabilities	156,843,606
	<u>₩ 574,999,864</u>

(*1) The maximum exposure amounts for due from banks, loans and other financial assets at amortized cost are recorded as net of allowances

(*2) Other financial assets mainly comprise brokerage, securities and spot transaction related receivables, accrued interest receivables, secured key money deposits and domestic exchange settlement debit settled in a day.

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

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4. Financial risk management (continued)*ii) Maximum exposure to credit risk (continued)*

	<u>2017</u>
Due from banks and loans(*1)(*3):	
Banks	₩ 13,373,140
Retail	124,868,554
Government	14,442,747
Corporations	123,637,882
Card receivable	<u>20,119,514</u>
	<u>296,441,837</u>
Trading assets	23,829,943
Financial assets designated at FVTPL	2,344,701
AFS financial assets	37,186,552
HTM financial assets	24,990,680
Derivative assets	3,400,178
Other financial assets(*1)(*2)	12,041,304
Financial guarantee contracts	3,267,707
Loan commitments and other credit liabilities	<u>139,264,031</u>
	<u>₩ 542,766,933</u>

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

(*2) Other financial assets mainly comprise brokerage, securities and spot transaction related receivables, accrued interest receivables, secured key money deposits and domestic exchange settlement debit settled in a day.

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

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4. Financial risk management (continued)

iii) Impairment information by credit risk of financial assets

- Credit loss allowances of financial assets as of March 31, 2018 are as follows:

	12-month expected loss		Life time expected loss		Total	Allowances	Net	Mitigation of credit risk due to collateral
	Grade 1(*1)	Grade 2(*1)	Grade 1(*1)	Grade 2(*1)				
Due from banks and loans at amortized cost:								
Banks	₩ 12,645,656	680,715	593,047	31,988	13,951,406	(15,998)	13,935,408	106,941
Retail	113,431,840	5,270,145	5,092,113	3,175,130	127,333,572	(443,895)	126,889,677	76,997,514
Government	6,350,613	-	4,198,848	-	10,549,461	(4,811)	10,544,650	-
Corporations	79,418,417	26,375,522	8,312,792	8,860,697	124,016,021	(1,683,002)	122,333,019	64,345,907
Card receivable	15,021,288	1,844,826	1,650,885	1,926,190	20,847,053	(769,149)	20,077,904	6,657
	226,867,814	34,171,208	19,847,685	13,994,005	296,697,513	(2,916,855)	293,780,658	141,457,019
Securities at fair value through other comprehensive income(*2)	30,131,573	5,698,013	-	15,809	35,845,395	-	35,845,395	-
Securities at amortized cost	24,194,051	649,763	18,186	3,140	24,865,140	(7,750)	24,857,390	-
Ending balance	₩ 281,193,438	40,518,984	19,865,871	14,012,954	357,408,048	(2,924,605)	354,483,443	141,457,019

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4. Financial risk management (continued)

iii) Impairment information by credit risk of financial assets (continued)

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

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

(*2) Provision for credit loss allowance for securities at fair value through other comprehensive income amounted to ₩16,398 million.

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4. Financial risk management (continued)

iii) Impairment information by credit risk of financial assets (continued)

- Credit quality of due from banks and loans that are neither past due nor impaired as of December 31, 2017 are as follows:

	2017					
	Banks	Retail	Government	Corporations	Card	Total
Grade 1(*2)	₩ 13,382,414	116,304,917	14,447,016	86,831,895	16,314,189	247,280,431
Grade 2(*2)	7,857	8,056,563	-	36,835,347	3,473,826	48,373,593
	13,390,271	124,361,480	14,447,016	123,667,242	19,788,015	295,654,024
Less : allowance (collective)	(17,131)	(212,502)	(4,269)	(647,694)	(288,362)	(1,169,958)
	₩ 13,373,140	124,148,978	14,442,747	123,019,548	19,499,653	294,484,066
Mitigation of credit risk due to collateral(*1)	₩ 96,835	80,354,889	-	64,018,607	6,358	144,476,689

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

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

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

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4. Financial risk management (continued)

iii) Impairment information by credit risk of financial assets (continued)

- Aging analyses of due from banks and loans that are past due but not impaired as of December 31, 2017 are as follows:

		2017					
		Banks	Retail	Government	Corporations	Card	Total
Less than 30 days	₩	-	458,968	-	131,624	446,658	1,037,250
30 days ~ less than 60 days		-	65,152	-	33,749	58,283	157,184
60 days ~ less than 90 days		-	42,427	-	16,972	37,972	97,371
90 days or more		-	15,430	-	11,787	390	27,607
		-	581,977	-	194,132	543,303	1,319,412
Less : allowance		-	(56,774)	-	(8,898)	(81,990)	(147,662)
	₩	-	525,203	-	185,234	461,313	1,171,750
Mitigation of credit risk due to collateral	₩	-	325,631	-	94,388	90	420,109

- Due from banks and loans that are impaired as of December 31, 2017 are as follows:

		2017					
		Banks	Retail	Government	Corporations	Card	Total
Impaired	₩	-	362,707	-	1,010,036	420,316	1,793,059
Less : allowance		-	(168,334)	-	(576,936)	(261,768)	(1,007,038)
	₩	-	194,373	-	433,100	158,548	786,021
Mitigation of credit risk due to collateral	₩	-	128,906	-	384,815	12	513,733

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4. Financial risk management (continued)

iv) Credit risk exposures per credit grade of off-balance items

- Credit risk exposures per credit grade of off-balance items as of March 31, 2018 are as follows:

	2018			
	Grade 1(*1)	Grade 2(*1)	Impaired	Total
Financial guarantee:				
12-month expected credit loss	₩ 2,504,287	680,544	-	3,184,831
Life time expected credit loss	85,146	154,644	-	239,790
Impaired	-	-	7,024	7,024
	<u>2,589,433</u>	<u>835,188</u>	<u>7,024</u>	<u>3,431,645</u>
Loan commitment and other credit line				
12-month expected credit loss	131,509,862	18,004,549	-	149,514,411
Life time expected credit loss	5,387,604	1,934,954	-	7,322,558
Impaired	-	-	6,637	6,637
	<u>136,897,466</u>	<u>19,939,503</u>	<u>6,637</u>	<u>156,843,606</u>
	<u>₩ 139,486,899</u>	<u>20,774,691</u>	<u>13,661</u>	<u>160,275,251</u>

(*1) Grade 1: BBB+ or above per internal credit rating

Grade 2: BBB+ less per internal credit rating

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

v) *Credit ratings of debt securities*

- Credit ratings of debt securities as of December 31, 2017 are as follows:

		2017				
		Financial assets				
		Trading assets	Financial assets designated at FVTPL	Available-for- sale financial assets	Held-to-maturity financial assets	Total
AAA	₩	8,837,093	630,247	23,949,843	20,057,480	53,474,663
AA- to AA+		5,193,659	589,193	5,582,125	3,956,290	15,321,267
A- to A+		5,442,892	792,715	4,300,764	444,711	10,981,082
BBB- to BBB+		1,614,012	252,258	1,508,224	166,906	3,541,400
Lower than BBB-		275,200	-	435,651	177,840	888,691
Unrated		2,277,790	80,288	1,409,945	187,453	3,955,476
	₩	<u>23,640,646</u>	<u>2,344,701</u>	<u>37,186,552</u>	<u>24,990,680</u>	<u>88,162,579</u>

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

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

(*1) KIS: Korea Investors Service

(*2) KR: Korea Ratings

- Credit status of debt securities as of December 31, 2017 are as follows:

	2017
Neither past due nor impaired	₩ 88,160,626
Impaired	1,953
	<u>₩ 88,162,579</u>

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

vi) *Concentration by industry sector*

An analysis of concentration by industry sector of financial instrument, net of allowance, as of March 31, 2018 and December 31, 2017 are as follows:

	2018						
	Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans at amortized cost:							
Banks	₩ 13,382,826	3,776	-	6,461	542,345	-	13,935,408
Retail	-	-	-	-	-	126,889,677	126,889,677
Government	10,424,487	-	-	-	120,163	-	10,544,650
Corporations	5,949,033	42,705,274	16,681,063	24,992,480	32,004,198	971	122,333,019
Card receivable	39,045	193,013	150,287	40,049	19,575,718	79,792	20,077,904
	<u>29,795,391</u>	<u>42,902,063</u>	<u>16,831,350</u>	<u>25,038,990</u>	<u>52,242,424</u>	<u>126,970,440</u>	<u>293,780,658</u>
Financial asset at fair value through profit or loss	25,571,817	1,353,627	1,445,288	342,059	9,281,615	-	37,994,406
Financial asset designated at fair value through profit or loss	-	79,763	-	-	-	-	79,763
Securities at fair value through other comprehensive income	22,640,037	1,447,489	246,243	537,028	10,974,598	-	35,845,395
Securities at amortized cost	5,915,376	93,477	-	785,048	18,063,489	-	24,857,390
	<u>₩ 83,922,621</u>	<u>45,876,419</u>	<u>18,522,881</u>	<u>26,703,125</u>	<u>90,562,126</u>	<u>126,970,440</u>	<u>392,557,612</u>

	2017						
	Finance and insurance	Manu-facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:							
Banks	₩ 11,094,855	1,592	-	56,744	2,219,949	-	13,373,140
Retail	-	-	-	-	-	124,868,554	124,868,554
Government	13,381,461	1,314	-	-	1,059,972	-	14,442,747
Corporations	5,474,353	40,364,768	16,563,849	23,005,675	38,229,237	-	123,637,882
Card receivable	41,825	295,290	140,117	37,801	445,982	19,158,499	20,119,514
	<u>29,992,494</u>	<u>40,662,964</u>	<u>16,703,966</u>	<u>23,100,220</u>	<u>41,955,140</u>	<u>144,027,053</u>	<u>296,441,837</u>
Trading assets	17,183,669	1,139,609	1,206,133	176,273	4,124,259	-	23,829,943
Financial assets designated at FVTPL	1,201,464	202,906	36,112	45,178	859,041	-	2,344,701
AFS financial assets	23,384,608	1,409,017	227,289	632,410	11,533,228	-	37,186,552
HTM financial assets	5,975,448	48,981	-	785,859	18,180,392	-	24,990,680
	<u>₩ 77,737,683</u>	<u>43,463,477</u>	<u>18,173,500</u>	<u>24,739,940</u>	<u>76,652,060</u>	<u>144,027,053</u>	<u>384,793,713</u>

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4. Financial risk management (continued)

(c) Market risk

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

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

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

i) Market risk management from trading positions

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

An analysis of market risk for trading positions of the major subsidiaries as of and for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows:

i-1) Shinhan Bank

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows:

		2018			
		Average	Maximum	Minimum	March 31
Interest rate	₩	25,015	29,748	21,116	22,163
Stock price		7,959	13,323	1,976	10,914
Foreign exchange(*)		40,747	44,470	37,756	38,544
Option volatility		75	152	30	90
Commodity		14	54	-	3
Portfolio diversification					(29,351)
	₩	<u>45,149</u>	<u>51,408</u>	<u>40,953</u>	<u>42,363</u>
		2017			
		Average	Maximum	Minimum	December 31
Interest rate	₩	38,370	50,206	22,226	25,071
Stock price		4,051	5,622	3,040	4,675
Foreign exchange(*)		43,827	46,108	41,562	41,947
Option volatility		70	124	43	66
Commodity		22	46	-	14
Portfolio diversification					(26,367)
	₩	<u>49,943</u>	<u>56,103</u>	<u>42,031</u>	<u>45,406</u>

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

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4. Financial risk management (continued)

i-2) Shinhan Card

The analyses of Shinhan Card's requisite capital in light of the market risk for trading positions as of and for the three-month period ended March 31, 2018 and the year ended December 31, 2017, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, are as follows:

		2018			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>March 31</u>
Interest rate	₩	1,563	1,972	1,200	1,972

		2017			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate	₩	1,809	2,550	1,050	1,800

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

i-3) Shinhan Investment

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows:

		2018			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>March 31</u>
Interest rate	₩	7,029	10,219	3,656	3,779
Stock price		41,091	94,682	6,202	72,175
Foreign exchange		9,187	13,798	4,266	10,402
Option volatility		3,896	6,500	2,195	5,705
Portfolio diversification					(17,657)
	₩	<u>45,644</u>	<u>98,602</u>	<u>11,173</u>	<u>74,404</u>

		2017			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate	₩	9,939	18,090	7,329	11,232
Stock price		12,015	22,496	7,068	10,830
Foreign exchange		7,140	12,604	2,760	5,506
Option volatility		3,404	4,536	2,710	3,216
Portfolio diversification					(9,583)
	₩	<u>22,221</u>	<u>34,564</u>	<u>12,980</u>	<u>21,201</u>

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4. Financial risk management (continued)

i-4) Shinhan Life Insurance

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows:

		2018			
		Average	Maximum	Minimum	March 31
Interest rate	₩	4,069	6,410	385	1,101
Stock price		3,603	4,383	3,175	3,819
Foreign exchange		966	1,944	378	645
Option volatility		2,286	4,916	507	705
	₩	10,924	17,653	4,445	6,270

		2017			
		Average	Maximum	Minimum	December 31
Interest rate	₩	3,838	16,598	85	3,848
Stock price		1,195	3,368	-	3,178
Foreign exchange		1,213	3,569	3	1,924
Option volatility		5,083	7,423	2,777	3,809
	₩	11,329	30,958	2,865	12,759

ii) Interest rate risk management from non-trading positions

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

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

Non-trading positions for interest rate VaR and EaR as of March 31, 2018 and December 31, 2017 are as follows:

ii-1) Shinhan Bank

		<u>2018</u>	<u>2017</u>
VaR(*1)	₩	251,069	293,355
EaR(*2)		236,813	131,135

ii-2) Shinhan Card

		<u>2018</u>	<u>2017</u>
VaR(*1)	₩	150,751	147,932
EaR(*2)		20,975	32,081

ii-3) Shinhan Investment

		<u>2018</u>	<u>2017</u>
VaR(*1)	₩	52,318	44,505
EaR(*2)		64,316	108,866

ii-4) Shinhan Life Insurance

		<u>2018</u>	<u>2017</u>
VaR(*1)	₩	473,619	319,689
EaR(*2)		70,402	70,434

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

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

iii) Foreign exchange risk

Exposure to foreign exchange risk can be defined as the difference (net position) between assets and liabilities presented in foreign currency, including derivative financial instruments linked to foreign exchange rate. Foreign exchange risk is a factor that causes market risk of the trading position and is managed by the Group under the market risk management system.

The management of Shinhan Bank’s foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank’s overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. Shinhan Bank sets a limit for net open positions by currency and the limits for currencies other than the U.S. dollars, Japanese yen, Euros and Chinese yuan are set in order to minimize exposures from the other foreign exchange trading.

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

(d) **Liquidity risk**

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

Each subsidiary seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funding that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the group level, the Group manages liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, the group-specific internal crisis, crisis in the external market and a combination of internal and external crisis.

To manage liquidity risk preemptively and collectively, various liquidity risk indicators such as limit management indicators, early warning indicators and monitoring indicators were measured and managed.

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of March 31, 2018 and December 31, 2017 are as follows:

	2018						
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
Non-derivative financial instruments:							
Liabilities:							
Deposits(*2)	₩ 133,821,468	27,002,467	28,662,686	48,806,634	16,283,782	2,057,509	256,634,546
Financial liabilities at fair value through profit or loss	2,286,835	-	-	-	-	-	2,286,835
Financial liabilities designated at fair value through profit or loss	335,053	389,275	134,459	1,436,820	4,932,378	1,136,294	8,364,279
Borrowings	13,345,983	3,257,552	2,023,194	2,465,889	4,055,118	2,042,941	27,190,677
Debt securities issued	3,003,111	3,183,772	5,428,547	9,326,548	29,726,299	5,444,361	56,112,638
Other financial liabilities	24,990,640	35,249	126,213	134,134	401,604	65,532	25,753,372
	₩ <u>177,783,090</u>	<u>33,868,315</u>	<u>36,375,099</u>	<u>62,170,025</u>	<u>55,399,181</u>	<u>10,746,637</u>	<u>376,342,347</u>
Off balance(*3):							
Finance guarantee contracts	₩ 3,431,645	-	-	-	-	-	3,431,645
Loan commitments and other	158,168,616	-	-	-	-	-	158,168,616
	₩ <u>161,600,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>161,600,251</u>
Derivatives:							
Cash inflows	₩ 3,193,436	849,224	726,999	1,298,601	4,529,117	5,924,142	16,521,519
Cash outflows	3,193,436	849,224	726,999	1,298,601	4,529,117	5,924,142	16,521,519
	₩ <u>14,709</u>	<u>(2,500)</u>	<u>8,167</u>	<u>(101,151)</u>	<u>(278,588)</u>	<u>(125,604)</u>	<u>(484,967)</u>

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

	2017						
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
Non-derivative financial instruments:							
Liabilities:							
Deposits(*2)	₩ 130,916,019	21,725,284	31,482,983	52,440,287	16,137,734	1,940,194	254,642,501
Trading liabilities	1,848,490	-	-	-	-	-	1,848,490
Financial liabilities designated at fair value through profit or loss	303,065	324,807	548,868	916,388	5,106,209	1,098,518	8,297,855
Borrowings	15,286,424	2,543,847	1,655,662	2,823,721	3,658,670	1,844,417	27,812,741
Debt securities issued	2,261,028	3,717,185	3,651,503	10,565,098	30,391,156	4,224,471	54,810,441
Other financial liabilities	19,387,718	42,948	137,810	335,104	363,245	59,188	20,326,013
	₩ 170,002,744	28,354,071	37,476,826	67,080,598	55,657,014	9,166,788	367,738,041
Off balance(*3):							
Finance guarantee contracts	₩ 3,267,707	-	-	-	-	-	3,267,707
Loan commitments and other	140,675,467	-	-	-	-	-	140,675,467
	₩ 143,943,174	-	-	-	-	-	143,943,174
Derivatives:							
Cash inflows	₩ 3,735,274	790,313	829,659	1,411,010	2,684,189	143,032	9,593,477
Cash outflows	(3,324,459)	(498,396)	(727,887)	(1,321,939)	(2,594,372)	(60,717)	(8,527,770)
	₩ 410,815	291,917	101,772	89,071	89,817	82,315	1,065,707

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

(*2) Demand deposits amounting to ₩104,025,264 million and ₩102,928,642 million as of March 31, 2018 and December 31, 2017 are included in the 'Less than 1 month' category, respectively.

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

(e) Capital risk management

The controlling company, banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act, is required to maintain a minimum consolidated equity capital ratio of 8.0%.

“Consolidated equity capital ratio” is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on Bank of International Settlement standards. “Equity capital”, as applicable to bank holding companies, is defined as the sum of Common Equity Tier 1 capital (including common stock, share premium resulting from the issue of instruments classified as common equity Tier 1, retained earnings, etc.), Additional Tier 1 capital (with the minimum set of criteria for an instrument issued by the Group to meet, i.e. ‘perpetual’) and Tier 2 capital (to provide loss absorption on a gone-concern basis) less any deductible items (including goodwill, income tax assets, etc.), each as defined under the Regulation on the Supervision of Financial Holding Companies. “Risk-weighted assets” is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The capital adequacy ratio as of March 31, 2018 was 14.83%(unaudited and unreviewed).

