



SHINHAN CARD CO., LTD.

Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying statements of financial position of Shinhan Card Co., Ltd. (the "Company") as of December 31, 2009 and 2008, and the related statements of income, appropriation of retained earnings, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shinhan Card Co., Ltd. of December 31, 2009 and 2008 and the results of its operations, the appropriation of its retained earnings, the changes in its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2(a) to the financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 4, 2010

This report is effective as of February 4, 2010, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN CARD CO., LTD.

Statements of Financial Position

As of December 31, 2009 and 2008

<i>In millions of Won</i>	<u>Notes</u>	<u>2009</u>	<u>2008</u>
<u>Assets</u>			
Cash and due from banks	3	₩ 1,039,753	1,491,272
Securities	4	411,444	453,533
Credit card assets, net	5,11	10,940,596	8,577,932
Loans, net	6,11	88,874	103,155
Installment financing assets, net	7,11	1,047,682	1,176,921
Lease assets, net	8,11	651,471	690,744
Securitization assets, net	9,10,11	1,888,830	3,134,589
Property and equipment, net	12	66,621	76,532
Other assets	11,13,14,20	1,437,612	1,370,899
Total assets		₩ <u>17,572,883</u>	<u>17,075,577</u>
<u>Liabilities and Stockholder's Equity</u>			
Liabilities:			
Borrowings	15,21	₩ 1,519,858	2,386,275
Debentures, net	16,21	8,483,809	7,916,597
Retirement and severance benefits	18	1,089	21,639
Other liabilities	17,19,20,22	2,926,632	3,096,353
Total liabilities		<u>12,931,388</u>	<u>13,420,864</u>
 Stockholder's equity:			
Common stock of ₩ 5,000 par value		626,847	626,847
Authorized – 2,000,000,000 shares			
Issued and outstanding – 125,369,403 shares			
Capital surplus		860,592	860,592
Accumulated other comprehensive income	25,28	217,157	36,982
Retained earnings		2,936,899	2,130,292
Total stockholder's equity		<u>4,641,495</u>	<u>3,654,713</u>
Total liabilities and stockholder's equity		₩ <u>17,572,883</u>	<u>17,075,577</u>

SHINHAN CARD CO., LTD.

Statements of Income

For the years ended December 31, 2009 and 2008

In millions of Won, except earnings per share

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Operating revenue:			
Interest income:			
Interest on due from banks		₩ 19,553	29,102
Interest on securities		-	3,479
Interest on credit card assets		1,016,033	1,159,621
Interest on loans		4,183	2,095
Interest on installment financing assets		104,830	127,327
Interest on lease assets		40,143	35,510
		<u>1,184,742</u>	<u>1,357,134</u>
Realized and unrealized gain on securities	28	55,268	152,048
Gain on foreign currency transaction		90,190	14,237
Fee and commission income		1,736,037	1,716,718
Asset securitization income		462,409	452,694
Others		165,068	453,043
Total operating revenue		<u>3,693,714</u>	<u>4,145,874</u>
Operating expense:			
Interest expense		564,017	609,237
Realized and unrealized loss on Securities		1,834	27,303
Losses on loans		107,733	43,110
Loss on foreign currency transaction		4,511	300,245
Fee and commission expense		1,147,240	1,084,602
Selling and administrative expenses	30	667,966	792,439
Others		85,615	9,946
Total operating expense		<u>2,578,916</u>	<u>2,866,882</u>
Net operating income		1,114,798	1,278,992
Non-operating income (expense), net		(14,244)	45,383
Income before income tax expense		<u>1,100,554</u>	<u>1,324,375</u>
Income taxes	26	243,799	383,800
Net income		<u>₩ 856,755</u>	<u>940,575</u>
Earnings per share	27	<u>₩ 6,834</u>	<u>7,502</u>

Statements of Appropriations of Retained Earnings

For the years ended December 31, 2009 and 2008

In millions of Won, except earnings per share

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Unappropriated retained earnings:			
Balance at beginning of year	₩	1,945,046	1,719,654
Interim dividends		-	(600,018)
Dividends per share (dividend as a percentage of par value):			
₩ - (0.00%) for 2009			
₩ 4,786 (95.72%) for 2008			
Net income		<u>856,755</u>	<u>940,575</u>
		<u>2,801,801</u>	<u>2,060,211</u>
Appropriations of retained earnings:			
Legal Reserve		60,002	65,017
Cash dividends	31	<u>600,018</u>	<u>50,148</u>
Dividends per share (dividend as a percentage of par value):			
₩ 4,786 (95.72%) for 2009			
₩ 400 (8.00%) for 2008			
		<u>660,020</u>	<u>115,165</u>
Unappropriated retained earnings to be carried over to subsequent year	₩	<u><u>2,141,781</u></u>	<u><u>1,945,046</u></u>