(f) Measurement of fair value

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

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

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

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

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4. Financial risk management (continued)*i) Financial instruments measured at fair value*

- The fair value hierarchy of financial assets presented at their fair values in the statements of financial position as of March 31, 2018 and December 31, 2017 are as follows:

		2018			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial asset at fair value through profit or loss	₩	6,932,006	27,699,663	6,026,487	40,658,156
Financial asset designated at fair value through profit or loss		-	-	151,566	151,566
Derivatives		33,252	2,244,245	140,438	2,417,935
Securities at fair value through other comprehensive income		11,062,454	24,756,907	639,420	36,458,781
	₩	<u>18,027,712</u>	<u>54,700,815</u>	<u>6,957,911</u>	<u>79,686,438</u>
Financial liabilities:					
Financial liabilities at fair value through profit or loss	₩	2,286,835	-	-	2,286,835
Financial liabilities designated at fair value through profit or loss		-	1,397,183	6,967,096	8,364,279
Derivatives liabilities		72,877	2,370,565	601,137	3,044,579
	₩	<u>2,359,712</u>	<u>3,767,748</u>	<u>7,568,233</u>	<u>13,695,693</u>
		2017			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Trading assets	₩	7,438,083	20,351,470	674,743	28,464,296
Financial assets designated at fair value through profit or loss		572,734	2,457,728	548,595	3,579,057
Derivative assets		31,858	3,072,980	295,340	3,400,178
Available-for-sale financial assets		10,920,710	26,899,791	4,296,436	42,116,937
	₩	<u>18,963,385</u>	<u>52,781,969</u>	<u>5,815,114</u>	<u>77,560,468</u>
Financial liabilities:					
Trading liabilities	₩	1,848,490	-	-	1,848,490
Financial liabilities designated at fair value through profit or loss		36,973	986,882	7,273,754	8,297,609
Derivative liabilities		20,738	2,963,914	503,009	3,487,661
	₩	<u>1,906,201</u>	<u>3,950,796</u>	<u>7,776,763</u>	<u>13,633,760</u>

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4. Financial risk management (continued)

- Changes in carrying values of financial instruments classified as Level 3 for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows:

	2018					
	Financial asset at fair value through profit or loss	Financial asset designated at fair value through profit or loss	Securities at fair value through other comprehensive profit or loss	Derivative assets and liabilities, net	Financial liabilities at fair value through profit or loss	Financial liabilities designated at fair value through profit or loss
Beginning balance	₩ 5,831,369	152,091	621,207	(250,662)	-	(7,273,754)
Recognized in total comprehensive income for the year:						
Recognized in profit (loss) for the year(*1)	(27,096)	(525)	(698)	(115,391)	-	63,843
Recognized in other comprehensive income (loss) for the year	(233)	-	16,911	-	-	(34)
Purchase	602,027	-	2,000	965	-	-
Issue	-	-	-	-	-	(2,634,212)
Settlement	(378,595)	-	-	(95,583)	-	2,877,061
Transfer in(*2)	-	-	-	-	-	-
Transfer out(*2)	(985)	-	-	(28)	-	-
Ending balance	₩ 6,026,487	151,566	639,420	(460,699)	-	(6,967,096)

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4. Financial risk management (continued)

- Changes in carrying values of financial instruments classified as Level 3 for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows (continued):

	2017				
	Trading assets	Financial assets designated at FVTPL	Available-for-sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL
Beginning balance	₩ 82,477	614,039	3,883,441	(492,136)	(7,574,327)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year(*1)	41,127	(9,202)	(200,701)	634,438	(913,760)
Recognized in other comprehensive income (loss) for the year	-	-	(3,149)	-	-
	41,127	(9,202)	(203,850)	634,438	(913,760)
Purchase	589,144	210,856	1,150,904	29,333	-
Issue	-	-	-	4,541	(8,710,656)
Settlement	(139,562)	(267,098)	(565,146)	(383,873)	9,924,989
Transfer in(*2)	101,557	-	31,087	28	-
Transfer out(*2)	-	-	-	-	-
Ending balance	₩ 674,743	548,595	4,296,436	(207,669)	(7,273,754)

(*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the three-month periods ended March 31, 2018 and the year ended December 31, 2017, are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows:

	2018	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of March 31
Net gain (loss) on financial assets at fair value through profit or loss	₩ (99,717)	(129,745)
Net gain (loss) on financial assets designated at fair value through profit or loss	63,318	139,048
Net gain (loss) on securities at fair value through other comprehensive income	(698)	(698)
Other operating expenses	(42,770)	(38,549)
	₩ (79,867)	(29,944)

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4. Financial risk management (continued)

- Changes in carrying values of financial instruments classified as Level 3 for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows (continued):

(*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the three-month periods ended March 31, 2018 and the year ended December 31, 2017, are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows (continued):

	2017	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Trading income	₩ 843,657	121,643
Loss on financial instruments designated at FVTPL	(922,962)	(129,654)
Gain on disposal of available-for-sale financial assets	17,193	977
Impairment losses on financial assets	(180,206)	(180,206)
Other operating expenses	(205,780)	(216,135)
	<u>₩ (448,098)</u>	<u>(403,375)</u>

(*2) Changes in levels for the financial instruments occurred due to the change in the availability of observable market data. The Group reviews the levels of financial instruments as of the end of the reporting period considering the related events and circumstances in the reporting period.

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4. Financial risk management (continued)

- Valuation techniques and inputs used in measuring the fair value of financial instruments classified as level 2 as of March 31, 2018 are as follows:

Type of financial instrument	Valuation technique	Carrying value	Significant inputs
Assets			
Financial asset at fair value through profit or loss	DCF(*1), NAV(*2)	₩ 27,699,663	Discount rate, Price of underlying assets
Derivative assets	Option model, DCF(*1)	2,244,245	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
Securities at fair value through other comprehensive income	DCF(*1), NAV(*2)	24,756,907	Discount rate, growth rate, Price of underlying assets
		₩ <u>54,700,815</u>	
Liabilities			
Financial liabilities designated at fair value through profit or loss	DCF(*1)	₩ 1,397,183	Discount rate
Derivative liabilities	Option model, DCF(*1)	2,370,565	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
		₩ <u>3,767,748</u>	

(*1) DCF : Discounted cash flow

(*2) NAV : Net asset value

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4. Financial risk management (continued)

- Valuation techniques and significant inputs, but not observable, used in measuring the fair value of financial instruments classified as level 3 as of March 31, 2018 are as follows:

Type of financial instrument	Valuation technique	Type	Carrying value	Significant unobservable inputs	Range
Financial assets					
Financial asset at fair value through profit or loss	DCF, Option model(*1), NAV	Debt securities and Equity securities	₩ 6,026,487	The volatility of the underlying asset Correlations Discount rate Growth rate	1.98%~33.00% 0.00% 1.00%~43.00% 0.00%~90.00%
Financial assets designated at fair value through profit or loss	DCF Option model(*1)	Debt securities and Equity securities Equity and foreign exchange related	151,566 59,391	The volatility of the underlying asset Correlations	7.68% 0.00%
Derivative assets	Option model(*1) Option model(*1) Option model(*1)	Interest rates related Credit and commodity related	30,695 50,352 140,438	The volatility of the underlying asset Correlations Regression coefficient Correlations	1.72%~43.00% (22.17%~81.99%) 0.50%~61.00% 0.42%~1.65% 0.00%~90.9% 17.00%~35.00% (0.18%~92.91%)
Securities at fair value through other comprehensive income	DCF, NAV	Debt securities and Equity securities	639,420 6,957,911	Discount rate Growth rate	3.19%~20.51% 0.00%~3.00%

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4. Financial risk management (continued)

- Valuation techniques and significant inputs, but not observable, used in measuring the fair value of financial instruments classified as level 3 as of March 31, 2018 are as follows (continued):

Type of financial instrument	Valuation technique	Type	Carrying value	Significant unobservable inputs	Range
Financial liabilities					
Financial liabilities designated at fair value through profit or loss	Option model(*1)	Equity related	₩ 6,967,096	The volatility of the underlying asset Correlations	0.00%~95.69% (21.14%)~100%
	Option model(*1)	Equity and foreign exchange related	55,678	The volatility of the underlying asset Correlations	1.72%~44.4% (22.17%)~81.92%
	Option model(*1)	Interest rates related	499,824	The volatility of the underlying asset Regression coefficient Correlations	0.50%~0.85% 0.42%~2.77%
Derivative liabilities	Option model(*1)	Credit and commodity related	45,635	The volatility of the underlying asset Correlations	31.53%~90.99%
			601,137		9.65%~35.93% (21.39%)~100%
			<u>₩ 7,568,233</u>		

(*1) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

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4. Financial risk management (continued)

- Sensitivity analysis for fair value measurements in Level 3

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects on profit or loss, or other comprehensive income as of March 31, 2018 and December 31, 2017.

	2018	
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Financial asset at fair value through profit or loss	₩ 23,845	(18,629)
Derivative assets	24,962	(23,924)
	<u>48,807</u>	<u>(42,553)</u>
Effects on other comprehensive income for the period:		
Securities at fair value through other comprehensive income(*2)	20,815	(12,024)
	<u>₩ 69,622</u>	<u>(54,577)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 90,405	(87,188)
Derivative liabilities	64,514	(53,328)
	<u>₩ 154,919</u>	<u>(140,516)</u>
	2017	
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Trading assets	₩ 2,792	(2,742)
Financial assets designated at fair value through profit or loss	1,843	(1,941)
Derivative assets	29,059	(28,077)
	<u>33,694</u>	<u>(32,760)</u>
Effects on other comprehensive income for the period:		
Available-for-sale financial assets(*2)	39,460	(25,505)
	<u>₩ 73,154</u>	<u>(58,265)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 72,063	(56,754)
Derivative liabilities	32,770	(33,343)
	<u>₩ 104,833</u>	<u>(90,097)</u>

(*1) Fair value changes are calculated by increasing or decreasing the volatility of the underlying asset (-10~10%) or correlations (-10~10%).

(*2) Fair value changes are calculated by increasing or decreasing discount rate (-1~1%) or growth rate (0~1%).

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4. Financial risk management (continued)

ii) Financial instruments measured at amortized cost

- The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	Measurement methods of fair value
Cash and due from banks	The carrying amount and the fair value for cash are identical and most of deposits are floating interest rate deposits or next day deposits of a short-term instrument. For this reason, the carrying value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is based on the published price quotations in an active market. In case there is no observable market price, it is measured by discounting the contractual cash flows at the market interest rate that takes into account the residual risk.
Deposits and borrowings	The carrying amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	Where available, the fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

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4. Financial risk management (continued)*ii) Financial instruments measured at amortized cost (continued)*

- The carrying value and the fair value of financial instruments measured at amortized cost as of March 31, 2018 and December 31, 2017 are as follows:

	2018	
	Carrying value	Fair value
Assets:		
Loans	₩ 277,838,015	278,544,963
Held-to-maturity financial assets	24,857,390	25,041,877
Other financial assets	19,749,066	19,323,326
	<u>₩ 322,444,471</u>	<u>322,910,166</u>
Liabilities:		
Deposits	₩ 250,965,418	250,648,360
Borrowings	26,842,146	26,835,658
Debt securities issued	52,325,800	52,186,498
Other financial liabilities	25,453,027	25,402,751
	<u>₩ 355,586,391</u>	<u>355,073,267</u>

	2017	
	Carrying value	Fair value
Assets:		
Loans	₩ 275,565,766	275,988,557
Held-to-maturity financial assets	24,990,680	25,390,335
Other financial assets	12,041,304	12,038,310
	<u>₩ 312,597,750</u>	<u>313,417,202</u>
Liabilities:		
Deposits	₩ 249,419,224	249,333,154
Borrowings	27,586,610	27,596,841
Debt securities issued	51,340,821	51,277,693
Other financial liabilities	20,205,312	20,179,542
	<u>₩ 348,551,967</u>	<u>348,387,230</u>

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4. Financial risk management (continued)

- The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position but with their fair value disclosed as of March 31, 2018 and December 31, 2017 are as follows:

		2018			
		Level 1	Level 2	Level 3	Total
Assets:					
Loans	₩	4,902	2,195,070	276,344,991	278,544,963
Securities		7,922,625	17,119,252	-	25,041,877
Other financial assets		566,494	13,485,841	5,270,991	19,323,326
	₩	<u>8,494,021</u>	<u>32,800,163</u>	<u>281,615,982</u>	<u>322,910,166</u>
Liabilities:					
Deposits	₩	2,998,000	107,166,361	140,483,999	250,648,360
Borrowings		5,812,553	1,349,599	19,673,506	26,835,658
Debt securities issued in won		-	33,323,273	18,863,225	52,186,498
Other financial liabilities		566,498	10,766,418	14,069,835	25,402,751
	₩	<u>9,377,051</u>	<u>152,605,651</u>	<u>193,090,565</u>	<u>355,073,267</u>

		2017			
		Level 1	Level 2	Level 3	Total
Assets:					
Loans	₩	3,065	845,567	275,139,925	275,988,557
Held-to-maturity financial assets		7,851,134	17,539,201	-	25,390,335
Other financial assets		79,889	6,832,567	5,125,854	12,038,310
	₩	<u>7,934,088</u>	<u>25,217,335</u>	<u>280,265,779</u>	<u>313,417,202</u>
Liabilities:					
Deposits	₩	2,922,841	105,939,876	140,470,437	249,333,154
Borrowings		5,958,846	566,718	21,071,277	27,596,841
Debt securities issued in won		-	33,622,407	17,655,286	51,277,693
Other financial liabilities		84,665	5,642,143	14,452,734	20,179,542
	₩	<u>8,966,352</u>	<u>145,771,144</u>	<u>193,649,734</u>	<u>348,387,230</u>

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4. Financial risk management (continued)**(g) Classification by categories of financial instruments**

Financial assets and liabilities are measured at fair value or amortized cost. The financial instruments measured at fair value or amortized costs are measured in accordance with the Group's valuation methodologies, which are described in Note 4.(f) Measurement of fair value.

The carrying amounts of each category of financial assets and financial liabilities as March 31, 2018 and December 31, 2017 are as follows:

	2018					Total
	FVTPL	FVTPL designated	FVOCI	Amortized cost	Derivatives held for hedging	
Assets:						
Cash and due from banks at amortized cost	₩ -	-	-	18,013,498	-	18,013,498
Due from banks at fair value through profit or loss	805,211	-	-	-	-	805,211
Securities at fair value through profit or loss	38,920,613	-	-	-	-	38,920,613
Loans at fair value through profit or loss	932,332	-	-	-	-	932,332
Financial asset designated at fair value through profit or loss	-	151,566	-	-	-	151,566
Derivatives	2,315,556	-	-	-	102,379	2,417,935
Securities at fair value through other comprehensive income	-	-	36,458,781	-	-	36,458,781
Securities at amortized cost	-	-	-	24,857,390	-	24,857,390
Loans at amortized cost	-	-	-	277,838,015	-	277,838,015
Other	-	-	-	19,749,066	-	19,749,066
	₩ <u>42,973,712</u>	<u>151,566</u>	<u>36,458,781</u>	<u>340,457,969</u>	<u>102,379</u>	<u>420,144,407</u>

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4. Financial risk management (continued)**(g) Classification by categories of financial instruments (continued)**

The carrying amounts of each category of financial assets and financial liabilities as March 31, 2018 and December 31, 2017 are as follows:

	2018				
	FVTPL	FVTPL liabilities designated	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:					
Deposits	₩ -	-	250,965,418	-	250,965,418
Financial liabilities at fair value through profit or loss	2,286,835	-	-	-	2,286,835
Financial liabilities designated at FVTPL	-	8,364,279	-	-	8,364,279
Derivatives	2,255,484	-	-	789,095	3,044,579
Borrowings	-	-	26,842,146	-	26,842,146
Debt securities issued	-	-	52,325,800	-	52,325,800
Other	-	-	25,453,027	-	25,453,027
	<u>₩ 4,542,319</u>	<u>8,364,279</u>	<u>355,586,391</u>	<u>789,095</u>	<u>369,282,084</u>

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

(g) **Classification by categories of financial instruments (continued)**

The carrying amounts of each category of financial assets and financial liabilities as March 31, 2018 and December 31, 2017 are as follows:

		2017						
		Trading assets	FVTPL assets	AFS	HTM	Loans and receivable	Derivatives held for hedging	Total
Assets:								
Cash and due from banks	₩	-	-	-	-	22,668,598	-	22,668,598
Trading assets		28,464,296	-	-	-	-	-	28,464,296
Financial assets designated at FVTPL		-	3,579,057	-	-	-	-	3,579,057
Derivatives		3,280,775	-	-	-	-	119,403	3,400,178
Loans		-	-	-	-	275,565,766	-	275,565,766
AFS financial assets		-	-	42,116,937	-	-	-	42,116,937
HTM financial assets		-	-	-	24,990,680	-	-	24,990,680
Other		-	-	-	-	12,041,304	-	12,041,304
	₩	<u>31,745,071</u>	<u>3,579,057</u>	<u>42,116,937</u>	<u>24,990,680</u>	<u>310,275,668</u>	<u>119,403</u>	<u>412,826,816</u>

		2017				
		Trading liabilities	FVTPL liabilities	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:						
Deposits	₩	-	-	249,419,224	-	249,419,224
Trading liabilities		1,848,490	-	-	-	1,848,490
Financial liabilities designated at FVTPL		-	8,297,609	-	-	8,297,609
Derivatives		2,804,834	-	-	682,827	3,487,661
Borrowings		-	-	27,586,610	-	27,586,610
Debt securities issued		-	-	51,340,821	-	51,340,821
Other		-	-	20,205,312	-	20,205,312
	₩	<u>4,653,324</u>	<u>8,297,609</u>	<u>348,551,967</u>	<u>682,827</u>	<u>362,185,727</u>

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5. Change in subsidiaries

(a) Change in consolidated subsidiaries for the year ended December 31, 2017 are as follows:

	<u>Company</u>	<u>Description</u>
Included(2017)	Shinhan REITs Management	Newly invested subsidiary

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

6. Operating segments

(a) Segment information

The general descriptions by operating segments as of March 31, 2018 are as follows:

<u>Segment</u>	<u>Description</u>
Banking	The banking segment offers commercial banking services such as lending to and receiving deposits from corporations and individuals and also includes securities investing and trading and derivatives trading primarily through domestic and overseas bank branches and subsidiaries.
Credit card	The credit card segment primarily consists of the credit card business of Shinhan Card, including its installment finance and automobile leasing businesses.
Securities	Securities segment comprise securities trading, underwriting and brokerage services.
Life insurance	Life insurance segment consists of life insurance services provided by Shinhan Life Insurance.
Others	Leasing, assets management and other businesses

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6. Operating segments (continued)

(b) The following tables provide information of income and expense for each operating segment for the three-month periods ended March 31, 2018 and 2017.

		2018						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩	1,364,193	383,364	103,668	187,309	19,151	612	2,058,297
Net fees and commission income		217,962	79,548	109,910	29,587	46,930	(316)	483,621
Allowance reversed (provided) for credit loss on financial assets		(88,660)	(90,844)	339	(1,579)	1,244	(27)	(179,527)
General and administrative expenses		(681,838)	(183,681)	(125,968)	(54,615)	(60,620)	19,701	(1,087,021)
Other income (expense), net		(25,414)	38,043	25,594	(119,524)	18,932	(37,162)	(99,531)
Operating income		786,243	226,430	113,543	41,178	25,637	(17,192)	1,175,839
Equity method income (loss)		(1,363)	-	8,151	(229)	833	6,182	13,574
Income tax expense		205,138	61,761	28,385	11,187	13,467	5,070	325,008
Profit (loss) for the period	₩	583,109	161,190	96,971	33,828	12,993	(19,055)	869,036
Controlling interest	₩	583,032	162,041	96,970	33,828	12,993	(31,315)	857,549
Non-controlling interests		77	(851)	1	-	-	12,260	11,487

		2017						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income (loss)	₩	1,196,883	370,601	114,608	175,367	10,615	1,137	1,869,211
Net fees and commission income		189,816	79,764	64,341	10,335	42,413	921	387,590
Impairment losses on financial assets		(70,652)	(11,294)	(480)	(324)	(6,316)	(80)	(89,146)
General and administrative expenses		(679,343)	(185,508)	(104,230)	(54,862)	(53,473)	12,613	(1,064,803)
Other income (expense), net		1,071	309,086	(18,470)	(87,647)	14,628	(23,260)	195,408
Operating income		637,775	562,649	55,769	42,869	7,867	(8,669)	1,298,260
Equity method income (loss)		(1,857)	-	2,321	(319)	193	(733)	(395)
Income tax expense (benefit)		131,358	133,599	15,185	8,696	7,641	1,982	298,461
Profit (loss) for the period	₩	516,564	427,745	45,956	30,770	1,341	(15,122)	1,007,254
Controlling interest	₩	516,541	428,149	45,952	30,770	1,343	(25,657)	997,098
Non-controlling interests		23	(404)	4	-	(2)	10,535	10,156

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6. Operating segments (continued)

(c) The following tables provide information of net interest income (expense) of each operating segment for the three-month periods ended March 31, 2018 and 2017.

		2018						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:								
External customers	₩	1,365,751	387,995	102,039	187,164	15,348	-	2,058,297
Internal transactions		(1,558)	(4,631)	1,629	145	3,803	612	-
	₩	<u>1,364,193</u>	<u>383,364</u>	<u>103,668</u>	<u>187,309</u>	<u>19,151</u>	<u>612</u>	<u>2,058,297</u>

		2017						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:								
External customers	₩	1,198,104	375,000	113,380	175,184	7,543	-	1,869,211
Internal transactions		(1,221)	(4,399)	1,228	183	3,072	1,137	-
	₩	<u>1,196,883</u>	<u>370,601</u>	<u>114,608</u>	<u>175,367</u>	<u>10,615</u>	<u>1,137</u>	<u>1,869,211</u>

(d) The following tables provide information of net fees and commission income (expense) of each operating segment for the three-month periods ended March 31, 2018 and 2017.

		2018						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	218,046	92,045	112,716	31,391	29,423	-	483,621
Internal transactions		(84)	(12,497)	(2,806)	(1,804)	17,507	(316)	-
	₩	<u>217,962</u>	<u>79,548</u>	<u>109,910</u>	<u>29,587</u>	<u>46,930</u>	<u>(316)</u>	<u>483,621</u>

		2017						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	195,000	84,846	66,440	12,066	29,238	-	387,590
Internal transactions		(5,184)	(5,082)	(2,099)	(1,731)	13,175	921	-
	₩	<u>189,816</u>	<u>79,764</u>	<u>64,341</u>	<u>10,335</u>	<u>42,413</u>	<u>921</u>	<u>387,590</u>

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7. Restricted due from banks at amortized cost

(a) Restricted due from banks at amortized cost as of March 31, 2018 are as follows:

	<u>2018</u>
Deposits denominated in won:	
Reserve deposits	₩ 3,407,977
Other	4,111,476
	<u>7,519,453</u>
Deposits denominated in foreign currency	1,656,640
	₩ <u>9,176,093</u>

8. Restricted due from banks

(a) Restricted due from banks as of December 31, 2017 are as follows:

	<u>2017</u>
Deposits denominated in won:	
Reserve deposits	₩ 8,689,515
Other	3,628,419
	<u>12,317,934</u>
Deposits denominated in foreign currency	1,117,597
	₩ <u>13,435,531</u>

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9. Financial assets at fair value through profit or loss

(a) Financial assets at fair value through profit or loss as of March 31, 2018 are as follows:

	<u>2018</u>
Debt instruments:	
Governments	₩ 3,226,443
Financial institutions	8,854,142
Corporations	5,729,949
Stocks with put option	278,135
Equity investment with put option	856,492
Beneficiary certificates	9,099,101
Commercial papers	4,195,649
CMA(*1)	3,102,674
Others	768,411
	<u>36,110,996</u>
Equity instruments:	1,481,670
Stocks	63,062
Equity investment	1,119,018
Others(*2)	2,663,750
	<u>38,774,746</u>
Other:	
Loans at fair value	932,332
Due from banks at fair value	805,211
Gold deposits	145,867
	<u>₩ 40,658,156</u>

(*1) CMA: Cash management account deposits

(*2) Restricted reserve for claims of customers' deposits (trusts) as of March 31, 2018 are ₩980,953 million.

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9. Financial assets at fair value through profit or loss (continued)

(b) Financial assets to which overlay approach were applied in accordance with K-IFRS No. 1109 'Financial Instruments' and K-IFRS No. 1104 'Insurance Contracts' as of March 31, 2018 are as follows.

		<u>2018</u>
Due from banks at fair value through profit or loss	₩	805,211
Securities at fair value through profit or loss		<u>2,963,405</u>
	₩	<u>3,768,616</u>

A financial asset is eligible for designation for the overlay approach, if it is measured at fair value through profit or loss applying K-IFRS 1109 but would not have been measured at fair value through profit or loss in its entirety applying K-IFRS 1039; and it is not held in respect of an activity that is unconnected with contracts within the scope of K-IFRS 1104.

The reclassified amounts between profit or loss and other comprehensive income due to the overlay approach are as follows:

	<u>Profit or loss</u>		<u>Other comprehensive income</u>		
	<u>By K-IFRS 1109</u>	<u>By K-IFRS 1039</u>	<u>Amount</u>	<u>Tax effect</u>	
Due from banks at fair value through profit or loss	₩	2,710	3,408	(697)	192
Securities at fair value through profit or loss		<u>(49,080)</u>	853	<u>(49,933)</u>	<u>13,731</u>
	₩	<u>(46,370)</u>	<u>4,261</u>	<u>(50,630)</u>	<u>13,923</u>

10. Trading assets

Trading assets as of December 31, 2017 are as follows:

		<u>2017</u>
Debt securities:		
Governments	₩	3,254,587
Financial institutions		8,014,128
Corporations		5,097,200
Commercial papers		3,625,436
CMA(*)		3,157,475
Others		<u>491,820</u>
		23,640,646
Equity securities:		
Stocks		738,666
Beneficiary certificates		3,728,027
Others		<u>167,660</u>
		4,634,353
Other		
Gold deposits		189,297
	₩	<u>28,464,296</u>

(*) CMA: Cash management account deposits

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11. Financial asset designated at fair value through profit or loss (K-IFRS 1109)

Financial asset designated at fair value through profit or loss as of March 31, 2018 are as follows:

	<u>2018</u>	<u>Reason for designation</u>
Debt instruments	₩ 79,763	Accounting mismatch
Equity instruments	71,803	Accounting mismatch
	<u>₩ 151,566</u>	

Maximum exposure of credit risk of financial asset designated at fair value through profit or loss ₩79,763 million as of March 31, 2018.

12. Financial asset designated at fair value through profit or loss (K-IFRS 1039)

Financial asset designated at fair value through profit or loss as of December 31, 2017 are as follows:

	<u>2017</u>	<u>Reason for designation</u>
Debt securities	₩ 2,110,809	Evaluation and management on a fair value basis, accounting mismatch
Equity securities(*)	1,234,356	Evaluation and management on a fair value basis, accounting mismatch
Others	233,892	Combined instrument
	<u>₩ 3,579,057</u>	

(*) Restricted reserve for claims of customers' deposits (trusts) as of December 31, 2017 are ₩958,236 million.

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13. Derivatives

(a) The notional amounts of derivatives as of March 31, 2018 and December 31, 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Foreign currency related:		
Over the counter:		
Currency forwards	₩ 108,085,256	100,806,648
Currency swaps	30,644,784	30,269,510
Currency options	949,349	1,178,047
	<u>139,679,389</u>	<u>132,254,205</u>
Exchange traded:		
Currency futures	822,926	1,179,986
	<u>140,502,315</u>	<u>133,434,191</u>
Interest rates related:		
Over the counter:		
Interest rate swaps	30,115,928	30,269,249
Interest rate options	390,000	310,000
	<u>30,505,928</u>	<u>30,579,249</u>
Exchange traded:		
Interest rate futures	1,900,789	1,545,905
Interest rate swaps(*)	59,158,044	53,625,962
	<u>61,058,833</u>	<u>55,171,867</u>
	<u>91,564,761</u>	<u>85,751,116</u>
Credit related:		
Over the counter:		
Credit swaps	2,614,111	2,443,609
Equity related:		
Over the counter:		
Equity swaps and forwards	4,234,031	4,223,096
Equity options	608,910	1,230,635
	<u>4,842,941</u>	<u>5,453,731</u>
Exchange traded:		
Equity futures	896,556	526,913
Equity options	4,295,256	3,238,049
	<u>5,191,812</u>	<u>3,764,962</u>
	<u>10,034,753</u>	<u>9,218,693</u>
Commodity related:		
Over the counter:		
Commodity swaps and forwards	911,578	931,644
Commodity options	4,880	4,880
	<u>916,458</u>	<u>936,524</u>
Exchange traded:		
Commodity futures	142,167	122,394
	<u>1,058,625</u>	<u>1,058,918</u>

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13. Derivatives (continued)

(a) The notional amounts of derivatives as of March 31, 2018 and December 31, 2017 are as follows
(continued) :

	<u>2018</u>	<u>2017</u>
Hedge:		
Currency forwards	₩ 1,291,437	1,227,354
Currency swaps	4,049,514	3,866,015
Interest rate swaps	8,638,776	8,088,422
	<u>13,979,727</u>	<u>13,181,791</u>
	₩ 259,754,292	245,088,318

(*) The notional amount of derivatives which is settled in the 'Central Counter Party (CCP)' system.

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13. Derivatives (continued)

(b) Fair values of derivative instruments as of March 31, 2018 and December 31, 2017 are as follows:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related:				
Over the counter:				
Currency forwards	₩ 1,092,547	999,560	1,895,225	1,636,715
Currency swaps	819,598	840,771	854,892	865,551
Currency options	8,391	10,831	12,023	12,070
	<u>1,920,536</u>	<u>1,851,162</u>	<u>2,762,140</u>	<u>2,514,336</u>
Exchange traded:				
Currency futures	989	1,223	415	553
	<u>1,921,525</u>	<u>1,852,385</u>	<u>2,762,555</u>	<u>2,514,889</u>
Interest rates related:				
Over the counter:				
Interest rate swaps	228,373	210,953	204,449	208,901
Interest rate options	-	4,406	-	1,893
	<u>228,373</u>	<u>215,359</u>	<u>204,449</u>	<u>210,794</u>
Exchange traded:				
Interest rate futures	1,320	2,167	1,771	544
	<u>229,693</u>	<u>217,526</u>	<u>206,220</u>	<u>211,338</u>
Credit related:				
Over the counter:				
Credit swaps	56,679	13,014	63,359	10,617
Equity related:				
Over the counter:				
Equity swap and forwards	57,223	53,996	112,282	13,502
Equity options	11,268	7,993	91,040	12,177
	<u>68,491</u>	<u>61,989</u>	<u>203,322</u>	<u>25,679</u>
Exchange traded:				
Equity futures	961	1,606	72	805
Equity options	29,369	66,510	23,562	18,521
	<u>30,330</u>	<u>68,116</u>	<u>23,634</u>	<u>19,326</u>
	<u>98,821</u>	<u>130,105</u>	<u>226,956</u>	<u>45,005</u>
Commodity related:				
Over the counter:				
Commodity swaps and forwards	8,171	41,024	15,576	22,593
Commodity options	55	59	72	77
	<u>8,226</u>	<u>41,083</u>	<u>15,648</u>	<u>22,670</u>
Exchange traded:				
Commodity futures	612	1,371	6,037	315
	<u>8,838</u>	<u>42,454</u>	<u>21,685</u>	<u>22,985</u>

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13. Derivatives (continued)

(b) Fair values of derivative instruments as of March 31, 2018 and December 31, 2017 are as follows
(continued) :

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Hedge:				
Currency forwards	₩ 31,015	7,018	50,492	1,567
Currency swaps	57,852	168,744	59,399	161,896
Interest rate swaps	13,512	613,333	9,512	519,364
	<u>102,379</u>	<u>789,095</u>	<u>119,403</u>	<u>682,827</u>
	₩ <u>2,417,935</u>	<u>3,044,579</u>	<u>3,400,178</u>	<u>3,487,661</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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13. Derivatives (continued)

(c) Gain or loss on valuation of derivatives for the three-month periods ended March 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Foreign currency related:		
Over the counter:		
Currency forwards	₩ 47,428	109,858
Currency swaps	(1,162)	(11,153)
Currency options	1,493	(12,019)
	<u>47,759</u>	<u>86,686</u>
Exchange traded:		
Currency futures	812	(180)
	<u>48,571</u>	<u>86,506</u>
Interest rates related:		
Over the counter:		
Interest rate swaps	22,719	64,932
Interest rate options	(912)	1,092
	<u>21,807</u>	<u>66,024</u>
Exchange traded:		
Interest rate futures	(1,492)	795
	<u>20,315</u>	<u>66,819</u>
Credit related:		
Over the counter:		
Credit swaps	(6,576)	7,384
Equity related:		
Over the counter:		
Equity swap and forwards	(56,707)	200,078
Equity options	650	10,736
	<u>(56,057)</u>	<u>210,814</u>
Exchange traded:		
Equity futures	(645)	117
Equity options	(5,874)	(1,899)
	<u>(6,519)</u>	<u>(1,782)</u>
	<u>(62,576)</u>	<u>209,032</u>
Commodity related:		
Over the counter:		
Commodity swaps and forwards	(37,455)	10,381
Commodity options	1	(11)
	<u>(37,454)</u>	<u>10,370</u>
Exchange traded:		
Commodity futures	(758)	3,445
Commodity options	-	(2)
	<u>(758)</u>	<u>3,443</u>
	<u>(38,212)</u>	<u>13,813</u>
Hedge	₩ (83,421)	(28,575)
	₩ (121,899)	354,979

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13. Derivatives (continued)

(d) Nominal values and average hedge ratio for derivatives as of March 31, 2018 are as follows:

	2018						Total
	Less than 1 year	1~2 years	2~3 years	3~4 years	4~5 years	More than 5 years	
Interest risk:							
Nominal values:	413,275	160,000	842,212	1,149,825	149,323	5,924,141	8,638,776
Average hedge ratio:	100%	100%	100%	100%	100%	100%	100%
Exchange risk:							
Nominal values:	2,758,298	597,040	1,248,918	690,063	6,721	39,911	5,340,951
Average hedge ratio:	100%	100%	100%	100%	100%	100%	100%

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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14. Securities at fair value through other comprehensive income and securities at amortized cost

(a) Securities at fair value through other comprehensive income and securities at amortized cost as of March 31, 2018 are as follows:

	<u>2018</u>
Securities at fair value through other comprehensive income	
Debt instruments:	
Governments	₩ 7,669,176
Financial institutions	17,741,355
Corporations and others	<u>10,434,864</u>
	35,845,395
Equity instruments(*):	
Stocks	608,299
Equity investments	<u>5,087</u>
	<u>613,386</u>
	<u>36,458,781</u>
Securities at amortized cost	
Debt instruments:	
Governments	15,628,432
Financial institutions	2,133,145
Corporations and others	<u>7,095,813</u>
	<u>24,857,390</u>
	₩ <u>61,316,171</u>

(*) The equity securities were designated as measured at fair value through other comprehensive income for the strategic purpose of holding the securities.

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14. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(b) Changes in carrying value of securities at fair value through other comprehensive income and securities at amortized cost for the three-month period ended March 31, 2018 are as follows:

	Securities at fair value through other comprehensive income			Securities at amortized cost		
	12 month expected credit loss	Life time expected credit loss	Total	12 month expected credit loss	Life time expected credit loss	Total
Beginning balance	₩ 36,641,928	15,879	36,657,807	24,403,423	21,444	24,424,867
Transfer to 12 month expected credit loss	-	-	-	-	-	-
Transfer to life time expected credit loss	-	-	-	-	-	-
Transfer to impaired financial asset	-	-	-	-	-	-
Acquisition	4,688,809	-	4,688,809	611,448	-	611,448
Disposal	(1,448,578)	(70)	(1,448,648)	-	-	-
Repayment	(4,037,404)	-	(4,037,404)	(201,682)	(118)	201,800
Others(* 1)	(15,169)	-	(15,169)	30,625	-	30,625
Ending balance	₩ 35,829,586	15,809	35,845,395	24,843,814	21,326	24,865,140

(*1) Included restructuring, debt equity swaps and foreign exchange movements.

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14. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(c) Changes in allowance for credit loss of securities at fair value through other comprehensive income and securities at amortized cost for the three-month period ended March 31, 2018 are as follows:

	Securities at fair value through other comprehensive income			Securities at amortized cost		
	12 month expected credit loss	Life time expected credit loss	Total	12 month expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩ 17,038	1,938	18,976	6,327	2,232	8,559
Transfer to 12 month expected credit loss	-	-	-	-	-	-
Transfer to life time expected credit loss	-	-	-	-	-	-
Transfer to impaired financial asset	-	-	-	-	-	-
Provided (reversed)	53	(1,381)	(1,328)	(1,222)	12	(1,210)
Disposal	(1,043)	-	(1,043)	-	-	-
Others(*1)	(207)	-	(207)	1	400	401
Ending balance	₩ 15,841	557	16,398	5,106	2,644	7,750

(*1) Included restructuring, debt equity swaps and foreign exchange movements.

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14. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(d) Gain or loss on disposal of securities at fair value through other comprehensive income and securities at amortized cost for the three-month period ended March 31, 2018 are as follows:

	<u>2018</u>
Other comprehensive income:	
Gain on disposal of securities at fair value	₩ 7,534
Loss on disposal of securities at fair value	(1,990)
Loss on disposal of securities at amortized cost(*)	(3)
	<u>₩ 5,541</u>

(*) The disposal of securities at amortized cost was due to the exercise of the redemption option of the issuer.