Statements of Changes in Equity

For the years ended December 31, 2009 and 2008

	2008					
	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Total
<i>In millions of Won</i>						
Balance at January 1, 2008	₩ 626,847	936,718	3,164	49,104	2,490,550	4,106,383
Dividends	-	-	-	-	(700,815)	(700,815)
Retained earnings after appropriation					1,789,735	
Interim Dividends					(600,018)	(600,018)
Net income	-	-	-	-	940,575	940,575
Gains on capital reduction	-	(77,371)	-	-	-	(77,371)
Other additional capital reduction	-	1,245	-	-	-	1,245
Stock option	-	-	(3,164)	-	-	(3,164)
Change in fair value of available-for-sale securities, net of tax	-	-	-	87,350	-	87,350
Unrealized holding gain on equity method investment securities, net of tax	-	-	-	523	-	523
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(99,995)	-	(99,995)
Balance at December 31, 2008	₩ <u>626,847</u>	<u>860,592</u>	<u>-</u>	<u>36,982</u>	<u>2,130,292</u>	<u>3,654,713</u>
	2009					
	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Total
<i>In millions of Won</i>						
Balance at January 1, 2009	₩ 626,847	860,592	-	36,982	2,130,292	3,654,713
Dividends	-	-	-	-	(50,148)	(50,148)
Retained earnings after appropriation					2,080,144	
Net income	-	-	-	-	856,755	856,755
Change in fair value of available-for-sale securities, net of tax	-	-	-	115,789	-	115,789
Unrealized holding gain on equity method investment securities, net of tax	-	-	-	(620)	-	(620)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	65,006	-	65,006
Balance at December 31, 2009	₩ <u>626,847</u>	<u>860,592</u>	<u>-</u>	<u>217,157</u>	<u>2,936,899</u>	<u>4,641,495</u>

SHINHAN CARD CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2009 and 2008

In millions of Won

	2009	2008
Cash flows from operating activities:		
Net income	₩ 856,755	940,575
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	107,731	43,110
Depreciation and amortization	41,476	63,251
Provision for retirement and severance benefits	20,450	113,001
(Reversal of) Compensation expense associated with stock option, net	2,946	(4,230)
Impairment loss on available-for-sale securities, net	(1,535)	50
(Reversal of) Impairment loss on held-to-maturity securities, net	(26,765)	(2,913)
Provision for membership reward program	222,922	200,622
Interest expense	9,473	43,298
Loss (gain) on foreign currency translation, net	(74,098)	288,752
Loss (gain) on valuation of equity method securities, net	501	200
Loss (gain) on valuation of derivatives, net	74,291	(289,539)
Amortization of deferred loan origination fees	(87,067)	(101,341)
Gain from assets contributed	-	(49,093)
Others, net	11,039	14,025
Changes in assets and liabilities:		
Decrease (increase) in deposits	50,279	(11,241)
Decrease in available-for-sale securities	636	100,112
Decrease (increase) in held-to-maturity securities	27,006	(128,207)
Decrease (increase) in credit card assets	(2,538,888)	46,010
Decrease in loans	16,407	34,800
Decrease (increase) in installment financing assets	136,518	(106,878)
Decrease (increase) in lease assets	35,135	(125,799)
Decrease (increase) in securitization assets	1,511,410	(154,336)
Decrease in deferred income tax assets	75,132	164,596
Decrease in financial derivatives	30,311	-
Decrease (increase) in other assets	(160,113)	222,273
Decrease (increase) in acquired loans	1,113	(9,133)
Increase (decrease) in income taxes payable	(60,098)	185,936
Decrease in retirement and severance benefits	(46,639)	(26,947)
Decrease (increase) in deposit for severance benefit insurance	5,640	(7,183)
Decrease in other liabilities	(338,029)	(436,591)
Net cash provided by (used in) operating activities	<u>(96,061)</u>	<u>1,007,180</u>

Statements of Cash Flows, Continued

For the years ended December 31, 2009 and 2008

In millions of Won

	<u>2009</u>	<u>2008</u>
Cash flows from investing activities:		
Decrease in operating assets from business transfer	₩ -	322,038
Decrease in operating liabilities from business transfer	-	(315,418)
Decrease in equity method investment securities	1,499	-
Increase in equity method investment securities	-	(1,000)
Refund of guarantee deposits	26,947	32,839
Disposal of property and equipment	251	333
Guarantee deposits paid	(16,688)	(40,254)
Acquisition of property and equipment	(19,329)	(32,920)
Acquisition of intangible assets	(11,975)	(18,287)
Increase in acquisition of operations	-	(103,818)
	<u>(19,295)</u>	<u>(156,487)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from call money	26,000	32,200
Proceeds from borrowings	1,755,659	4,626,325
Proceeds from debentures	3,487,764	2,935,239
Repayment of borrowings	(2,648,075)	(4,589,500)
Repayment of debentures	(2,857,084)	(2,415,789)
Dividends paid	(50,148)	(1,300,833)
	<u>(285,884)</u>	<u>(712,358)</u>
Net cash used in financing activities		
Net increase (decrease) in cash and cash equivalents	(401,240)	138,335
Cash and cash equivalents at beginning of period	<u>1,439,622</u>	<u>1,301,287</u>
Cash and cash equivalents at end of period	<u>₩ 1,038,382</u>	<u>1,439,622</u>

SHINHAN CARD CO., LTD.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(1) General Description

Shinhan Card Co., Ltd. (the "Company") was incorporated on December 17, 1985, under the name of Express Credit Card Corporation, to provide credit card services. The Company merged with Goldstar Factoring Corporation and LG Financing Corporation on June 1, 1988 and January 1, 1998, respectively. On October 1, 2007, the Company changed its name to Shinhan Card Co., Ltd. after several name changes.