(e) Income or loss on equity securities at fair value through other comprehensive income.

As of March 31, 2018, the Company recognizes dividends amounting to ₩8,296 million related to equity securities at fair value through other comprehensive income.

In addition, the disposition of equity securities at fair value through other comprehensive income is as follows

	<u>2018</u>
Fair value at the date of disposal	₩ 728
Cumulative net profit at the time of disposal	(2,401)

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15. Available-for-sale financial assets and held-to-maturity financial assets

(a) Available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2017 are as follows:

	<u>2017</u>
Available-for-sale financial assets:	
Debt securities:	
Government bonds	₩ 7,570,104
Financial institution bonds	17,649,694
Corporate bonds and others	<u>11,966,754</u>
	37,186,552
Equity securities(*1):	
Stocks	1,026,666
Equity investments	749,818
Beneficiary certificates	3,126,851
Others	<u>27,050</u>
	<u>4,930,385</u>
	<u>42,116,937</u>
Held-to-maturity financial assets:	
Debt securities:	
Government bonds	15,164,133
Financial institutions bonds	2,708,148
Corporate bonds	<u>7,118,399</u>
	<u>24,990,680</u>
	₩ <u>67,107,617</u>

(*1) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost were ₩126,220 million as of December 31, 2017.

(b) Gain or loss on sale of available-for-sale financial assets for the three-month period ended March 31, 2017 are as follows:

	<u>2017</u>
Gain on sale of available-for-sale financial assets	₩ 66,760
Loss on sale of available-for-sale financial assets	<u>(13,037)</u>
	₩ <u>53,723</u>

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16. Loans at amortized cost

(a) Loans at amortized cost as of March 31, 2018 are as follows:

	2018
Household loans	₩ 113,235,022
Corporate loans	139,673,371
Public and other	2,341,381
Loans to banks	4,178,521
Card receivables	20,897,361
	<hr/> 280,325,656
Discount	(23,225)
Deferred loan origination costs or fees	439,648
	<hr/> 280,742,079
Allowance for credit losses	(2,904,064)
	<hr/> <hr/> ₩ 277,838,015

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16. Loans at amortized cost (continued)

(b) Changes in loans at amortized cost and other assets for the three month period ended March 31, 2018 are as follows:

	Loans at amortized cost			Other assets (*1)			Total
	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning allowance	₩ 244,810,048	30,042,783	2,273,198	31,463,279	593,046	22,659	309,205,013
Transfer to 12 month expected credit loss	3,198,873	(3,196,304)	(2,569)	5,448	(2,834)	(2,614)	-
Transfer to life time expected credit loss	(3,729,629)	3,740,879	(11,250)	(8,195)	5,549	2,646	-
Transfer to impaired financial asset	(77,544)	(272,326)	349,870	(608)	(5,680)	6,288	-
Origination	58,207,484	121,395	-	8,326,434	10,089	-	66,665,402
Collection	(45,763,502)	(4,965,660)	(535,143)	(4,246,821)	(256,426)	(6,980)	(55,774,532)
Charge off(*3)	(684)	(9,749)	(193,887)	-	-	(1,547)	(205,867)
Disposal	(103,000)	(870)	(72,832)	-	(495)	(13,082)	(190,279)
Others (*2)	(2,701,334)	(375,582)	9,414	(531,252)	(19,540)	663	(3,617,631)
Ending balance	₩ 253,840,712	25,084,566	1,816,801	35,008,285	323,709	8,033	316,082,106

(*1) Included allowance for due from banks and other assets

(*2) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate change, etc.

(*3) ₩ 9,228,013 million uncollected principal and interest on charge off loans. Collection is in process.

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16. Loans at amortized cost (continued)

(c) Changes in allowances for credit loss of loans at amortized cost and other assets for the three month period ended March 31, 2018 are as follows:

	Loans at amortized cost				Other assets (*1)				Total
	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	
Beginning allowance	₩ 730,554	1,088,256	1,053,176	39,014	7,757	20,109			2,938,866
Transfer to 12 month expected credit loss	57,791	(57,252)	(539)	93	(92)	(1)			-
Transfer to life time expected credit loss	(34,367)	37,453	(3,086)	(60)	64	(4)			-
Transfer to impaired financial asset	(2,240)	(68,012)	70,252	(5)	(174)	179			-
Provided (reversed)	(5,064)	92,952	96,984	(2,162)	1,014	6,577			190,301
Charge off	-	-	(193,403)	-	-	(4,589)			(197,992)
Discount	(327)	(418)	(4,267)	-	-	-			(5,012)
Disposal	-	(15)	(18,690)	-	(7)	(2,681)			(21,393)
Collection	-	62	74,128	-	-	255			74,445
Others (*2)	(12,144)	(27,956)	30,236	(1,401)	243	663			(10,359)
Ending balance	₩ 734,203	1,065,070	1,104,791	35,479	8,805	20,508			2,968,856

(*1) Included allowance for due from banks and other assets

(*2) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate change, etc.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(Unaudited)

(In millions of won)

17. Loans

(a) Loans as of December 31, 2017 are as follows:

	2017
Household loans	₩ 111,590,777
Corporate loans	139,989,642
Public and other	2,297,631
Loans to banks	2,969,784
Card receivables	20,640,857
	<u>277,488,691</u>
Discount	(44,936)
Deferred loan origination costs and fees	432,615
	<u>277,876,370</u>
Allowance for credit losses	<u>(2,310,604)</u>
	<u>₩ 275,565,766</u>

(b) Changes in the allowance for credit losses for the year ended December 31, 2017 are as follows:

	2017		
	<u>Loans</u>	<u>Other(*2)</u>	<u>Total</u>
Beginning balance	₩ 2,360,795	66,896	2,427,691
Provision for (reversal of) allowance	800,928	15,672	816,600
Write-offs	(973,943)	(20,063)	(994,006)
Effect of discounting(*1)	(23,316)	-	(23,316)
Disposal	(63,091)	16	(63,075)
Recoveries	311,042	1,591	312,633
Others(*3)	(101,811)	(379)	(102,190)
Ending balance	<u>₩ 2,310,604</u>	<u>63,733</u>	<u>2,374,337</u>

(*1) Interest income from impaired financial assets

(*2) Included allowance for due from banks and other assets

(*3) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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March 31, 2018

(Unaudited)

(In millions of won)

18. Investments in associates

(a) Investments in associates as of March 31, 2018 and December 31, 2017 are as follows:

Investees	Country	Reporting date	Ownership (%)	
			2018	2017
BNP Paribas Cardif Life Insurance(*1),(*3)	Korea	December 31	14.99	14.99
Daewontos Co., Ltd.(*4),(*9)	“	“	36.33	36.33
Neoplux Technology Valuation Investment Fund(*1)	“	“	33.33	33.33
JAEOUNG SOLUTEC CO., LTD.(*1),(*4),(*5)	“	“	7.61	9.61
Partners 4th Growth Investment Fund(*1)	“	“	25.00	25.00
JAERYANG INDUSTRY(*4),(*9)	“	March 31	25.90	25.90
Chungyoung INC(*1),(*4)	“	December 31	18.94	18.94
DAEKWANG SEMICONDUCTOR CO., LTD.(*1),(*4)	“	“	20.94	20.94
Shinhan-Albatross tech investment Fund	“	March 31	50.00	50.00
Asia Pacific No.39 Ship Investment Co., Ltd.	“	“	50.00	50.00
KCLAVIS Meister Fund No.17	“	“	26.09	26.09
SG No.9 Corporate Recovery Private Equity Fund	“	“	26.49	26.49
Plutus-SG Private Equity Fund(*1)	“	December 31	26.67	26.67
SG ARGES Private Equity Fund No.1	“	March 31	24.06	24.06
OST Progress- 2 Fund(*8)	“	-	-	27.62
Eum Private Equity Fund No.3	“	March 31	20.76	20.76
Richmond Private Yong in Retail Facility Real Estate Fund No.1	“	“	41.80	41.80
KTB Confidence Private Placement	“	“	30.29	30.29
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	“	“	23.86	23.89
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	“	“	20.16	20.16
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18(*8)	“	-	-	22.86
Platform Partners brick save Private Investment trust(*7)	“	March 31	98.77	98.77
Synergy-Shinhan Mezzanine New Technology Investment Fund	“	“	47.62	47.62
The Asia Pacific Capital Fund II L.P.	Cayman Islands	“	25.18	25.18
Shinhan Praxis K-Growth Global Private Equity Fund(*6)	Korea	“	18.87	18.87
Credian Healthcare Private Equity Fund II	“	“	34.07	34.07
Kiwoom Milestone Professional Private Real Estate Trust 19	“	“	50.00	50.00
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	“	“	21.28	21.28
Brain Professional Private Trust No.4	“	“	27.49	27.49
Brain KS Qualified Privately Placed Fund No.6	“	“	50.00	50.00
Hanhwa US Equity Strategy Private Real Estate Fund No.1	“	“	44.84	44.84
M360 CRE Income Fund(*7)	U.S.A	“	48.81	57.87

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(Unaudited)

(In millions of won)

18. Investments in associates (continued)

(a) Investments in associates as of March 31, 2018 and December 31, 2017 are as follows (continued):

Investees	Country	Reporting date	Ownership (%)	
			2018	2017
Shinhan Global Healthcare Fund 1(*6)	Korea	March 31	4.41	4.41
JB Power TL Investment Type Private Placement Special Asset Fund 7	“	“	33.33	33.33
IBK AONE convertible 1	“	“	47.25	47.25
Rico synergy collabo Multi-Mezzanine 3(*7)	“	“	50.00	50.00
KB NA Hickory Private Speical Asset Fund	“	“	37.50	37.50
GB Professional Private Investment Trust 6(*7)	“	“	94.51	94.51
Koramco Europe Core Private Placement Real Estate Fund No.2-2	“	“	25.84	48.49
SHBNPP Private Korea Equity Long-Short Professional Feeder(*10)	“	“	9.90	9.85
Shinhan-Stonebridge Petro PEF(*6)	“	“	1.82	1.82
BNP Paribas Cardif General Insurance(*1),(*2)	“	December 31	10.00	10.00
Axis Global Growth New Technology Investment Association	“	March 31	31.85	31.85
Polaris No7 Start up and Venture Private Equity Fund	“	“	28.57	28.57
Hermes Private Investment Equity Fund	“	“	29.17	29.17

(*1) Financial statements as of December 31, 2017 were used for the equity method since the financial statements as of March 31, 2018 were not available. Significant trades and events occurred within the period were properly reflected.

(*2) The Group applies the equity method accounting as the Group has significant influence on the financial and operating policies of the investee through the ability to elect investees' board members and representation in decision making bodies of the investee.

(*3) The Group has a significant influence on the investees through important business transactions.

(*4) In 2018, the shares of the investees were acquired by debt-equity swap. The Group reclassified available-for-sale financial assets to investments in associates as the reorganization procedures were completed and now the Group can normally exercise its voting rights to the investees.

(*5) Although the ownership interests in JAEYOUNG SOLUTEC CO., LTD. were less than 15%, the Group used the equity method as the investee should consult with the Group when the investee decided major management decision such as dividend, business planning or business transfer.

(*6) As a managing partner, the Group has a significant influence over the investees.

(*7) As a limited partner, the Group does not have an ability to participate in policy-making processes to obtain economic benefit from the investees that would allow the Group to control the entity.

(*8) The associates were disposed or reclassified.

(*9) The latest financial statements were used for the equity method since the financial statements as of March 31, 2018 were not available. Significant trades and events occurred within the period were properly reflected.

(*10) Although the ownership interests in SHBNPP Private Korea Equity Long-Short Professional Feeder were less than 20%, the Group has significant influence on the entity as the investment manager.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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March 31, 2018

(Unaudited)

(In millions of won)

18. Investments in associates (continued)

(b) Changes in investments in associates for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 were as follows:

Investees	2018					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance	₩ 52,616	(2,043)	375	(2,223)	-	48,725
Daewontos Co., Ltd.(*2)	-	-	-	-	-	-
Neoplux Technology Valuation Investment Fund	13,470	2,000	27	(491)	-	15,006
JAEYOUNG SOLUTECH CO., LTD.(*1)	3,849	(774)	(836)	172	-	2,411
Partners 4th Growth Investment Fund	13,390	1,240	(75)	-	-	14,555
JAERYANG INDUSTRY(*2)	-	-	-	-	-	-
Chungyoung INC(*2)	-	-	-	-	-	-
DAEKWANG SEMICONDUCTOR CO., LTD.	3,824	-	(493)	-	-	3,331
Shinhan-Albatross tech investment Fund	2,672	3,000	(48)	-	-	5,624
Asia Pacific No.39 Ship Investment Co., Ltd.	4,682	(196)	68	7	-	4,561
KCLAVIS Meister Fund No.17	3,039	-	(14)	-	-	3,025
SG No.9 Corporate Recovery Private Equity Fund	3,963	(18)	8	-	-	3,953
Plutus-SG Private Equity Fund	4,251	(66)	-	-	-	4,185
SG ARGES Private Equity Fund No.1	6,422	(2,205)	154	-	-	4,371
OST Progress- 2 Fund	4,895	(4,895)	-	-	-	-
Eum Private Equity Fund No.3	4,925	(10)	(17)	-	-	4,898
Richmond Private Yong in Retail Facility Real Estate Fund No.1	8,101	(196)	201	-	-	8,106
KTB Confidence Private Placement	6,403	-	101	(1,099)	-	5,405
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	6,757	(383)	223	(466)	-	6,131
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	8,387	(82)	253	(185)	-	8,373
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	6,012	(6,035)	23	-	-	-
Platform Partners brick save Private Investment trust	8,069	(124)	120	-	-	8,065
Synergy-Shinhan Mezzanine New Technology Investment Fund	4,999	-	(8)	-	-	4,991
The Asia Pacific Capital Fund II L.P.	7,307	-	(326)	(32)	-	6,949
Shinhan Praxis K-Growth Global Private Equity Fund	18,954	-	3,729	-	-	22,683
Credian Healthcare Private Equity Fund II	3,813	-	1	-	-	3,814
Kiwoom Milestone Professional Private Real Estate Trust 19	10,408	(83)	98	-	-	10,423

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18. Investments in associates (continued)

(b) Changes in investments in associates for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 were as follows (continued):

Investees	2018					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	₩ 20,460	-	103	-	-	20,563
Brain Professional Private Trust No.4	5,847	-	259	-	-	6,106
Brain KS Qualified Privately Placed Fund No.6	4,805	-	351	148	-	5,304
Hanhwa US Equity Strategy Private Real Estate Fund No.1	25,479	(1,000)	996	-	-	25,475
M360 CRE Income Fund	153,905	-	2,975	(720)	-	156,160
Shinhan Global Healthcare Fund 1	3,407	-	(14)	-	-	3,393
JB Power TL Investment Type Private Placement Special Asset Fund 7	18,690	(1,499)	253	-	-	17,444
IBK AONE convertible 1	5,122	-	375	-	-	5,497
Rico synergy collabo Multi-Mezzanine 3	5,026	-	10	-	-	5,036
KB NA Hickory Private Speical Asset Fund	34,091	(411)	857	-	-	34,537
GB PROFESSIONAL PRIVATE INVESTMENT TRUST 6	8,600	-	(3)	-	-	8,597
Koramco Europe Core Private Real Estate Trust No.2-2	20,760	(9,593)	248	-	-	11,415
SHBNPP Private Korea Equity Long-Short Professional Feeder	4,861	(588)	141	-	-	4,414
Shinhan-Stonebridge Petro PEF	19,201	-	(15)	-	-	19,186
BNP Paribas Cardif General Insurance	4,429	-	(229)	(1)	-	4,199
Axis Global Growth New Technology Investment Association	4,953	-	(20)	-	-	4,933
Polaris No.7 Entrepreneur Private Equity Fund	4,359	-	15	-	-	4,374
Hermes Private Investment Equity Fund	17,497	-	3,767	-	-	21,264
Others	58,594	5,670	(59)	3	-	64,208
	₩ 631,294	(18,291)	13,574	(4,887)	-	621,690

(*1) The market value of the investment is ₩9,523 million as of March 31, 2018 based on the quoted market price.

(*2) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2018

(Unaudited)

(In millions of won)

18. Investments in associates (continued)

(b) Changes in investments in associates for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 were as follows (continued):

Investees	2017					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance ₩	60,213	(255)	3,682	(11,024)	-	52,616
Aju Capital Co., Ltd.	40,836	(42,022)	438	748	-	-
Daewontos Co., Ltd.(*2)	-	-	-	-	-	-
Neoplux Technology Valuation Investment Fund	7,526	3,890	1,564	490	-	13,470
JAEOUNG SOLUTEC CO., LTD.(*1)	5,736	-	(2,009)	122	-	3,849
Partners 4th Growth Investment Fund	4,555	9,220	(385)	-	-	13,390
JAERYANG INDUSTRY(*2)	-	-	-	-	-	-
Chungyoung INC(*2)	-	-	-	-	-	-
DAEKWANG SEMICONDUCTOR CO., LTD.	4,776	-	(952)	-	-	3,824
Dream High Fund III	3,144	-	(109)	(830)	-	2,205
Asia Pacific No.39 Ship Investment Co., Ltd.	5,176	(802)	300	8	-	4,682
KCLAVIS Meister Fund No.17	2,989	-	50	-	-	3,039
SG No.9 Corporate Recovery Private Equity Fund	3,982	(192)	173	-	-	3,963
Plutus-SG Private Equity Fund	4,299	(132)	84	-	-	4,251
SG ARGES Private Equity Fund No.1	8,976	(2,754)	200	-	-	6,422
OST Progress- 2 Fund	1,460	3,500	(65)	-	-	4,895
Eum Private Equity Fund No.3	5,933	(1,362)	354	-	-	4,925
Richmond Private Yong in Retail Facility Real Estate Fund No.1	-	7,223	878	-	-	8,101
KTB Confidence Private Placement	-	4,927	377	1,099	-	6,403
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	-	6,504	457	(204)	-	6,757
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	-	8,012	628	(253)	-	8,387
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	-	5,867	145	-	-	6,012
Platform Partners brick save Private Investment trust	-	7,877	192	-	-	8,069
Synergy-Shinhan Mezzanine New Technology Investment Fund	-	5,000	(1)	-	-	4,999
The Asia Pacific Capital Fund II L.P.	11,579	454	(901)	(3,825)	-	7,307
Shinhan Praxis K-Growth Global Private Equity Fund	13,533	6,415	(1,590)	596	-	18,954
Credian Healthcare Private Equity Fund II	4,087	-	7	(281)	-	3,813
Kiwoom Milestone Professional Private Real Estate Trust 19	10,761	(222)	(131)	-	-	10,408

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(In millions of won)

18. Investments in associates (continued)

(b) Changes in investments in associates for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 were as follows (continued):

Investees	2017					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	₩ 21,237	(841)	641	(577)	-	20,460
Brain Professional Private Trust No.4	5,316	-	529	2	-	5,847
Hanhwa US Equity Strategy Private Real Estate Fund No.1	25,764	(1,859)	1,591	(17)	-	25,479
Brain KS Qualified Privately Placed Fund No.6	4,896	-	(78)	(13)	-	4,805
M360 CRE Income Fund	23,167	132,768	9,270	(11,300)	-	153,905
Shinhan Global Healthcare Fund 1	-	3,440	(33)	-	-	3,407
JB Power TL Investment Type Private Placement Special Asset Fund 7	-	18,268	422	-	-	18,690
IBK AONE convertible 1	-	5,000	122	-	-	5,122
Rico synergy collabo Multi-Mezzanine 3	-	5,001	25	-	-	5,026
KB NA Hickory Private Speical Asset Fund	-	33,362	729	-	-	34,091
GB PROFESSIONAL PRIVATE INVESTMENT TRUST 6	-	8,600	-	-	-	8,600
Koramco Europe Core Private Real Estate Trust No.2-2	-	21,408	(648)	-	-	20,760
SHBNPP Private Korea Equity Long-Short Professional Feeder	14,180	(9,972)	653	-	-	4,861
SHBNPP Private Multi Strategy Professional Feeder No.1	5,014	(5,049)	35	-	-	-
Shinhan-Stonebridge Petro PEF	18,487	-	714	-	-	19,201
BNP Paribas Cardif General Insurance	2,584	2,750	(910)	5	-	4,429
Axis Global Growth New Technology Investment Association	-	5,000	(47)	-	-	4,953
Polaris No.7 Entrepreneur Private Equity Fund	-	4,400	(41)	-	-	4,359
Hermes Private Investment Equity Fund	-	17,500	(3)	-	-	17,497
Others	33,394	21,820	4,036	(45)	(144)	59,061
	₩ 353,600	282,744	20,393	(25,299)	(144)	631,294

(*1) The market value of the investment is ₩6,826 million as of December 31, 2017 based on the quoted market price.

(*2) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(Unaudited)

(In millions of won)

18. Investments in associates (continued)

(c) Condensed statement of financial information as of and for the three-month period ended March 31, 2018 and as of and for the year ended December 31, 2017 were as follows:

Investees	2018					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BNP Paribas Cardif Life Insurance ₩	4,085,496	3,759,553	17,327	2,393	(14,825)	(12,432)
Daewontos Co., Ltd.	400	2,492	-	-	-	-
Neoplux Technology Valuation Investment Fund	45,300	283	359	81	(1,473)	(1,392)
JAEOUNG SOLUTEC CO., LTD. Partners 4th Growth Investment Fund	145,860	136,213	31,184	(10,987)	2,591	(8,396)
JAERYANG INDUSTRY	58,570	350	68	(300)	-	(300)
Chungyoung INC	2,146	4,717	-	-	-	-
DAEKWANG SEMICONDUCTOR CO., LTD.	1,304	6,605	4,173	(196)	-	(196)
Shinhan-Albatross tech investment Fund	25,607	9,699	8,435	(2,355)	-	(2,355)
Asia Pacific No.39 Ship Investment Co., Ltd.	11,361	182	17	(166)	-	(166)
KCLAVIS Meister Fund No.17 SG No.9 Corporate Recovery Private Equity Fund	9,168	47	154	136	-	136
Plutus-SG Private Equity Fund	11,695	99	1	(55)	-	(55)
SG ARGES Private Equity Fund No.1	15,036	114	-	32	-	32
Eum Private Equity Fund No.3 Richmond Private Yong in Retail Facility Real Estate Fund No.1	15,761	69	-	-	-	-
KTB Confidence Private Placement Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	18,230	65	-	640	-	640
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	23,663	72	37	(87)	-	(87)
Platform Partners brick save Private Investment trust	48,012	28,619	605	480	-	480
Synergy-Shinhan Mezzanine New Technology Investment Fund	38,914	21,068	1,344	334	-	334
The Asia Pacific Capital Fund II L.P.	25,701	1	1,588	937	-	937
Shinhan Praxis K-Growth Global Private Equity Fund	41,529	2	1,265	1,255	-	1,255
	8,432	267	336	121	-	121
	10,500	19	(17)	(17)	-	(17)
	27,684	87	-	(1,292)	-	(1,292)
	120,557	340	20,514	19,765	-	19,765

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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18. Investments in associates (continued)

(c) Condensed statement of financial information as of and for the three-month period ended March 31, 2018 and as of and for the year ended December 31, 2017 were as follows (continued):

Investees	2018					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Credian Healthcare Private Equity Fund II	₩ 11,242	50	53	3	-	3
Kiwoom Milestone Professional Private Real Estate Trust 19	57,474	36,629	862	196	-	196
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	99,224	2,602	3,446	485	-	485
Brain Professional Private Trust No.4	22,712	508	1,641	940	-	940
Brain KS Qualified Privately Placed Fund No.6	10,617	1	1,252	1,005	-	1,005
Hanhwa US Equity Strategy Private Real Estate Fund No.1	56,849	38	2,647	2,221	-	2,221
M360 CRE Income Fund	337,967	18,036	6,433	6,168	-	6,168
Shinhan Global Healthcare Fund 1	76,865	-	2	(301)	-	(301)
JB Power TL Investment Type Private Placement Special Asset Fund 7	52,413	78	8,464	760	-	760
IBK AONE convertible 1	11,634	-	816	794	-	794
Rico synergy collabo Multi-Mezzanine 3	10,075	3	76	21	-	21
KB NA Hickory Private Special Asset Fund	92,164	65	2,363	2,284	-	2,284
GB PROFESSIONAL PRIVATE INVESTMENT TRUST 6	9,101	4	-	(3)	-	(3)
Koramco Europe Core Private Placement Real Estate Fund No.2-2	44,193	23	2,342	1,359	-	1,359
SHBNPP Private Korea Equity Long-Short Professional Feeder	51,355	7,028	5,932	203	-	203
Shinhan-Stonebridge Petro PEF	1,056,399	3,554	-	(816)	-	(816)
BNP Paribas Cardif General Insurance	57,683	15,682	3,020	(2,285)	(8)	(2,293)
Axis Global Growth New Technology Investment Association	15,489	-	-	(64)	-	(64)
Polaris No7 Start up and Venture Private Equity Fund	15,312	-	-	54	-	54
Hermes Private Investment Equity Fund	72,914	10	13,668	12,914	-	12,914
	₩ 6,952,608	4,055,274	140,407	36,657	(13,715)	22,942

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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18. Investments in associates (continued)

(c) Condensed statement of financial information as of and for the three-month period ended March 31, 2018 and as of and for the year ended December 31, 2017 were as follows (continued):

Investees		2017					Other comprehensive income (loss)	Total comprehensive income (loss)
		Asset	Liability	Operating revenue	Net profit (loss)			
BNP Paribas Cardif Life Insurance	₩	4,133,674	3,781,688	78,010	24,230	(73,495)	(49,265)	
Daewontos Co., Ltd.		400	2,492	-	-	-	-	
Neoplux Technology Valuation Investment Fund		40,692	283	5,895	4,691	1,471	6,162	
JAHEYOUNG SOLUTEC CO., LTD.		157,009	137,916	142,228	(22,756)	2,764	(19,992)	
Partners 4th Growth Investment Fund		53,944	383	137	(1,540)	-	(1,540)	
JAHEYANG INDUSTRY		2,146	4,717	-	-	-	-	
Chungyoung INC		3,292	8,392	5,568	(693)	-	(693)	
DAEKWANG SEMICONDUCTOR CO., LTD.		29,069	10,806	13,929	(4,549)	-	(4,549)	
Dream High Fund III		4,076	34	27	(200)	(1,522)	(1,722)	
Asia Pacific No.39 Ship Investment Co., Ltd.		9,389	27	666	616	32	648	
KCLAVIS Meister Fund No.17		11,694	42	425	194	-	194	
SG No.9 Corporate Recovery Private Equity Fund		15,035	76	(157)	652	-	652	
Plutus-SG Private Equity Fund		16,009	69	317	316	-	316	
SG ARGES Private Equity Fund No.1		26,758	69	(351)	832	-	832	
OST Progress- 2 Fund		17,829	107	(234)	(234)	-	(234)	
Eum Private Equity Fund No.3		23,725	5	1,614	1,649	-	1,649	
Richmond Private Yong in Retail Facility Real Estate Fund No.1		48,006	28,624	2,265	2,100	-	2,100	
KTB Confidence Private Placement		42,230	21,090	1,604	1,242	3,629	4,871	
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund		28,286	1	1,914	1,913	(856)	1,057	
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund		41,599	1	3,117	3,116	(1,257)	1,859	
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18		26,316	14	648	634	-	634	
Platform Partners brick save Private Investment trust		8,441	271	207	194	-	194	
Synergy-Shinhan Mezzanine New Technology Investment Fund		10,500	3	-	(3)	-	(3)	
The Asia Pacific Capital Fund II L.P.		29,103	88	-	(3,582)	(10,269)	(13,851)	
Shinhan Praxis K-Growth Global Private Equity Fund		100,805	353	7,273	(8,428)	3,156	(5,272)	
Credian Healthcare Private Equity Fund II		11,236	47	211	19	(823)	(804)	
Kiwoom Milestone Professional Private Real Estate Trust 19		57,405	36,589	2,742	(262)	-	(262)	
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3		97,203	1,066	5,851	3,012	(2,713)	299	
Brain Professional Private Trust No.4		21,369	105	2,942	1,925	-	1,925	
Hanhwa US Equity Strategy Private Real Estate Fund No.1		56,898	78	11,562	3,549	(37)	3,512	
Brain KS Qualified Privately Placed Fund No.6		9,639	28	3	(110)	(72)	(182)	
M360 CRE Income Fund		265,945	-	7	14,179	-	14,179	
Shinhan Global Healthcare Fund 1		77,166	-	3	(757)	-	(757)	
JB Power TL Investment Type Private Placement Special Asset Fund 7		56,125	53	7,115	1,267	-	1,267	
IBK AONE convertible 1		10,840	-	279	258	-	258	
Rico synergy collabo Multi-Mezzanine 3		10,054	3	371	50	-	50	

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18. Investments in associates (continued)

(c) Condensed statement of financial information as of and for the three-month period ended March 31, 2018 and as of and for the year ended December 31, 2017 were as follows (continued):

Investees	2017					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
KB NA Hickory Private Special Asset Fund	₩ 90,978	67	11,092	1,945	-	1,945
GB PROFESSIONAL PRIVATE INVESTMENT TRUST 6	9,101	1	1	-	-	-
Koramco Europe Core Private Placement Real Estate Fund No.2-2	44,886	2,074	2,503	(1,337)	-	(1,337)
SHBNPP Private Korea Equity Long-Short Professional Feeder	54,029	4,733	28,956	9,356	-	9,356
Shinhan-Stonebridge Petro PEF	1,056,401	2,740	39,170	39,170	-	39,170
BNP Paribas Cardif General Insurance	59,699	15,405	10,093	(9,294)	94	(9,200)
Axis Global Growth New Technology Investment Association	15,553	-	(147)	(147)	-	(147)
Polaris No7 Start up and Venture Private Equity Fund	15,280	22	(142)	(142)	-	(142)
Hermes Private Investment Equity Fund	60,000	10	(10)	(10)	-	(10)
	₩ <u>6,959,834</u>	<u>4,060,572</u>	<u>387,704</u>	<u>63,065</u>	<u>(79,898)</u>	<u>(16,833)</u>

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18. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of March 31, 2018 and December 31, 2017 are as follows:

Investees	2018						Carrying Value
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other		
BNP Paribas Cardif Life Insurance	₩ 325,943	14.99	48,858	(133)	-	48,725	
Daewontos Co., Ltd(*1)	(2,092)	36.33	(760)	-	760	-	
Neoplux Technology Valuation Investment Fund	45,017	33.33	15,006	-	-	15,006	
JAEYOUNG SOLUTECH CO., LTD (*2)	9,087	7.61	693	-	1,718	2,411	
Partners 4th Growth Investment Fund	58,220	25.00	14,555	-	-	14,555	
JAEYANG INDUSTRY(*3)	(2,571)	25.90	(666)	-	666	-	
Chungyoung INC(*3)	(5,301)	18.94	(1,004)	-	1,004	-	
DAEKWANG SEMICONDUCTOR CO., LTD.	15,908	20.94	3,331	-	-	3,331	
Shinhan-Albatross tech investment Fund	11,179	50.00	5,624	-	-	5,624	
Asia Pacific No.39 Ship Investment Co., Ltd.	9,121	50.00	4,561	-	-	4,561	
KCLAVIS Meister Fund No.17	11,596	26.09	3,025	-	-	3,025	
SG No.9 Corporate Recovery Private Equity Fund	14,922	26.49	3,953	-	-	3,953	
Plutus-SG Private Equity Fund	15,692	26.67	4,185	-	-	4,185	
SG ARGES Private Equity Fund No.1	18,165	24.06	4,371	-	-	4,371	
Eum Private Equity Fund No.3	23,591	20.76	4,898	-	-	4,898	
Richmond Private Yong in Retail Facility Real Estate Fund No.1	19,393	41.80	8,106	-	-	8,106	
KTB Confidence Private Placement	17,846	30.29	5,405	-	-	5,405	
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	25,700	23.86	6,131	-	-	6,131	
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	41,527	20.16	8,373	-	-	8,373	
Platform Partners brick save Private Investment trust	8,165	98.77	8,065	-	-	8,065	
Synergy-Shinhan Mezzanine New Technology Investment Fund	10,481	47.62	4,991	-	-	4,991	
The Asia Pacific Capital Fund II L.P.	27,597	25.18	6,949	-	-	6,949	
Shinhan Praxis K-Growth Global Private Equity Fund	120,217	18.87	22,683	-	-	22,683	
Credian Healthcare Private Equity Fund II	11,192	34.07	3,814	-	-	3,814	
Kiwoom Milestone Professional Private Real Estate Trust 19	20,845	50.00	10,423	-	-	10,423	
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	96,622	21.28	20,563	-	-	20,563	
Brain Professional Private Trust No.4	22,204	27.49	6,106	-	-	6,106	

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18. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of March 31, 2018 and December 31, 2017 are as follows (continued):

Investees	2018					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Brain KS Qualified Privately Placed Fund No.6	₩ 10,616	50.00	5,304	-	-	5,304
Hanhwa US Equity Strategy Private Real Estate Fund No.1	56,811	44.84	25,475	-	-	25,475
M360 CRE Income Fund	319,931	48.81	156,160	-	-	156,160
Shinhan Global Healthcare Fund 1	76,865	4.41	3,393	-	-	3,393
JB Power TL Investment Type Private Placement Special Asset Fund 7	52,335	33.33	17,444	-	-	17,444
IBK AONE convertible 1	11,634	47.25	5,497	-	-	5,497
Rico synergy collabo Multi- Mezzanine 3	10,072	50.00	5,036	-	-	5,036
KB NA Hickory Private Speical Asset Fund	92,099	37.50	34,537	-	-	34,537
GB Professional Private Investment Trust 6	9,097	94.51	8,597	-	-	8,597
Koramco Europe Core Private Placement Real Estate Fund No.2-2	44,170	25.84	11,415	-	-	11,415
SHBNPP Private Korea Equity Long- Short Professional Feeder	44,327	9.90	4,414	-	-	4,414
Shinhan-Stonebridge Petro PEF	1,052,845	1.82	19,186	-	-	19,186
BNP Paribas Cardif General Insurance	42,001	10.00	4,199	-	-	4,199
Axis Global Growth New Technology Investment Association	15,489	31.85	4,933	-	-	4,933
Polaris No7 Start up and Venture Private Equity Fund	15,312	28.57	4,374	-	-	4,374
Hermes Private Investment Equity Fund	72,904	29.17	21,264	-	-	21,264
	₩ 2,896,774		553,467	(133)	4,148	557,482

(*1) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.

(*2) Net assets do not include non-controlling interests and other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

(*3) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero and the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

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18. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of March 31, 2018 and December 31, 2017 are as follows (continued):

Investees	2017						Carrying Value
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other		
BNP Paribas Cardif Life Insurance	₩ 351,986	14.99	52,763	(147)	-	52,616	
Daewontos Co., Ltd(*1)	(2,092)	36.33	(760)	-	760	-	
Neoplux Technology Valuation Investment Fund	40,409	33.33	13,470	-	-	13,470	
JAEOUNG SOLUTEC CO., LTD(*2)	17,484	9.61	1,680	-	2,169	3,849	
Partners 4th Growth Investment Fund	53,561	25.00	13,390	-	-	13,390	
JAERYANG INDUSTRY(*3)	(2,571)	25.90	(666)	-	666	-	
Chungyoung INC(*3)	(5,100)	18.94	(966)	-	966	-	
DAEKWANG SEMICONDUCTOR CO., LTD.	18,263	20.94	3,824	-	-	3,824	
Dream High Fund III	4,042	54.55	2,205	-	-	2,205	
Asia Pacific No.39 Ship Investment Co., Ltd.	9,362	50.00	4,682	-	-	4,682	
KCLAVIS Meister Fund No.17	11,652	26.09	3,039	-	-	3,039	
SG No.9 Corporate Recovery Private Equity Fund	14,959	26.49	3,963	-	-	3,963	
Plutus-SG Private Equity Fund	15,940	26.67	4,251	-	-	4,251	
SG ARGES Private Equity Fund No.1	26,689	24.06	6,422	-	-	6,422	
OST Progress- 2 Fund	17,722	27.62	4,895	-	-	4,895	
Eum Private Equity Fund No.3	23,720	20.76	4,925	-	-	4,925	
Richmond Private Yong in Retail Facility Real Estate Fund No.1	19,382	41.80	8,101	-	-	8,101	
KTB Confidence Private Placement	21,140	30.29	6,403	-	-	6,403	
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	28,285	23.89	6,757	-	-	6,757	
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	41,598	20.16	8,387	-	-	8,387	
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	26,302	22.86	6,012	-	-	6,012	
Platform Partners brick save Private Investment trust	8,170	98.77	8,069	-	-	8,069	
Synergy-Shinhan Mezzanine New Technology Investment Fund	10,497	47.62	4,999	-	-	4,999	
The Asia Pacific Capital Fund II L.P.	29,015	25.18	7,307	-	-	7,307	
Shinhan Praxis K-Growth Global Private Equity Fund	100,452	18.87	18,954	-	-	18,954	
Credian Healthcare Private Equity Fund II	11,189	34.07	3,813	-	-	3,813	
Kiwoom Milestone Professional Private Real Estate Trust 19	20,816	50.00	10,408	-	-	10,408	
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	96,137	21.28	20,460	-	-	20,460	
Brain Professional Private Trust No.4	21,264	27.49	5,847	-	-	5,847	

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18. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of March 31, 2018 and December 31, 2017 are as follows (continued):

Investees	2017					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Hanhwa US Equity Strategy Private Real Estate Fund No.1	₩ 56,820	44.84	25,479	-	-	25,479
Brain KS Qualified Privately Placed Fund No.6	9,611	50.00	4,805	-	-	4,805
M360 CRE Income Fund	265,945	57.87	153,905	-	-	153,905
Shinhan Global Healthcare Fund 1	77,166	4.41	3,407	-	-	3,407
JB Power TL Investment Type Private Placement Special Asset Fund 7	56,072	33.33	18,690	-	-	18,690
IBK AONE convertible 1	10,840	47.25	5,122	-	-	5,122
Rico synergy collabo Multi- Mezzanine 3	10,051	50.00	5,026	-	-	5,026
KB NA Hickory Private Speical Asset Fund	90,911	37.50	34,091	-	-	34,091
GB Professional Private Investment Trust 6	9,100	94.51	8,600	-	-	8,600
Koramco Europe Core Private Placement Real Estate Fund No.2-2	42,812	48.49	20,760	-	-	20,760
SHBNPP Private Korea Equity Long- Short Professional Feeder	49,296	9.85	4,861	-	-	4,861
Shinhan-Stonebridge Petro PEF	1,053,661	1.82	19,201	-	-	19,201
BNP Paribas Cardif General Insurance	44,294	10.00	4,429	-	-	4,429
Axis Global Growth New Technology Investment Association	15,553	31.85	4,953	-	-	4,953
Polaris No7 Start up and Venture Private Equity Fund	15,258	28.57	4,359	-	-	4,359
Hermes Private Investment Equity Fund	59,990	29.17	17,497	-	-	17,497
Others	218,647	-	58,362	-	699	59,061
	₩ 3,116,300		626,181	(147)	5,260	631,294

(*1) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.