The Company provides credit card services, factoring, installment financing and lease financing under the Credit Specialized Financial Business Act.

As of December 31, 2009, the Company has 48 branch offices, approximately 2.42 million merchants in its network and 14.32 million active cardholders. The Company's outstanding common shares amount to ₩ 626,847 million, and is a wholly owned subsidiary of Shinhan Financial Group Co., Ltd.

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation

(a) Basis of Financial Statements Presentation

The Company maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended solely for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations, cash flows or changes in equity is not presented in the accompanying financial statements.

The Company prepares the financial statements in accordance with generally accepted accounting principles in the Republic of Korea. The Company applied the same accounting policies that were adopted in the previous year's financial statements.

The Company applied the same accounting policies that were adopted in the previous year's financial statements except for the accounting change described in note 2(m) Retirement and Severance Benefits.

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued**(b) Revenue Recognition**

Revenue from the credit card and financing business mainly consists of annual membership fees, installment purchase fees, cash advance fees, interest on late and deferred payments and fees paid by merchants. The Company recognizes interest and fee income from cardholders and merchants on an accrual basis. However, the Company recognizes service charges and interest income from delinquent card holders on a cash basis.

Certain fees associated with lending activities which meet specified criteria, are deferred and amortized over the life of the loan as an adjustment to the carrying amount of the loan. The amortization of deferred fee is recognized as operating revenue.

Additionally, certain fees, which meet specified criteria, associated with installment financing assets are presented as an adjustment to the carrying amount of the installment financing assets, whereas those fees were previously presented as unearned revenue.

(c) Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the greater amount resulting from the provisioning methods as described below by each homogeneous group and classification:

i) Experience Loss Method

The Company estimates allowance for doubtful accounts through loss ratio analysis based on historical recoveries for rewritten loans, and roll-rate analysis for all other receivables.

ii) Financial Supervisory Service (FSS) Guideline

The Company classifies its credit card assets, loans, installment financing assets and leases into five categories; normal, precautionary, substandard, doubtful and estimated loss. The Company applies the prescribed minimum levels of reserve per the FSS guidelines under the Specialized Credit Financial Business Act, for each classification of credit card assets, loans, installment financing assets and leases. The prescribed minimum levels of reserve for each asset type are as follows:

	Normal	Precautionary	Substandard	Doubtful	Estimated Loss
Credit card assets	1.5%	15%	20%	60%	100%
Loans	0.5% (1% for individual)	1% (8% for individual)	20%	60%	100%
Installment financing assets	0.5% (1% for individual)	1% (2% for individual)	20%	75%	100%
Finance leases	0.5%	1%	20%	75%	100%

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued

(d) Investments in Securities

Classification

Upon acquisition, the Company classifies debt and equity securities (excluding investments in subsidiaries, associates and joint ventures) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at each closing date of reporting period.

Investments in debt securities where the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Initial recognition

Investments in securities (excluding investments in subsidiaries, associates and joint ventures) are initially recognized at cost.

Subsequent measurement and income recognition

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the income statement using the effective interest method.

Fair value information

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are fair valued by discounting cash flows using the prevailing market rates for debt with a similar credit risk and remaining maturity. Credit risk is determined using the Company's credit rating as announced by accredited credit rating agencies in Korea. The fair value of investments in money market funds is determined by investment management companies.

Impairment

The Company reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reasonably estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized and a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in the asset in prior years. For financial assets measured at amortized cost and available-for-sale assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued

(e) Investments in Associates

Associates are entities of the Company and its subsidiaries that have the ability to significantly influence the financial and operating policies. It is presumed to have significant influence if the Company holds directly or indirectly 20 percent or more of the voting power unless it can be clearly demonstrated that this is not the case. Subsidiaries are entities controlled by the Company.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's investments in associates include goodwill identified on acquisition (net of any accumulated impairment loss). Goodwill is calculated as the excess of the acquisition cost of an investment in an associate or subsidiary over the Company's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over its estimated useful life. Amortization of goodwill is recorded together with equity income (losses).

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Company reviews goodwill for impairment and records any impairment loss immediately in the statement of income.

The Company's share of its post-acquisition profits or losses in investments in associates is recognized in the income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate are recognized when the associate declares the dividend. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including preferred stock or other long term loans and receivables issued by the associate, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in each associate.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued**(f) Property and Equipment**

Property and equipment are stated at cost net of accumulated depreciation. Significant additions or improvements extending value or useful lives of assets are capitalized, while normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed based on the estimated useful lives of the respective assets using the following methods:

Descriptions	Useful lives	Depreciation method
Buildings	40 years	Straight-line
Computers	4 years	Declining-balance
Equipment	4 years	Declining-balance
Vehicles	4 years	Declining-balance

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

(g) Leases

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

A finance lease receivable is the net investment in the lease asset representing the aggregate future minimum lease payments including unguaranteed residual value, if any. The difference between the finance lease receivable and the book value of the underlying asset is recorded as gain(loss) on disposition of lease asset. Additionally, the lease payments received are recognized as collection of finance lease receivable and interest income, determined using the effective interest rate.

The Company also recognizes initial direct costs incurred in negotiating and arranging a finance lease, included as part of net investment, and those costs are expensed as an adjustment to revenue over the lease term.