(*2) Net assets do not include non-controlling interests and other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

(*3) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero and the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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18. Investments in associates (continued)

(e) The unrecognized equity method losses as of and for the three-month period ended March 31, 2018 and as of and for the year ended December 31, 2017 are as follows:

Investees	2018	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Daewontos Co., Ltd.	₩ -	(760)
JAERYANG INDUSTRY	-	(18)
Chungyoung INC	(37)	(167)
	₩ (37)	(945)

Investees	2017	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Daewontos Co., Ltd.	₩ -	(760)
JAERYANG INDUSTRY	-	(18)
Chungyoung INC	(130)	(130)
	₩ (130)	(908)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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19. Financial liabilities at fair value through profit or loss

Trading liabilities as of March 31, 2018 are as follows:

		<u>2018</u>
Securities sold:		
Stocks	₩	818,300
Government bonds		981,914
Others		<u>60,486</u>
		1,860,700
Gold deposits		<u>426,135</u>
	₩	<u>2,286,835</u>

20. Trading liabilities

Trading liabilities as of December 31, 2017 are as follows:

		<u>2017</u>
Securities sold:		
Stocks	₩	495,019
Government bonds		871,884
Others		<u>47,001</u>
		1,413,904
Gold deposits		<u>434,586</u>
	₩	<u>1,848,490</u>

21. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of March 31, 2018 are as follows:

	<u>Book value(a)</u>	<u>Reason for designation</u>
Equity-linked securities sold	₩ 6,108,813	Combined instrument
Securities sold with embedded derivatives	<u>2,255,466</u>	Combined instrument
	₩ <u>8,364,279</u>	

(*) The Group designated those financial liabilities as measured at fair value at acquisition date or subsequently in accordance with K-IFRS 1109 par.6.7.1

Maximum exposure of credit risk of financial liabilities designated at fair value through profit or loss ₩8,364,278 million as of March 31, 2018. Changes in values of financial liabilities designated at fair value through profit or loss from such risk are ₩34 million for the three-month period ended March 31, 2018 and accumulated changes are ₩2,175 million as of March 31, 2018.

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22. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2017 are as follows:

	<u>2017</u>	<u>Reason for designation</u>
Equity-linked securities sold	₩ 5,865,990	Combined instrument
Securities sold with embedded derivatives	2,394,646	Combined instrument
Securities sold	36,973	Evaluation and management on a fair value basis
	<u>₩ 8,297,609</u>	

23. Debt securities issued

Debt securities issued as of March 31, 2018 and December 31, 2017 are as follows:

	<u>2018</u>	
	<u>Interest rate (%)</u>	<u>Amount</u>
Debt securities issued in won:		
Debt securities issued	0.00~8.00	₩ 41,921,745
Subordinated debt securities issued	2.20~4.60	3,700,400
Gain and loss on fair value hedges		(294,708)
Bond issuance cost		(49,277)
		<u>45,278,160</u>
Debt securities issued in foreign currencies:		
Debt securities issued	0.00~4.20	5,281,127
Subordinated debt securities issued	3.75~4.50	1,866,375
Gain and loss on fair value hedges		(66,172)
Bond issuance cost		(33,690)
		<u>7,047,640</u>
		<u>₩ 52,325,800</u>

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23. Debt securities issued (continued)

	2017	
	Interest rate (%)	Amount
Debt securities issued in won:		
Debt securities issued	0.00~8.00	₩ 41,781,486
Subordinated debt securities issued	2.20~4.60	3,500,401
Loss on fair value hedges		(274,047)
Bond issuance cost		(45,969)
		<u>44,961,871</u>
Debt securities issued in foreign currencies:		
Debt securities issued	0.00~4.20	4,989,904
Subordinated debt securities issued	3.75~3.88	1,446,390
Loss on fair value hedges		(25,794)
Bond issuance cost		(31,550)
		<u>6,378,950</u>
		<u>₩ 51,340,821</u>

24. Employee benefits

(a) Defined benefit obligations and plan assets

Defined benefit obligations and plan assets as of March 31, 2018 and December 31, 2017 are as follows:

	2018	2017
Present value of defined benefit obligations	₩ 1,630,820	1,695,191
Fair value of plan assets	(1,583,525)	(1,688,047)
Recognized liabilities for defined benefit obligations	<u>₩ 47,295</u>	<u>7,144</u>

(b) Expenses recognized in profit or loss for the three-month periods ended March 31, 2018 and 2017 were as follows:

	2018	2017
Current service costs	₩ 39,382	43,272
Net interest expense	622	811
	<u>₩ 40,004</u>	<u>44,083</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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25. Provisions

(a) Provisions as of March 31, 2018 and December 31, 2017 are as follows:

	2018	2017
Asset retirement obligations	₩ 43,495	45,495
Expected loss related to litigation	32,094	32,650
Unused credit commitments	218,858	168,006
Bonus card point reward program	26,151	26,434
Financial guarantee contracts issued	82,024	80,861
Others	73,141	75,512
	₩ 475,763	428,958

(b) Changes in provision for unused credit commitments and financial guarantee contracts issued for the three-month period ended March 31, 2018 are as follows:..

	Unused credit commitments		Financial guarantee contracts issued		Total
	12 month expected credit loss	Life time expected credit loss	12 month expected credit loss	Life time expected credit loss	
Beginning allowance	₩ 195,884	26,445	169	3,368	259,786
Transfer to 12 month expected credit loss	4,073	(4,073)	-	(196)	-
Transfer to life time expected credit loss	(3,060)	3,060	-	53	-
Transfer to impaired financial asset	-	-	-	-	-
Provided(reversed)	(1,394)	(2,463)	4	(1,048)	(5,474)
Used	(262)	(412)	(17)	(47)	(738)
FX change	721	(508)	-	(1,439)	(4,190)
Others (*1)	691	-	-	1,343	889
Ending balance	₩ 196,653	22,049	156	31,645	254,824
				2,081	2,240

(*1) New financial guarantee contracts issued measured at fair value and discount unwinding effect as matured.

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26. Liabilities under insurance contracts

(a) Insurance liabilities as of March 31, 2018 and December 31, 2017 are as follows:

	2018	2017
Policy reserve	₩ 24,953,630	24,515,364
Policyholder's equity adjustment	(1,576)	(76)
	<u>₩ 24,952,054</u>	<u>24,515,288</u>

(b) Income or expenses on insurance contracts for the three-month periods ended March 31, 2018 and 2017 were as follows:

	2018	2017
Insurance income		
Premium income	₩ 1,120,507	1,156,028
Reinsurance income	2,213	1,098
Reversal of policy reserves	-	1,021
Separate account income	8,376	13,977
	<u>1,131,096</u>	<u>1,172,124</u>
Insurance expenses		
Claims paid	(658,094)	(545,493)
Reinsurance premium expenses	(4,689)	(2,845)
Provision for policy reserves	(438,267)	(551,528)
Separate account expenses	(8,376)	(13,978)
Discount charge	(167)	(153)
Acquisition costs	(124,083)	(143,653)
Collection expenses	(4,943)	(3,882)
Deferred acquisition costs	80,353	90,315
Amortization of deferred acquisition costs	(102,561)	(109,192)
	<u>(1,260,827)</u>	<u>(1,280,409)</u>
Net loss on insurance	₩ <u>(129,731)</u>	<u>(108,285)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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27. Equity

(a) Equity as of March 31, 2018 and December 31, 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Capital stock:		
Common stock	₩ 2,370,998	2,370,998
Preferred stock	274,055	274,055
	<u>2,645,053</u>	<u>2,645,053</u>
Hybrid bond	423,921	423,921
Capital surplus:		
Share premium	9,494,769	9,494,769
Others	392,566	392,566
	<u>9,887,335</u>	<u>9,887,335</u>
Capital adjustments	(397,007)	(398,035)
Accumulated other comprehensive income, net of tax:		
Loss on financial assets at fair value through other comprehensive income	(151,967)	-
Valuation gain on available-for-sale financial assets	-	72,126
Loss on financial assets at fair value through profit or loss (overlay approach)	(61,432)	-
Equity in other comprehensive income of associates	(6,860)	(294)
Foreign currency translation adjustments for foreign operations	(327,749)	(345,199)
Net loss from cash flow hedges	(3,924)	2,440
Other comprehensive loss of separate account	(7,144)	(4,812)
Actuarial losses	(254,894)	(253,995)
Changes in own credit risk on financial liabilities designated under fair value option	(1,577)	-
	<u>(815,547)</u>	<u>(529,734)</u>
Retained earnings	20,704,546	20,791,681
Non-controlling interest	706,029	883,397
	<u>₩ 33,154,330</u>	<u>33,703,618</u>

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27. Equity

(b) Hybrid bonds

Hybrid bonds classified as other equity instruments as of March 31, 2018 and December 31, 2017 are as follows:

Issue date	Maturity date	Interest rate (%)		2018	2017
June 25, 2015	June 25, 2045	4.38	₩	199,455	199,455
September 15, 2017	-	3.77		134,683	134,683
September 15, 2017	-	4.25		89,783	89,783
			₩	<u>423,921</u>	<u>423,921</u>

The hybrid bonds above can be repaid early after 5 or 10 years from the date of issuance, and the Group has an unconditional right to extend the maturity under the same condition. In addition, if no dividend is to be paid for common shares, the agreed interest is also not paid.

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27. Equity (continued)

(c) Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows:

	2018									
	Items that are or may be reclassified to profit or loss					Items that will never be reclassified to profit or loss				
	Gain(loss) on financial asset at fair value through other comprehensive income	Gain(loss) on financial asset at fair value through profit or loss (overlay approach)	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Equity in other comprehensive income of associates	Gain (loss) on financial asset at fair value through other comprehensive income	Changes in own credit risk on financial liabilities designated under fair value option	Total
Beginning balance	₩ (211,003)	(24,724)	(342,318)	2,441	(4,564)	(253,995)	(28)	31,533	(1,553)	(806,745)
Change due to fair value	20,863	(50,631)	-	(3,016)	(3,559)	(1,155)	25	13,735	(33)	(28,691)
Reclassification:										
Change due to impairment or disposal	(3,940)	-	-	(621)	-	-	-	-	-	(4,561)
Effect of hedge accounting	-	-	-	132	-	-	-	-	-	132
Hedging	2,311	-	(15,026)	(5,910)	-	-	-	177	-	(18,448)
Effects from exchange rate fluctuations	-	-	22,569	-	-	-	-	-	-	22,569
Remeasurements of the defined benefit plans	-	-	-	-	-	(66)	-	-	-	(66)
Deferred income taxes	(3,478)	13,923	6,212	3,050	979	322	(9)	(3,904)	9	17,702
Transfer to other account	-	-	-	-	-	-	8	1,739	-	1,747
Non-controlling interests	-	-	814	-	-	-	-	-	-	814
	₩ (195,247)	(61,432)	(327,749)	(3,924)	(7,144)	(254,894)	(4)	43,280	(1,577)	(815,547)

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27. Equity (continued)

(c) Accumulated other comprehensive income (continued)

Changes in accumulated other comprehensive income for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows (continued):

	2017							
	Unrealized gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Total	
Beginning balance	₩ 394,182	21,258	(151,725)	(13,464)	4,466	(357,300)	(102,583)	
Change due to fair value	(60,397)	(24,886)	-	-	(12,529)	-	(97,812)	
Reclassification:								
Change due to impairment or disposal	(346,126)	-	-	-	-	-	(346,126)	
Effect of hedge accounting	-	-	-	250,875	-	-	250,875	
Hedging	1,241	-	97,353	(229,747)	-	-	(131,153)	
Effects from exchange rate fluctuations	(28,553)	-	(276,285)	-	-	-	(304,838)	
Remeasurements of the defined benefit plans	-	-	-	-	-	121,735	121,735	
Transfer to other account	-	(414)	-	-	-	-	(414)	
Deferred income taxes	110,708	3,748	(15,240)	(5,224)	3,251	(18,210)	79,033	
Non-controlling interests	1,071	-	698	-	-	(220)	1,549	
Ending balance	₩ 72,126	(294)	(345,199)	2,440	(4,812)	(253,995)	(529,734)	

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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27. Equity (continued)

(d) Regulatory reserve for loan losses

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by K-IFRS and that as required by the Regulations at the account of regulatory reserve for loan losses in retained earnings.

i) Changes in regulatory reserve for loan losses including non-controlling interests for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	₩ 2,885,018	2,252,771
IFRS 9 adoption	(388,551)	-
Planned regulatory reversal of loan losses	6,908	632,247
Ending balance	<u>₩ 2,503,375</u>	<u>2,885,018</u>

ii) Profit for the period and earnings per share after adjusted for regulatory reserve for loan losses for the three-month periods ended March 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Profit attributable to equity holders of Shinhan Financial Group	₩ 857,549	997,098
Provision for regulatory reserve for loan losses(*1)	(6,138)	(385,247)
Profit attributable to equity holders of Shinhan Financial Group adjusted for regulatory reserve	<u>₩ 851,411</u>	<u>611,851</u>
Basic and diluted earnings per share adjusted for regulatory reserve in won(*2)	₩ 1,786	1,277

(*1) The provision for regulatory reserve for loan losses due to the adoption of K-IFRS 1109 were excluded.

(*2) Dividends for hybrid bonds are deducted.

(e) Dividends declared and paid by the Group for the three-month period ended March 31, 2018 were as follows:

	<u>2018</u>
Common stock (₩1,450 per share)	₩ 687,589

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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28. Net interest income

Net interest income for the three-month periods ended March 31, 2018 and 2017 were as follows:

	2018
Interest income:	
Cash and due from banks at amortized cost	₩ 32,734
Due from banks at fair value through profit or loss	8,522
Securities at fair value through profit or loss	146,659
Securities at fair value through other comprehensive income	177,691
Securities at amortized cost	171,495
Loans at amortized cost	2,595,689
Loans at fair value through profit or loss	6,840
Others	21,081
	<u>3,160,711</u>
Interest expense:	
Deposits	(695,612)
Borrowings	(102,241)
Debt securities issued	(290,272)
Others	(14,289)
	<u>(1,102,414)</u>
Net interest income	₩ <u>2,058,297</u>
	2017
Interest income:	
Cash and due from banks	₩ 41,790
Trading assets	127,290
Financial assets designated at fair value through profit or loss	13,060
Available-for-sale financial assets	158,775
Held-to-maturity financial assets	151,137
Loans	2,304,611
Others	22,476
	<u>2,819,139</u>
Interest expense:	
Deposits	(605,538)
Borrowings	(76,049)
Debt securities issued	(255,076)
Others	(13,265)
	<u>(949,928)</u>
Net interest income	₩ <u>1,869,211</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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29. Net fees and commission income

Net fees and commission income for the three-month periods ended March 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Fees and commission income:		
Credit placement fees	₩ 16,173	14,826
Commission received as electronic charge receipt	36,145	34,858
Brokerage fees	125,283	85,008
Commission received as agency	22,861	35,579
Investment banking fees	14,868	10,202
Commission received in foreign exchange activities	49,302	47,446
Asset management fees	60,863	37,993
Credit card fees	581,237	580,011
Others	164,301	119,152
	<u>1,071,033</u>	<u>965,075</u>
Fees and commission expense:		
Credit-related fee	(8,955)	(5,417)
Credit card fees	(504,767)	(496,144)
Others	(73,690)	(75,924)
	<u>(587,412)</u>	<u>(577,485)</u>
Net fees and commission income	₩ <u>483,621</u>	<u>387,590</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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30. Allowance provided (reversed) for credit loss on financial assets

Allowance provided (reversed) for credit loss on financial assets for the three-month period ended March 31, 2018 are as follows:

	<u>2018</u>
Loans at amortized cost	₩ (184,872)
Other financial assets at amortized cost	<u>(2,667)</u>
	<u>(187,539)</u>
Securities at fair value through other comprehensive income	1,328
Securities at amortized cost	1,210
Others (unused credit line and financial guarantee, etc)	<u>5,474</u>
	<u>8,012</u>
	<u>₩ (179,527)</u>

31. Net impairment loss on financial assets

Net impairment loss on financial assets for the three-month period ended March 31, 2017 are as follows:

	<u>2017</u>
Impairment losses on:	
Loans	₩ (86,481)
Available-for-sale financial assets	<u>(7,892)</u>
	<u>(94,373)</u>
Reversal of impairment losses on:	
Available-for-sale financial assets	855
Other financial assets	<u>4,372</u>
	<u>5,227</u>
	<u>₩ (89,146)</u>

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32. General and administrative expenses

General and administrative expenses for the three-month periods ended March 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Employee benefits:		
Salaries	₩ 652,827	634,968
Severance benefits:		
Defined contribution	5,817	5,555
Defined benefit	37,391	43,016
Termination benefits	1,270	1,853
	<u>697,305</u>	<u>685,392</u>
Rent	86,199	81,631
Entertainment	6,643	6,755
Depreciation	42,849	46,604
Amortization	17,520	16,868
Taxes and dues	41,181	41,132
Advertising	52,382	50,044
Research	3,396	3,647
Others	139,546	132,730
	₩ <u>1,087,021</u>	<u>1,064,803</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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33. Share-based payments

(a) Stock options granted as of March 31, 2018 are as follows:

	<u>4th grant(*1)</u>	<u>5th grant(*1)</u>	<u>6th grant(*1)</u>	<u>7th grant(*1)(*2)</u>
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩28,006	₩38,829	₩54,560	₩49,053
Number of shares granted	2,695,200	3,296,200	1,301,050	808,700
Options expiry dates	August 30, 2018	August 21, 2019	August 19, 2020	May 17, 2021/ September 17, 2021
Changes in number of shares granted:				
Balance at January 1, 2018	2,500	2,500	58,764	45,628
Exercised	-	-	-	-
Balance at March 31, 2018	<u>2,500</u>	<u>2,500</u>	<u>58,764</u>	<u>45,628</u>
Fair value per share in won	₩17,694	₩7,487	₩1,724	₩3,850 (Expiration of contractual exercis period : May 17, 2021) ₩3,942 (Expiration of contractual exercise period : Sep 17, 2021)

(*1) The weighted average exercise price for 109,392 stock options outstanding at March 31, 2018 is ₩51,297.

(*2) As of March 31, 2018, the exercise of 9,466 options of the 7th grant is temporarily suspended.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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33. Share-based payments (continued)

(b) Performance shares granted as of March 31, 2018 are as follows:

	Expired	Not expired
Type	Cash-settled share-based payment	
Performance conditions	Increase rate of the stock price and achievement of target ROE	
Operating period(*)	4 or 5 years	
Estimated number of shares vested at March 31, 2018	14,866	1,307,030
Fair value per share in won	₩45,926, ₩47,376, ₩40,889, ₩45,766, ₩49,405 for the expiration of operating period from 2013 to 2017	₩45,700

(*) Four-year period is applied from the beginning of the year that the grant date belongs while five-year period for the shares with deferred payment.

The amount of cash payment for the Group's cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. As such, the fair value of number of shares expired is estimated using the arithmetic mean of weighted average share prices at the day after expiration date and the fair value of number of shares non-expired is estimated using the closing share price at the end of reporting year.

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33. Share-based payments (continued)

(c) Share-based compensation costs for the three-month periods ended March 31, 2018 and 2017 were as follows:

	2018		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
4th	₩ -	(9)	(9)
5th	-	(8)	(8)
6th	(12)	(72)	(84)
7th	(25)	(36)	(61)
Performance share	250	1,876	2,126
	₩ 213	1,751	1,964

	2017		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
4th	₩ 12	126	138
5th	9	138	147
6th	-	-	-
7th	-	-	-
Performance share	569	4,260	4,829
	₩ 590	4,524	5,114

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33. Share-based payments (continued)

(d) Accrued expenses and the intrinsic value as of March 31, 2018 and December 31, 2017 are as follows:

	2018		
	Employees of		
	The controlling company	The subsidiaries(*)	Total
Stock options granted:			
4th	₩ -	44	44
5th	-	19	19
6th	14	87	101
7th	58	84	142
Performance share	6,424	54,005	60,429
	₩ 6,496	54,239	60,735

The intrinsic value of share-based payments is ₩60,491 million as of March 31, 2018. For calculating, the quoted market price ₩45,700 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

(*) The Group has granted the above share-based payment arrangements to its employees and those of its subsidiaries and the Group require the subsidiaries to reimburse the compensation costs for their employees. As of March 31, 2018, the Group recognized the corresponding accounts receivable from the subsidiaries in the amount of ₩54,239 million.

	2017		
	Employees of		
	The controlling company	The subsidiaries(*)	Total
Stock options granted:			
4th	₩ -	54	54
5th	-	26	26
6th	26	159	185
7th	83	120	203
Performance share	8,286	62,769	71,055
	₩ 8,395	63,128	71,523

The intrinsic value of share-based payments is ₩71,151 million as of December 31, 2017. For calculating, the quoted market price ₩49,400 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

(*) The Group has granted the above share-based payment arrangements to its employees and those of its subsidiaries and the Group require the subsidiaries to reimburse the compensation costs for their employees. As of December 31, 2017, the Group recognized the corresponding accounts receivable from the subsidiaries in the amount of ₩63,128 million.

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34. Income tax expense

Income tax expense for the three-month periods ended March 31, 2018 and 2017 were as follows:

	2018	2017
Current income tax expense	₩ 90,681	182,389
Origination and reversal of temporary differences	217,050	125,125
Income tax recognized in other comprehensive income	17,277	(9,053)
Income tax expenses	₩ <u>325,008</u>	<u>298,461</u>
Effective tax rate	% <u>27.22</u>	<u>22.86</u>

35. Earnings per share

Basic and diluted earnings per share for the three-month periods ended March 31, 2018 and 2017 were as follows:

	2018	2017
Profit attributable to equity holders of Shinhan Financial Group	₩ <u>857,549</u>	<u>997,098</u>
Less:		
Dividends to hybrid bond	(4,406)	(6,160)
Net profit available for common stock	₩ <u>853,143</u>	<u>990,938</u>
Weighted average number of common shares outstanding	474,199,587	474,199,587
Basic and diluted earnings per share in won	₩ <u>1,799</u>	<u>2,090</u>

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36. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of March 31, 2018 and December 31, 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Guarantees:		
Guarantees outstanding	₩ 7,704,402	7,611,211
Contingent guarantees	2,986,946	3,259,613
	<u>10,691,348</u>	<u>10,870,824</u>
Commitments to extend credit:		
Loan commitments in won	68,448,202	54,827,918
Loan commitments in foreign currency	20,395,168	18,992,984
ABS and ABCP commitments	1,840,221	2,035,543
Others	68,198,157	66,767,465
	<u>158,881,748</u>	<u>142,623,910</u>
Endorsed bills:		
Secured endorsed bills	70,191	85,456
Unsecured endorsed bills	9,842,706	7,810,788
	<u>9,912,897</u>	<u>7,896,244</u>
Loans sold with recourse	2,099	2,099
	<u>₩ 179,488,092</u>	<u>161,393,077</u>

(b) Legal contingencies

As of March 31, 2018, the Group was involved in 169 pending lawsuits as a defendant (total claim amount: ₩113,148 million) and recorded a provision of ₩32,094 million and a reserve (liabilities under insurance contracts) of ₩1,191 million, respectively, with respect to these lawsuits. Additional losses might be incurred from these legal actions, but the result of such lawsuits cannot be predicted. The management believes that the result of the lawsuits would not have significant impact on the financial position.

37. Statement of cash flows

Cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2018 and December 31, 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Cash and due from banks	₩ 18,026,289	22,682,652
Adjustments:		
Due from financial institutions with a maturity over three months from date of acquisition	(1,956,407)	(3,010,471)
Restricted due from banks	(9,176,093)	(13,435,531)
	<u>₩ 6,893,789</u>	<u>6,236,650</u>

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38. Related parties

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(a) Balances with the related parties as of March 31, 2018 and December 31, 2017 are as follows:

<u>Related party</u>	<u>Account</u>	<u>2018</u>	<u>2017</u>
Investments in associates:			
BNP Paribas Cardif Life Insurance	Other assets	₩ 9,866	9,868
"	Credit card loans	142	191
"	Allowances	(1)	(4)
"	Deposits	431	446
"	Provisions	-	2
JAEYOUNG SOLUTEC CO., LTD.	Loans	14,575	14,847
"	Allowances	(132)	(123)
"	Credit card loans	54	33
"	Deposits	2,712	2,659
"	Provisions	2	4
Partners 4th Growth Investment Fund	Deposits	1,913	2,076
BNP Paribas Cardif General Insurance	Credit card loans	41	29
"	Allowances	(1)	-
"	Deposits	8	221
"	Provisions	1	-
Shinhan Praxis K-Growth Global Private Equity Fund	Other assets	170	174
Dream High Fund III	Deposits	5	3
Midas Dong-A Snowball Venture Fund	Deposits	202	220
IBKS-Shinhan Creative Economy New Technology Fund	Deposits	2,163	78
Credian Healthcare Private Equity Fund II	Deposits	31	26
Midas Dong-A Snowball Venture Fund 2	Deposits	188	239
IBKS-Shinhan Creative Economy New Technology Fund II	Deposits	210	76
Eum Private Equity Fund No.3	Deposits	60	65
Branbuil CO., LTD.	Credit card loans	3	-
"	Allowances	(1)	-
"	Deposits	23	55
SHBNPP Private Korea Equity Long-Short Professional Feeder	Other assets	83	97
Shinhan Global Healthcare Fund 1	Unearned revenue	207	409
Shinhan Fintech New Technology Fund No.1	Unearned revenue	85	123
KTB Newlake Global Healthcare PEF	Deposits	327	465
"	Provisions	12	13
Taihan Industrial System Co., Ltd.	Deposits	87	100
Incorporated association Finance Saving Information Center	Credit card loans	2	-
"	Deposits	8	4
"	Allowances	(1)	-
Lodestone Startup Venture Specialized Private Equity Fund	Deposits	537	-
Lodestone 1st Private Equity Fund	Deposits	768	-
Loggia	Deposits	1	-
Key management personnel and their immediate relatives:	Loans	3,194	3,247
"	Assets	₩ 27,994	28,359
"	Liabilities	9,981	7,284

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38. Related parties (continued)

(b) Transactions with the related parties for the three-month periods ended March 31, 2018 and 2017 were as follows:

Related party	Account	2018	2017
Investments in associates			
Aju Capital Co., Ltd(*)	Interest income	₩ -	1,973
"	Fees and commission income	-	56
"	Reversal of credit losses	-	161
"	Other operating expenses	-	(26)
BNP Paribas Cardif Life Insurance	Fees and commission income	879	342
"	Non-operating income	2	1
"	Reversal of credit losses	4	1
"	Non-operating expenses	-	(2)
"	General and administrative expenses	(4)	-
Shinhan Praxis K-Growth Global Private Equity Fund	Fees and commission income	170	170
Shinhan K2 Secondary Fund	Fees and commission income	-	921
BNP Paribas Cardif General Insurance	Fees and commission income	2	1
"	Provision for credit losses	-	(1)
"	Reversal of credit losses	1	-
Midas Dong-A Snowball Venture Fund	Fees and commission income	9	19
"	Interest expense	(1)	(1)
SP New Technology Business investment Fund I	Fees and commission income	10	20
IBKS-Shinhan Creative Economy New Technology Fund I	Fees and commission income	10	-
IBKS-Shinhan Creative Economy New Technology Fund II	Fees and commission income	6	-
SM New Technology Business Investment Fund I	Fees and commission income	-	39
The Asia Pacific Capital Fund II L.P.	Fees and commission income	-	44
JAEOYOUNG SOLUTEC CO., LTD.	Interest income	172	160
"	Fees and commission income	1	-
"	Other income	3	-
"	Reversal of credit losses	-	1
"	Interest expense	-	(1)
"	Provision for credit losses	(10)	-
Partners 4th Growth Investment Fund	Interest expense	(4)	(1)
PSA 1st Fintech Private Equity Fund	Interest expense	-	(1)
SHBNPP Private Korea Equity Long-Short Professional Feeder	Fees and commission income	662	173
SHBNPP Private Multi Strategy Professional Feeder No.1(*)	Fees and commission income	-	41
Shinhan-Albatross Technology Investment Fund	Fees and commission income	54	-
"	Interest expense	-	(11)
STI-New Growth Engines Investment Partnership	Fees and commission income	12	29
KTB New lake medical Global Investment	Interest income	1	-

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38. Related parties (continued)

(b) Transactions with the related parties for the three-month periods ended March 31, 2018 and 2017 were as follows (continued) :

<u>Related party</u>	<u>Account</u>	<u>2018</u>	<u>2017</u>
Shinhan Global health care Investment No.1 Co,LTD	Fees and commission income	₩ 202	-
Shinhan Fintech New Technology Fund No.1	Fees and commission income	38	-
Shinhan-Midas Dong-A Secondary Venture Fund	Fees and commission income	9	-
Incorporated association Finance Saving Information Center	Reversal of credit losses	1	-
Key management personnel and their immediate relatives			
Interest income		3	16
		₩ <u>2,232</u>	<u>4,124</u>

(*) Excluded from related parties due to the disposal.

(c) Key management personnel compensation

Key management personnel compensation for the three-month periods ended March 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	₩ 7,982	7,308
Severance benefits	111	121
Share-based payment transactions	1,222	1,758
	₩ <u>9,315</u>	<u>9,187</u>

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38. Related parties (continued)

(d) The guarantees provided between the related parties as of March 31, 2018 and December 31, 2017 were as follows:

Guarantor	Guaranteed Parties	Amount of guarantees		Account
		2018	2017	
Shinhan Bank	New lake alliance	₩ 700	700	Unused credit line
	BNP Paribas Cardif Life Insurance	10,000	10,000	Unused credit line
	Neoplux Technology Valuation Investment Fund	-	6,000	Security underwriting commitment
	JAEYOUNG SOLUTEC CO., LTD.	104	109	Unused credit
	"	-	429	Import letter of credit
		₩	<u>10,804</u>	<u>17,238</u>

(e) Details of collaterals provided by the related parties as of March 31, 2018 and December 31, 2017 were as follows:

Provided to	Provided by	Pledged assets	2018	2017
Shinhan Bank	BNP Paribas Cardif Life Insurance	Government bonds	₩ 11,668	11,666
		Properties	20,814	20,814
	JAEYOUNG SOLUTEC CO., LTD.	Guarantee insurance policy	7,037	7,037
			₩	<u>39,519</u>

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39. Interests in unconsolidated structured entities

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

The Group involved in assets-backed securitization, structured financing, beneficiary certificates (primarily investment funds) and other structured entities and characteristics of these structured entities are as follows:

	Description
Assets-backed securitization	<p>Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or committing to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement.</p> <p>The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.</p>
Structured financing	<p>Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (mergers and acquisitions), BTL (build-transfer-lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.</p>
Investment fund	<p>Investment fund means an investment trust, a PEF (private equity fund) or a partnership which invests in a group of assets such as stocks or bonds by issuing a type of beneficiary certificates to raise funds from the general public, and distributes its income and capital gains to their investors. The Group manages assets by investing in shares of investment fund or playing a role of an operator or a GP (general partner) of investment fund, on behalf of other investors.</p>

The size of unconsolidated structured entities as of March 31, 2018 and December 31, 2017 are as follows:

	2018	2017
Total assets:		
Asset-backed securitization	₩ 173,439,239	175,953,075
Structured financing	115,700,569	84,719,599
Investment fund	69,381,987	69,736,443
	₩ 358,521,795	330,409,117

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39. Interests in unconsolidated structured entities (continued)

(b) Nature of risks

i) *The carrying amounts of the assets and liabilities relating to its interests in unconsolidated structured entities as of March 31, 2018 and December 31, 2017 are as follows:*

	2018			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets:				
Loans measured at fair value through profit or loss ₩	-	10,066	-	10,066
Loan at amortized cost	271,706	6,345,798	63,473	6,680,977
Securities at fair value through profit or loss	4,121,052	254,927	4,207,780	8,583,759
Derivatives	10,650	-	-	10,650
Securities at fair value through other comprehensive income	1,772,757	86,641	1	1,859,399
Securities at amortized cost	3,370,708	-	-	3,370,708
Other assets	866	3,282	38,179	42,327
₩	<u>9,547,739</u>	<u>6,700,714</u>	<u>4,309,433</u>	<u>20,557,886</u>
Liabilities:				
Derivative liabilities ₩	4,562	-	-	4,562
Other	1,099	3,559	173	4,831
₩	<u>5,661</u>	<u>3,559</u>	<u>173</u>	<u>9,393</u>

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39. Interests in unconsolidated structured entities (continued)

(b) Nature of risks (continued)

		2017			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets:					
Loans	₩	329,776	6,189,042	91,078	6,609,896
Trading assets		3,201,400	958	351,290	3,553,648
Derivative assets		14,218	-	-	14,218
Available-for-sale financial assets		2,200,974	400,283	3,525,538	6,126,795
Held-to-maturity financial assets		3,259,451	-	-	3,259,451
Other assets		729	2,576	1,150	4,455
	₩	<u>9,006,548</u>	<u>6,592,859</u>	<u>3,969,056</u>	<u>19,568,463</u>
Liabilities:					
Derivative liabilities	₩	4,448	-	-	4,448
Other		557	1,050	9	1,616
	₩	<u>5,005</u>	<u>1,050</u>	<u>9</u>	<u>6,064</u>

ii) Exposure to risk relating to its interests in unconsolidated structured entities as of March 31, 2018 and December 31, 2017 are as follows:

		2018			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩	9,547,739	6,700,714	4,309,433	20,557,886
ABS and ABCP commitments		1,385,727	57,300	12,588	1,455,615
Loan commitments		431,537	547,825	-	979,362
Guarantees		50,000	15,200	-	65,200
Others		37,400	58,961	-	96,361
	₩	<u>11,452,403</u>	<u>7,380,000</u>	<u>4,322,021</u>	<u>23,154,424</u>

		2017			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩	9,006,548	6,592,859	3,969,056	19,568,463
ABS and ABCP commitments		1,391,035	57,300	452,311	1,900,646
Loan commitments		529,566	719,650	31,987	1,281,203
Guarantees		74,300	15,200	-	89,500
Others		4,200	45,634	-	49,834
	₩	<u>11,005,649</u>	<u>7,430,643</u>	<u>4,453,354</u>	<u>22,889,646</u>

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40. Measurement period adjustments for business combination

(a) Overview

The Group has acquired ANZ Retail Business in Vietnam on December 17, 2017, which was a local entity operating banking business in Vietnam, to strengthen business competitiveness and synergies through the acquisition of related businesses. The Group could not complete the initial accounting for the business acquisition until the end of the reporting period in which the acquisition incurred, since the valuation data of the acquired business has not been obtained, and the goodwill value was disclosed at a provisional amount. The Group has finished the business acquisition accounting in this period, reflecting the valuation result on the acquired net assets, and retrospectively adjusted the provisional value of net assets recognized at the acquisition date.

(b) Retroactive adjustment of fair value of assets and liabilities

The retroactive adjustment of fair value of assets acquired and liabilities assumed by acquisition of ANZ as of acquisition date is as follows:

	<u>Amount</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Assets:			
Cash and due from banks	₩ 8,151	-	8,151
Loans(*1)	301,766	(1,352)	300,414
Property and equipment	538	-	538
Intangible assets(*2)	-	15,256	15,256
Other assets	9,269	-	9,269
	<u>319,724</u>	<u>13,904</u>	<u>333,628</u>
Liabilities:			
Deposits	(436,285)	-	(436,285)
Other liabilities	(1,022)	-	(1,022)
	<u>(437,307)</u>	<u>-</u>	<u>(437,307)</u>
The fair value of the identifiable assets acquired and liabilities assumed	₩ <u>(117,583)</u>	<u>13,904</u>	<u>(103,679)</u>

(*1) Adjustments are mainly due to the loan loss estimation.

(*2) The intangible assets mainly comprise the present value of the saved borrowing costs due to the deposits amounting to ₩4,454 million and the future economic benefits generated due to the relationship with the customers amounting to ₩10,802 million.

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40. Measurement period adjustments for business combination (continued)

(c) Adjustments of goodwill

The retrospective adjustments of goodwill due to the measurement period adjustment for business combination are as follows:

	<u>Amount</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Consideration received (cash)	₩ 75,480	-	75,480
Fair value of identifiable net assets	(117,583)	13,904	(103,679)
Goodwill	₩ 42,103	(13,904)	28,199

(d) Adjustments of the prior year end balances.