For an operating lease, revenue on lease is recognized evenly throughout the lease period, and the operating lease assets are depreciated using the same depreciation method and estimated useful lives used for similar assets held by the Company.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued**(h) Intangible Assets**

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized using the straight-line method using the following useful lives:

<u>Descriptions</u>	<u>Useful lives</u>
Industrial property right	5 years
Development cost	4 years
Others	5 years or less

The Company reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

(i) Convertible Bonds and Bond with Warrants

When accounting for convertible bonds or bonds with stock purchase warrants, the liability component and the equity component of a bond are separated.

The liability component of a bond is recognized initially at fair value. Fair value is the present value of a similar debt security that does not have an equity conversion option (redemption premium is included if applicable). The equity component is recognized initially as the difference between the fair value of the bond as a whole, which are the gross proceeds of the bond received at the date of issue, and the fair value of the liability component. In the case of bonds with detachable stock warrants, the fair values of the liability and equity components are calculated separately. The equity component of convertible bonds or bonds with stock purchase warrants is presented as part of capital surplus within equity.

(j) Stock and Bond Issuance Cost

Stock issuance cost reduces paid-in capital in excess of par value and bond issuance cost reduces bond premium/discount.

(k) Discount on Debentures

Discount on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized using the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued

(I) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the closing date of reporting period is accrued in the accompanying financial statements. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with insurance companies and bank in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying financial statements as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred reduced the retirement and severance benefit amount to be paid to the employees when they leave the Company and is accordingly reflected in the accompanying financial statements as a reduction of the retirement and severance benefits liability.

The Company has introduced a defined benefit pension plan and defined contribution plan since 2009. The Company has offered the existing retirement benefit plan continuously for managements and a defined benefit pension plan or a defined contribution plan for employees.

The Company introduced a defined benefit pension plan, where each eligible employee receives a fixed amount of pension after retirement. The Company accrued, as a liability for retirement and severance benefits, lump-sum payments payable to employees who are currently in service, assuming that they left the Company as of the closing date of reporting period. All employees with a minimum of one year of service are eligible to participate and must elect to participate in the plan. The Company is not obligated to pay for the defined benefit pension payments to employees who participate in the plan as the Company has eligible employees to join the lump-sum payments pension. The Company sponsors a defined contribution plan and contributes to the plan with a fixed amount. The amount of benefit payments which depends on the performance of the plan is not guaranteed. Contributions to the plan are expensed as retirement and severance benefits when remitted to the plan.

The combined provision for retirement and severances benefits under the pension plan and those under the existing retirement benefit plan is recorded as the liability for retirement and severance benefits. Pension plan assets, together with the existing retirement and severance benefit deposit and the deposit previously made to the National Pension Fund under the old National Pension Law, as referred to above, is reflected in the accompanying financial statements as a reduction of the liability for retirement and severance benefits.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued

(m) Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term installment transactions, long-term cash lending or borrowings and other similar transactions are stated at present value. The difference between the nominal value and present value of related receivables or payables is amortized using the effective interest method. The amount amortized is included in interest expense or interest income.

(n) Trouble Debt Restructuring

A loan in which the contractual terms are modified in a troubled debt restructuring program is accounted for at the present value of the expected future cash flows of the modified loan discounted at the effective interest rate of the original loan. The excess of the carrying amount over the present value of expected future cash flows is recorded as provision for doubtful accounts in the current period. The present value discounts are recorded in allowance for doubtful accounts and reflected as a deduction from the nominal value of the loans. The present value discounts are amortized using the effective interest method and recognized as interest income.

(o) Translation of Foreign Currency Denominated Assets and Liabilities

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic exchange rate and the cross rates of exchange announced by the Seoul Money Brokerage Services Ltd. at the closing date of reporting period, with the resulting gains and losses recognized in current results of operations. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate ruling at the date of the transaction.

(p) Derivatives and Hedge Accounting

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

Hedge accounting

Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction it is designated as a cash flow hedge.

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in fair values or cash flows of hedged items.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued

(p) Derivatives and Hedge Accounting, Continued

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges (if a non-derivative financial instrument was designated as fair value hedging instrument, the translation gain or loss) are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges (if non-derivative financial instrument was designated as cash flow hedging instrument, the effective portion of changes resulting from the changes in currency exchange rate) are recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the statement of income. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in the statement of income.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of income.

(q) Share-Based Payments

Shinhan Financial Group, Co., Ltd., the parent, has granted shares or share options to the Company's employees and other parties. For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest. For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued**(r) Allowance for Unused Credit Commitments**

The Company records allowance for unused credit commitments by applying the credit conversion factor based on the prescribed minimum levels of reserve for each classification as follows:

	Normal	Precautionary	Substandard	Doubtful	Estimated Loss
Unused credit commitments	1.5%	15%	20%	60%	100%

(s) Provision, Contingent Assets and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense generated by the provision is presented net of the amount of expected reimbursement.

(t) Income Taxes

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Changes in deferred taxes due to a change in the tax rate except for those related to items initially recognized outside profit or loss (either in other comprehensive income or directly in equity) are recognized as income in the current year.

SHINHAN CARD CO., LTD.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(2) Summary of Significant Accounting Policies and Basis of Financial Statements Presentation, Continued

(u) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements and related notes to the financial statements. Such estimates include the evaluation of credit card assets, deferred tax assets, property and equipment, and derivative financial instruments. Actual results could differ from those estimates.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(3) Cash and due from banks

(a) Cash and due from banks as of December 31, 2009 and 2008 are as follows:

	2009	2008
Cash and cash equivalents	₩ 1,038,382	1,439,622
Due from banks	1,371	51,650
	₩ <u>1,039,753</u>	<u>1,491,272</u>

(b) Deposits which are restricted in use for as of December 31, 2009 and 2008 are as follows:

	2009	2008	Restrictions
Shinhan Bank	₩ -	50,284	Pledged as collateral related to sale of receivables previously written off
Jeonbuk Bank	100	100	Pledged as collateral for cash advances
Woori Bank and others	34	28	Deposit for checking accounts
Korea Post	338	338	Pledged as collateral for a lease
	₩ <u>472</u>	<u>50,750</u>	

Additionally, the deposit for severance benefit insurance and pension assets for severance benefit are restricted solely for payment of severance benefits to employees.

(4) Securities

Securities as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Available-for-sale securities	₩ 404,493	255,147
Held-to-maturity securities	6,561	195,202
Equity method investment securities	390	3,184
	₩ <u>411,444</u>	<u>453,533</u>

(a) Available-for-sale securities

(i) Available-for-sale securities as of December 31, 2009 and 2008 are as follows:

	2009	2008
Equity securities	₩ 404,493	255,147

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(4) Securities, Continued**(a) Available-for-sale securities, Continued**

(ii) Details of available-for-sale securities as of December 31, 2009 and December 31, 2008 are as follows:

	2009		2008	
	Adjusted acquisition cost	Net asset or fair value	Book value	Book value
Marketable equity securities				
Korea Ratings Corporation	₩ 360	1,020	1,020	1,383
Korea Information Service Inc.	-	-	-	127
Korea Cyber Payment Co., Ltd.	-	-	-	208
ELIM EDU Co., Ltd. and others	-	-	-	24
	<u>360</u>	<u>1,020</u>	<u>1,020</u>	<u>1,742</u>
Non-marketable equity and debt securities				
MasterCard Inc. (*1 and *4)	1,992	45,008	45,008	25,636
BC Card Co., Ltd. (*4)	5,840	53,272	53,272	36,550
Visa Inc. (with restrictions on disposal) (*2 and *4)	54,422	199,852	199,852	127,785
Visa Inc.(without restrictions on disposal) (*3 and *4)	23,324	95,408	95,408	54,765
Kihyup Technology Banking Corp.(*4)	1,000	1,050	1,050	1,016
MIRAE Credit Information Services Corp. (*4)	3,236	3,129	3,129	3,236
Korea Credit-Card Electronic-Settlement Service Co., Ltd. (*4)	546	861	861	821
Korea Smart Card Co., Ltd. (*4)	1,355	1,355	1,355	17
MYbi Co., Ltd. (*4)	200	200	200	-
SMARTRO Co., Ltd. (*5)	900	900	900	900
Korea Credit Bureau Co., Ltd. (*4)	2,250	2,011	2,011	2,250
Epion Technologies Corp. (former Daumtech) (*5)	21	21	21	21
F&U Credit Information Co., Ltd. (*5)	400	400	400	400
Other (*5)	5	6	6	8
	<u>95,491</u>	<u>403,473</u>	<u>403,473</u>	<u>253,405</u>
₩	<u>95,851</u>	<u>404,493</u>	<u>404,493</u>	<u>255,147</u>

(*1) MasterCard Inc. shares are restricted from disposal until May 25, 2010.

(*2) Visa Inc. shares are restricted from disposal until March 25, 2011.

(*3) The Company was granted a right to convert up to 30% of the shares with restrictions on disposal to Visa Inc. shares without restrictions on disposal. The Company exercised the conversion right so that 30% of the shares are released from restrictions.

(*4) Valuation methods which were applied to measure fair value by external pricing agency were risk adjusted discount rate method and free cash flow to equity method.

(*5) Acquisition costs were used for the valuation of non-marketable stocks as fair value could not be reasonably determined.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(4) Securities, Continued**(a) Available-for-sale securities, Continued****(iii) Changes in impairment losses on available-for-sale securities**

Details of impairment losses and reversal of impairment losses on available-for-sale securities for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Impairment	Reversal	Impairment	Reversal
Available-for-sale securities ₩	3	1,538	50	-

(b) Held-to-maturity securities**(i) Details of held-to-maturity securities as of December 31, 2009 and December 31, 2008 are as follows:**

	2009			2008	
	Face Value	Acquisition cost	Fair value	Book value	Book value
Sangroksu 1st SHC 2008 Asset Securitization Specialty Co., Ltd.(*)	₩ 341,891	236,608	6,561	6,561	6,802
	-	-	-	-	188,400
	₩ 341,891	236,608	6,561	6,561	195,202

(*) During the year ended December 31, 2009, these held-to-maturity securities are reclassified to securitization assets.