	<u>Amount</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Intangible assets	₩ 4,271,969	1,352	4,273,321
Deferred tax liabilities	9,712	270	9,982
Retained earnings	₩ 20,790,599	1,082	20,791,681

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41. Transition effects arising from changes in accounting policies

As described in Note 3, the Group has changed its accounting policies as applying K-IFRS No. 1109, *Financial Instruments*, and K-IFRS No. 1115, *Revenue from Contracts with Customers*. With respect to classification, measurement and impairment of financial instruments, the financial statements as of and for the year ended December 31, 2017 have not been restated in accordance with the clause waiving the requirement to restate comparative financial statements.

K-IFRS No. 1109 replaces K-IFRS No. 1039, *Financial Instruments: Recognition and Measurement*, relating to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Additionally, K-IFRS No. 1109 have made amendments to other standards relating to financial instruments such as K-IFRS No. 1107, *Financial Instruments: Disclosures*.

(i) Changes in equity due to application of K-IFRS No.1109 and 1115

Changes in equity as of January 1, 2018 due to the initial application date of K-IFRS No. 1109 and 1115 are as follows:

	<u>Amounts</u>
Retained earnings at January 1, 2018 before changes	₩ 20,791,681
Adjustments of retained earnings due to the application of K-IFRS No. 1109 :	
Reclassification from financial assets at amortized cost to financial assets measured at fair value through profit or loss	(74,061)
Reclassification from available-for-sale financial assets to financial assets measured at fair value through profit or loss	178,518
Reclassification from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income(*1)	204,457
Increase in loss allowance for financial assets measured at amortized cost	(573,088)
Increase in loss allowance for loan commitments and financial guarantee contracts	(55,274)
Increase in loss allowance for debt instruments measured at fair value through other comprehensive income	(18,976)
Effect of overlay approach application	34,102
Others(*2)	(40,063)
	<u>(344,385)</u>
Adjustments of retained earnings due to the application of K-IFRS No. 1115(*3)	(2,896)
Tax effects(*4)	95,426
Retained earnings at January 1, 2018 after changes	₩ <u>20,539,826</u>

(*1) With the application of K-IFRS No. 1109, the effect of retained earnings of the recognized impairment from equity securities has reclassified to other comprehensive income.

(*2) Include translation of foreign currencies, etc.

(*3) The Group has divided the trust fees into trust sales fees and trust managing fees and recognition of trust managing fees are deferred.

(*4) Tax effects due to the application of K-IFRS No. 1109 are separately shown.

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41. Transition effects arising from changes in accounting policies (continued)

(i) Changes in equity due to application of K-IFRS No. 1109 and 1115 (continued)

	Amounts
Accumulated other comprehensive income at January 1, 2018 before changes	₩ (529,734)
Adjustments of accumulated other comprehensive income due to the application of K-IFRS No. 1109:	
Reclassification from available-for-sale financial assets to financial assets measured at fair value through profit or loss	(178,518)
Reclassification from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income(*1)	(204,457)
Increase in loss allowance for debt instruments measured at fair value through other comprehensive income	18,976
Effect of overlay approach application	(34,102)
Others(*2)	11,039
	(387,062)
Tax effects(*3)	110,051
Accumulated other comprehensive income at January 1, 2018 after changes	₩ (806,745)

(*1) The effect on retained earnings arising from the recognition of impairment losses related to equity securities in the prior periods was transferred to other comprehensive income upon the application of K-IFRS 1109.

(*2) Other adjustments include foreign currency translation and changes in non-controlling interests, resulting from the adoption of K-IFRS No. 1109.

(*3) Tax effects due to the application of K-IFRS No. 1109 are separately shown.

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41. Transition effects arising from changes in accounting policies (continued)

(ii) Reclassification of financial instruments upon adoption of K-IFRS No. 1109

Details of reclassification of financial instruments as of January 1, 2018, the initial application date of K-IFRS No. 1109, are as follows:

K-IFRS No. 1039		K-IFRS No. 1109	Carrying value under K-IFRS No. 1039(*1)	Carrying value under K-IFRS No. 1109(*1)	Difference
Financial assets:					
Due from banks	Loans and receivables	Financial assets measured at FVTPL	₩ 902,124	833,942	(68,182)
	Loans and receivables	Amortized cost	19,988,001	19,988,001	-
Loan receivables	Loans and receivables	Financial assets measured at FVTPL	750,342	778,985	28,643
	Loans and receivables	Amortized cost	277,126,029	277,126,029	-
Other financial assets	Loans and receivables	Amortized cost	12,090,983	12,090,983	-
Trading assets (debt securities)	Financial assets at FVTPL	Financial assets measured at FVTPL	23,640,646	23,640,646	-
Trading assets (equity securities)	Financial assets at FVTPL	Financial assets measured at FVTPL	4,634,353	4,634,353	-
Trading assets (deposit in gold and silver)	Financial assets at FVTPL	Financial assets measured at FVTPL	189,297	189,297	-
Financial assets designated as at FVTPL (debt securities)	Financial assets at FVTPL	Financial assets measured at FVTPL	2,030,522	2,030,522	-
	Financial assets at FVTPL	Financial assets designated as at FVTPL	80,288	80,288	-
Financial assets designated as at FVTPL (equity securities)	Financial assets at FVTPL	Financial assets measured at FVTPL	1,162,553	1,162,553	-
	Financial assets at FVTPL	Financial assets designated as at FVTPL	71,803	71,803	-
Financial assets designated as at FVTPL (other securities - compound financial instruments)	Financial assets at FVTPL	Financial assets measured at FVTPL	233,892	233,892	-
Derivatives	Financial assets at FVTPL	Financial assets measured at FVTPL	3,400,178	3,348,803	(51,375)
AFS financial assets (debt securities)	AFS financial assets	Financial assets measured at FVTPL	528,745	533,452	4,707
	AFS financial assets	Financial assets measured at FVOCI	36,657,807	36,657,807	-
AFS financial assets (equity securities)	AFS financial assets	Financial assets measured at FVTPL	4,339,979	4,350,969	10,990
	AFS financial assets	Financial assets measured at FVOCI	590,405	590,405	-
HTM financial assets (debt securities)	HTM financial assets	Financial assets measured at FVTPL	565,813	529,906	(35,907)
	HTM financial assets	Amortized cost	24,424,867	24,424,867	-
			₩ 413,408,627	413,297,503	(111,124)

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41. Transition effects arising from changes in accounting policies (continued)

(ii) Reclassification of financial instruments upon adoption of K-IFRS No. 1109 (continued)

K-IFRS No. 1039		K-IFRS No. 1109	Carrying value under K-IFRS No. 1039(*1)	Carrying value under K-IFRS No. 1109(*1)	Difference
Financial Liabilities:					
Deposits	Financial liability measured at amortized cost	Financial liabilities measured at amortized cost	₩ 249,419,224	249,419,224	-
Trading liabilities	Financial liabilities at FVTPL	Financial liabilities measured at FVTPL	1,848,490	1,848,490	-
Financial liabilities designated as at FVTPL	Financial liabilities at FVTPL	Financial liabilities designated as at FVTPL	8,260,636	8,260,636	-
	Financial liabilities at FVTPL	Financial liabilities measured at FVTPL	36,973	36,973	-
Derivatives	Financial liabilities at FVTPL	Financial liabilities measured at FVTPL	3,487,661	3,483,642	(4,019)
Borrowings	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	27,586,610	27,586,313	(297)
Debt securities issued	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	51,340,821	51,340,821	-
Others	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	20,124,451	20,124,432	(19)
			₩ 362,104,866	362,100,531	(4,335)

(*1) Gross carrying amounts that are before netting allowance for loan losses or credit loss allowance.

- (*) FVTPL : fair value through profit or loss
 FVOCI : fair value through other comprehensive income
 AFS : available-for-sale
 HTM : held-to-maturity

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41. Transition effects arising from changes in accounting policies (continued)

(iii) Impairment of financial assets upon adoption of K-IFRS No. 1109

Changes of credit loss allowance as of January 1, 2018, the initial application date of K-IFRS No. 1109, are as follows:

Classification based on K-IFRS No. 1039	Classification based on K-IFRS No. 1109	Loss allowance based on K-IFRS No. 1039	Loss allowance based on K-IFRS No. 1109
Loans and receivables			
Due from banks	Financial assets at amortized cost	₩ 14,054	15,062
Loan receivables	Financial assets at amortized cost	2,307,275	2,871,986
	Financial assets measured at FVTPL	3,329	-
Other financial assets	Financial assets at amortized cost	49,679	51,818
AFS financial assets			
debt securities	Financial assets measured at FVOCI	-	18,976
HTM financial assets			
debt securities	Financial assets at amortized cost	-	8,559
		2,374,337	2,966,401
Financial guarantee	Financial guarantee	36,506	37,289
Unused credit line and other credit commitment	Unused credit line and other credit commitment	168,006	222,498
		₩ 204,512	259,787

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41. Transition effects arising from changes in accounting policies (continued)

(iv) The reclassification applying business model

For the financial assets as of January 1, 2018, the date of the initial application of K-IFRS No. 1109, the management of the Group has assessed business model of those, and classified those applying the K-IFRS. The effect of reclassification is as follows:

1) Gross carrying amounts

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings (*3)	Changes in other comprehensive income(*3)
Financial assets :						
Due from banks						
Carrying value under K-IFRS 1039 as of January 1, 2018	₩ 20,890,125	-	-	20,890,125	-	-
Reclassification to financial assets measured at FVTPL	-	(902,124)	-	(902,124)	-	-
	20,890,125	(902,124)	-	19,988,001	-	-
Loans						
Carrying value under K-IFRS 1039 as of January 1, 2018	277,876,371	-	-	277,876,371	-	-
Reclassification to financial assets measured at FVTPL	-	(750,342)	-	(750,342)	-	-
	277,876,371	(750,342)	-	277,126,029	-	-
Other financial assets						
Carrying value under K-IFRS 1039 as of January 1, 2018	12,090,983	-	-	12,090,983	-	-
Trading (debt instruments)(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	23,640,646	-	-	23,640,646	-	-
Reclassification to financial assets measured at FVTPL	-	(23,640,646)	-	(23,640,646)	-	-
	23,640,646	(23,640,646)	-	-	-	-
Trading (equity instruments)						
Carrying value under K-IFRS 1039 as of January 1, 2018	4,634,353	-	-	4,634,353	-	-
Reclassification to financial assets measured at FVTPL	-	(4,634,353)	-	(4,634,353)	-	-
	4,634,353	(4,634,353)	-	-	-	-
Trading (gold deposit)(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	189,297	-	-	189,297	-	-
Reclassification to financial assets measured at FVTPL	-	(189,297)	-	(189,297)	-	-
	189,297	(189,297)	-	-	-	-
Derivatives(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	3,400,178	-	-	3,400,178	-	-
Reclassification to financial assets measured at FVTPL	-	(51,375)	-	(51,375)	-	-
	3,400,178	(51,375)	-	3,348,803	-	-
Financial assets designated at FVTPL(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	3,579,057	-	-	3,579,057	-	-
Reclassification to financial assets measured at FVTPL	-	(3,426,966)	-	(3,426,966)	-	-
Reclassification to financial assets designated at FVTPL	-	(152,091)	-	(152,091)	-	-
	3,579,057	(3,579,057)	-	-	-	-

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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(In millions of won)

41. Transition effects arising from changes in accounting policies (continued)

(iv) The reclassification applying business model (continued)

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings (*3)	Changes in other comprehensive income(*3)
AFS (debt instruments)						
Carrying value under K-IFRS 1039 as of January 1, 2018	₩ 37,186,552	-	-	37,186,552	-	-
Reclassification to financial assets measured at FVTPL	-	(528,745)	-	(528,745)	-	-
Reclassification to financial assets measured at FVOCI	-	(36,657,807)	-	(36,657,807)	-	-
	37,186,552	(37,186,552)	-	-	-	-
AFS (equity instruments)						
Carrying value under K-IFRS 1039 as of January 1, 2018	4,930,385	-	-	4,930,385	-	-
Reclassification to financial assets measured at FVTPL	-	(4,339,979)	-	(4,339,979)	-	-
Reclassification to financial assets measured at FVOCI	-	(590,405)	-	(590,405)	-	-
	4,930,385	(4,930,385)	-	-	-	-
HTM						
Carrying value under K-IFRS 1039 as of January 1, 2018	24,990,680	-	-	24,990,680	-	-
Reclassification to financial assets measured at FVTPL	-	(565,813)	-	(565,813)	-	-
Reclassification to financial assets measured at amortized cost	-	(24,424,867)	-	(24,424,867)	-	-
	24,990,680	(24,990,680)	-	-	-	-
Financial assets as measured at FVTPL						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from due from banks	-	902,124	(68,182)	833,942	-	(68,182)
Transfer from loans and other receivables	-	750,342	30,027	780,369	30,027	-
Transfer from trading	-	28,464,296	-	28,464,296	-	-
Transfer from assets designated at FVTPL	-	3,426,967	-	3,426,967	-	-
Transfer from AFS	-	4,868,724	7,708	4,876,432	180,532	(180,532)
Transfer from HTM	-	565,813	(35,907)	529,906	-	(35,907)
Transfer from derivative assets	-	51,375	(42,195)	9,180	-	-
	-	39,029,641	(111,124)	38,918,517	138,559	(212,620)
Financial assets designated at FVTPL(K-IFRS 1109)						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from financial assets designated at FVTPL(K-IFRS 1039)	-	152,091	-	152,091	-	-
	-	152,091	-	152,091	-	-
Financial assets measured at FVOCI(*2)						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from AFS	-	37,248,212	-	37,248,212	204,457	(204,457)
	-	37,248,212	-	37,248,212	204,457	(204,457)
Financial assets measured at amortized cost(*2)						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from HTM	-	24,424,867	-	24,424,867	-	-
	-	24,424,867	-	24,424,867	-	-
₩	413,408,627	-	(111,124)	413,297,503	343,016	(417,077)

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41. Transition effects arising from changes in accounting policies (continued)

(iv) The reclassification applying business model (continued)

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings	Changes in other comprehensive income
Deposits						
Carrying value under K-IFRS 1039 as of January 1, 2018	₩ 249,419,224	-	-	249,419,224	-	-
	249,419,224	-	-	249,419,224	-	-
Trading liabilities(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	1,848,490	-	-	1,848,490	-	-
Reclassification to financial liabilities measured at FVPL	-	(1,848,490)	-	(1,848,490)	-	-
	1,848,490	(1,848,490)	-	-	-	-
Financial liabilities designated at FVPL						
Carrying value under K-IFRS 1039 as of January 1, 2018	8,297,609	-	-	8,297,609	-	-
Reclassification to financial liabilities designated at FVPL	-	(8,260,636)	-	(8,260,636)	-	-
Reclassification to financial liabilities measured at FVPL	-	(36,973)	-	(36,973)	-	-
	8,297,609	(8,297,609)	-	-	-	-
Financial liabilities measured at FVPL						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from trading liabilities	-	1,848,490	-	1,848,490	-	-
Transfer from financial liabilities designated at FVPL	-	36,973	-	36,973	-	-
	-	1,885,463	-	1,885,463	-	-
Financial liabilities designated at FVPL						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from financial liabilities designated at FVPL	-	8,260,636	-	8,260,636	-	-
	-	8,260,636	-	8,260,636	-	-
Derivative liabilities						
Carrying value under K-IFRS 1039 as of January 1, 2018	3,487,661	-	-	3,487,661	-	-
Other	-	-	(4,019)	(4,019)	-	-
	3,487,661	-	(4,019)	3,483,642	-	-
Borrowings						
Carrying value under K-IFRS 1039 as of January 1, 2018	27,586,610	-	-	27,586,610	-	-
Other	-	-	(297)	(297)	-	-
	27,586,610	-	(297)	27,586,313	-	-
Debt securities issued						
Carrying value under K-IFRS 1039 as of January 1, 2018	51,340,821	-	-	51,340,821	-	-
Other financial liabilities						
Carrying value under K-IFRS 1039 as of January 1, 2018	20,124,451	-	-	20,124,451	-	-
Other	-	-	(19)	(19)	-	-
	20,124,451	-	(19)	20,124,432	-	-
₩	362,104,866	-	(4,335)	362,100,531	-	-

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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(Unaudited)

41. Transition effects arising from changes in accounting policies (continued)

(iv) The reclassification applying business model (continued)

(*1) With respect to financial assets and financial liabilities reclassified from the category of fair value through profit or loss, effective interest rates calculated on the initial application date of K-IFRS No. 1109 and interest income or expense recognized shall be disclosed. Such reclassification has not occurred as a result of the K-IFRS No. 1109 adoption.

(*2) With respect to financial assets and financial liabilities reclassified to financial instruments measured at amortized cost, and financial assets measured at fair value through profit or loss reclassified to the category of fair value through other comprehensive income, the gain or loss on fair value measurement that would otherwise have been recognized in profit or loss or other comprehensive income in the reporting period, and the fair value of the financial assets or financial liabilities, shall be disclosed. Such reclassification has not occurred as a result of the K-IFRS No. 1109 adoption.

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41. Transition effects arising from changes in accounting policies (continued)

(iv) The reclassification applying business model (continued)

2) Credit loss allowance

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings (*3)	Changes in other comprehensive income(*3)
Credit loss allowance for						
Due from banks	₩ 14,054	-	1,008	15,062	(1,008)	-
Loans	2,310,604	(3,328)	564,710	2,871,986	(561,382)	-
Financial asset measured at FVOCI (Debt instruments)	-	-	18,976	18,976	(18,976)	18,976
Financial asset measured at amortized cost (Debt instruments)	-	-	8,559	8,559	(8,559)	-
Other assets	49,679	-	2,139	51,818	(2,139)	-
Financial guarantee Unused credit line and other credit commitment	36,506	-	783	37,289	(783)	-
	168,006	-	54,492	222,498	(54,492)	-
	₩ 2,578,849	(3,328)	650,667	3,226,188	(647,339)	18,976

(v) Hedge accounting

K-IFRS No. 1109 maintains the mechanics of hedge accounting (i.e. fair value hedge, cash flow hedge, hedge of a net investment in a foreign operation) as defined in K-IFRS 1039, whereas a principle-based hedge accounting requirements that focuses on an entity's risk replaced complex and rule-based hedge accounting requirements in K-IFRS No. 1039. Additionally, qualifying hedged items and qualifying hedging instruments have been expanded and hedge accounting requirements have been eased by eliminating a subsequent hedge effectiveness assessment and a quantitative test (80~125%). Hedge accounting can be applied to certain transactions that fail to qualify for hedge accounting requirements under K-IFRS No. 1039 when applying K-IFRS No. 1109, and thus alleviates profit or loss volatility.

The Group plans to apply the requirements for hedge accounting under K-IFRS No. 1109 if the new standard is applied, and apply the hedge accounting as much as possible to the risk management activities that meet the requirements for hedge accounting.

THE ISSUER

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