(ii) Changes in impairment losses on held-to-maturity securities

Details of impairment losses and reversal of impairment losses on held-to-maturity securities for years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Impairment	Reversal	Impairment	Reversal
Held-to-maturity securities ₩	1,635	28,400	27,253	30,166

The Company sold bad loans to Sangroksu 1st Securitization Specialty Co., Ltd. and acquired subordinated bonds. The acquired bonds are fully impaired as possibility of future cash collection is uncertain. The Company recognizes reversal of previously recognized impairment losses based on the proportion of ownership in net asset as cash is collected from Sangroksu 1st Securitization Specialty Co., Ltd. Additionally, impairment losses and reversal of impairment losses are recognized due to the variance of net asset of Sangroksu 1st Securitization Specialty Co., Ltd.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(4) Securities, Continued**(b) Held-to-maturity securities, Continued**

(iii) As of December 31, 2009, the maturity of held-to-maturity securities is as follows:

	Book value
Due in one to five years	₩ 6,561

(c) Equity method investment securities

(i) Equity method investment securities as of December 31, 2009 and 2008 consist of the following:

Investee	Percentage of ownership	2009		2008	
		Acquisition cost	Book value	Acquisition cost	Book value
High Technology Investment, Ltd.	28.9%	₩ 148	142	142	2,476
Shinhan KT Mobile Card Co., Ltd.	50.0%	1,000	248	248	708
		₩ 1,148	390	390	3,184

(ii) Changes in the equity method investment securities for the year ended December 31, 2009 are as follows:

Investee	2009				
	Beginning balance	Equity in earnings	Stock redemption	Changes in other comprehensive income	Ending balance
High Technology Investment, Ltd.	₩ 2,476	(41)	(1,499)	(794)	142
Shinhan KT Mobile Card Co.,Ltd.	708	(460)	-	-	248
	₩ 3,184	(501)	(1,499)	(794)	390

The Company accounted for its investment in High Technology Investment, Ltd. and Shinhan KT Mobile Card Co., Ltd. by using equity method of accounting based on investee's management's accounts. The Company performed verification procedures to depend on investee's management's accounts.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(4) Securities, Continued**(c) Equity method investment securities, Continued**

(iii) The summarized financial information of equity method investee is as follows:

Investee	Assets	Liabilities	Sales	Net loss
High Technology Investment, Ltd.(*)	₩ 491	1	41	(133)
Shinhan KT Mobile Card Co.,Ltd.	595	98	80	(919)

(*) As High Technology Investment, Ltd. has a different reporting period from the Company, its financial statements as of and for the 12 months period end September 30, 2009 was used for the equity method of accounting. In addition, the Company reflected the financial impacts from the significant transaction and events subsequent to September 30, 2009 to December 31, 2009.

(5) Credit Card Assets

Credit card assets as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Lump-sum purchases	₩ 2,761,774	1,874,561
Installment purchases	3,058,251	2,063,709
Cash advances	1,811,071	1,468,468
Revolving	825,109	617,455
Card loans	2,516,539	2,317,577
Rewritten loans	298,267	393,823
Purchasing card	390,560	469,586
	11,661,571	9,205,179
Less : Allowance for doubtful accounts	(699,791)	(597,894)
Deferred loan origination fees	(21,184)	(29,353)
	₩ 10,940,596	8,577,932

The Company provides merchants with financing by purchasing their accounts receivable from cardholders with lump-sum payment terms and imposes service charges ranging from 1.5% to 4.5%. Lump-sum purchases are collected from the credit cardholders on the agreed payment date.

The Company provides merchants with financing by purchasing their accounts receivable from cardholders with installment payment terms and collects payments in installment from the credit cardholders over an agreed period ranging from two months to 24 months. The Company imposes service charges on merchants for these payments and charges interest ranging 10.8% to 21.9% per annum on the outstanding installment balances to the credit cardholders.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(5) Credit Card Assets, Continued

The Company provides credit cardholders with cash advances, up to a certain amount per month, and collects interest ranging from 9.84% to 26.6% per annum from credit cardholders over the term of the cash advances, approximately 45 days. A fee of 0.6% of the cash advances is charged to the cardholders at the time of service.

Receivables on revolving credit cards are the outstanding balances after partial payments at the settlement ratio that cardholders requested. The cardholders can set the settlement ratio ranging between 5% and 100% and the Company charges commission at annual interest rates of 9.84% to 26.6% for revolving lump-sum purchases and revolving cash advances.

The Company provides card loans with maturities ranging from two months to 36 months at an annual interest rate of 7.6% to 25.8%. The Company charges a fee of 0.0% to 4.0% of the card loans at the time of loan origination.

Rewritten loans are delinquent receivables converted into loans, with a loan period of less than six years except for credit recovery loans which have a loan period of less than twelve years. Rewritten loans consist of loans that are repaid in equal installments of principal and interest without a grace period after conversion into rewritten loans and loans that are repaid in equal installments of principal and interest after a deferment of six months or one year. Interest rates of the rewritten loans are determined based on the credit ratings of debtors.

(6) Loans

Loans as of December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Bonds purchased under resale agreements	₩ 87,000	100,000
General loans	1,564	3,435
Loans for working capital	<u>1,042</u>	<u>1,059</u>
	89,606	104,494
Less : Allowance for doubtful accounts	(732)	(1,332)
Deferred loan origination fees	<u>-</u>	<u>(7)</u>
	<u>₩ 88,874</u>	<u>103,155</u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(7) Installment Financing Assets

Installment financing assets as of December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Installment for durable goods	₩ 1,089,646	1,214,241
Installment for houses	2,435	3,331
Installment for others	<u>8,571</u>	<u>23,778</u>
	1,100,652	1,241,350
Less : Allowance for doubtful accounts	(21,595)	(29,024)
Deferred loan origination fees	<u>(31,375)</u>	<u>(35,405)</u>
	<u>₩ 1,047,682</u>	<u>1,176,921</u>

In accordance with the Specialized Credit Financial Business Act, the Company provides installment financing on purchases of products and services. As of December 31, 2009, the Company provides installment financing on purchases of durable goods, houses and others at annual interest rates of 5.8% to 27.9% over an agreed period ranging from 3 to 60 months on durable goods, and 10% to 25% over an agreed period ranging from 3 to 36 months on houses and other products.

The Company collects service charges at a maximum of 3.0% from merchants. Service charges and interest from delinquent installment financing receivables are accounted for as fee and commission and interest on installment financing assets, respectively.

The amounts provided by merchants to ensure repayment of installment financing are accounted for as guarantee deposits included in other liabilities. In addition, the Company is provided with third-party guarantees or collateral for installment financing services, depending on the credit rating of debtors.

(8) Lease Assets

Lease assets as of December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Finance leases	₩ 656,628	694,949
Operating lease asset	<u>9,724</u>	<u>43,774</u>
	666,352	738,723
Less : Allowance for doubtful accounts	(7,239)	(8,144)
Accumulated depreciation	<u>(7,642)</u>	<u>(39,835)</u>
	<u>₩ 651,471</u>	<u>690,744</u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(8) Lease Assets, Continued

(a) As of December 31, 2009, details of total investment in finance leases and present value of minimum lease payments for each of the following periods are as follows:

	<u>Total investment</u>	<u>Present value of minimum lease payment</u>
Auto lease assets		
Within one year	₩ 324,770	291,593
Between one year through five years	388,119	365,034
Over five years	1	1
	<u>₩ 712,890</u>	<u>656,628</u>

(b) Operating Lease Assets

(i) As of December 31, 2009 and 2008, operating lease assets at acquisition cost classified by industry are as follows:

	<u>2009</u>	<u>2008</u>
Automobile	₩ 9,724	43,774

(ii) As of December 31, 2009, details of minimum lease payments under operating leases for each of the following periods are as follows:

	<u>Auto lease</u>
Within one year	₩ 619

(iii) Changes in operating lease assets net of accumulated depreciation for the year ended December 31, 2009 are as follows:

	<u>Beginning balance, net</u>	<u>Increase</u>	<u>Disposal</u>	<u>Depreciation</u>	<u>Ending balance, net</u>
Operating lease assets	₩ 3,939	5,124	4,369	2,612	2,082

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(9) Securitization Assets

The Company has transferred some of its receivables to special purpose companies ("SPC") pursuant to the Asset-Backed Securitization Act. As of December 31, 2009 and 2008, Securitization Assets are as follows:

	<u>2009</u>	<u>2008</u>
Trusted assets:		
Credipia 2005 plus 1	₩ -	439,366
Credipia 2005 plus 2	576,611	271,330
Credipia 2005 plus 3	-	470,874
Credipia 2006 plus 1A/1B	319,767	175,121
Shinhan Card 2003-1	-	1,177,352
Shinhan Card 2007-1	163,639	238,458
Shinhan Card 2007-2	254,988	198,093
Shinhan Card 2008-1	219,703	209,306
SHC 2008 Asset Securitization Specialty Co., Ltd.	<u>216,142</u>	<u>82,361</u>
	1,750,850	3,262,261
Subordinated bonds:		
SHC 2008 Asset Securitization Specialty Co., Ltd.	<u>188,400</u>	-
	1,939,250	3,262,261
Less: Allowance for doubtful accounts	<u>(50,420)</u>	<u>(127,672)</u>
	<u>₩ 1,888,830</u>	<u>3,134,589</u>

(*) As of December 31, 2009, the receivables transferred excluding Securitization Assets are ₩ 1,794,799 million.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(9) Securitization Assets, Continued

Under the terms of the respective asset transfer agreements, the Company is liable for any unqualified receivables, as defined. In trust-type asset securitizations, SPCs can demand the Company to transfer additional assets if the transferred assets are below the agreed minimum amount.

As prescribed by the respective asset transfer agreements and other contracts, the Company has an obligation to early redeem the asset-backed securities in certain cases, such as when outstanding balance of securitized assets falls below the agreed amount at each settlement period or when portfolio profitability ratio is less than primary cost ratio for three consecutive settlement periods.

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

(10) Transfer of receivables

The receivables transferred to SPC as of December 31, 2009 are as follows:

SPC	2009	Transferred asset	Transfer date
Credipia 2005 plus 2	₩ 714,604	Credit Card Assets	2005.11.23
Credipia 2006 plus 1A/1B	751,214	Credit Card Assets & Installment Financing Assets	2006.09.27
Shinhan Card 2007-1	441,139	Credit Card Assets	2007.12.04
Shinhan Card 2007-2	532,188	Credit Card Assets	2007.12.07
Shinhan Card 2008-1	540,361	Credit Card Assets	2008.06.26
SHC 2008 Asset Securitization Specialty Co., Ltd.	754,543	Credit Card Assets	2008.11.27
	₩ 3,734,049		

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(11) Allowance for Doubtful Accounts

Allowance for doubtful accounts as of December 31, 2009 and 2008 are as follows:

	2009		
	Balance	Allowance	Provision Ratio (%)
Credit card assets	₩ 11,661,571	699,791	6.00
Loans	89,606	732	0.82
Installment financing assets	1,100,652	21,595	1.96
Lease assets	656,628	7,239	1.10
Securitization assets	1,939,250	50,420	2.60
Others	682,460	13,692	2.01
	₩ 16,130,167	793,469	4.92
	2008		
	Balance	Allowance	Provision Ratio (%)
Credit card assets	₩ 9,205,179	597,894	6.50
Loans	104,494	1,332	1.27
Installment financing assets	1,241,350	29,024	2.34
Lease assets	694,949	8,144	1.17
Securitization assets	3,262,261	127,672	3.91
Others	449,220	9,894	2.20
	₩ 14,957,453	773,960	5.17

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(12) Property and Equipment

(a) Changes in property and equipment for the years ended December 31, 2009 and 2008 are as follows:

	2009					
	Beginning balance	Reclassification	Acquisition	Disposal	Depreciation	Ending balance
Land	₩ 21,108	-	-	-	-	21,108
Buildings	10,056	-	-	-	331	9,725
Computers	35,791	-	11,908	55	22,772	24,872
Equipment	9,418	-	7,421	164	5,822	10,853
Vehicles	159	-	-	17	79	63
	₩ 76,532	-	19,329	236	29,004	66,621

	2008					
	Beginning balance	Reclassification	Acquisition	Disposal	Depreciation	Ending balance
Land	₩ 22,210	(1,004)	-	98	-	21,108
Buildings	7,842	1,004	1,554	29	315	10,056
Computers	43,078	-	26,194	32	33,449	35,791
Equipment	13,009	-	4,978	253	8,316	9,418
Vehicles	68	-	194	11	92	159
Construction-in-progress	217	-	-	217	-	-
	₩ 86,424	-	32,920	640	42,172	76,532

(b) As of December 31, 2009, the officially declared value of land as announced by the Minister of Land, Transport and Maritime Affairs is ₩ 21,074 million. The officially declared value, which is used for government purposes, does not represent the fair value.

(c) Insured Assets

Insured assets as of December 31, 2009 are as follows:

Type of insurance	Assets covered	Insurance company	Amount covered
Property comprehensive insurance	Buildings, etc.	Samsung Fire & Marine Insurance Co., Ltd.	₩ 56,397

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

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(13) Other Assets

Other assets as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Accounts receivable	₩ 611,296	379,684
Accrued income	64,539	59,054
Advance payments	117,689	99,310
Prepaid expenses	16,456	35,070
Guarantee deposits	102,636	112,307
Deferred income tax assets, net (note 26)	322,851	448,802
Derivative assets (note 20)	168,099	197,419
Intangible assets, net of accumulated amortization	31,537	29,422
Loans to employees, net	6,625	10,482
Acquired loans	8,020	9,133
Other	1,556	110
	<u>1,451,304</u>	<u>1,380,793</u>
Less : Allowance for doubtful accounts	<u>(13,692)</u>	<u>(9,894)</u>
	<u>₩ 1,437,612</u>	<u>1,370,899</u>

(14) Intangible Assets

Changes in intangible assets for the years ended December 31, 2009 and 2008 are as follows:

	2009			2008		
	Industrial property	Development cost	Others	Industrial property	Development cost	Others
Beginning balance	₩ 2	27,976	1,444	36	18,387	7,006
Acquisition	-	1,980	9,995	-	18,287	-
Reclassification	-	-	-	-	(1,808)	1,808
Amortization	(2)	(8,069)	(1,789)	(34)	(6,384)	(2,720)
Retirement losses	-	-	-	-	(506)	(4,650)
Ending balance	<u>₩ -</u>	<u>21,887</u>	<u>9,650</u>	<u>2</u>	<u>27,976</u>	<u>1,444</u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(15) Borrowings

Borrowings as of December 31, 2009 and 2008 consist of the following:

	Annual Interest Rate (%)		2009	2008
Call money	2.10	₩	58,200	32,200
Commercial paper	3.59~5.10		511,659	998,925
General borrowings	5.67		50,000	150,000
Borrowings from Shinhan Financial Group Co., Ltd.	5.66~6.90		800,000	1,180,000
Overdrawn account	5.91		99,999	-
Foreign currency borrowings	Libor(3M)+0.795		-	25,150
		₩	<u>1,519,858</u>	<u>2,386,275</u>

As of December 31, 2009, the maturities of borrowings are as follows:

2010.1 ~ 2010.12	₩	591,419
2011.1 ~ 2011.12		678,439
2012.1 ~ 2012.12		<u>250,000</u>
	₩	<u>1,519,858</u>

(16) Debentures

(a) Debentures as of December 31, 2009 and 2008 consist of the following:

	Maturity	Annual Interest rate (%)		2009	2008
Debentures in Won	2010.01.04~2013.12.15	4.12 ~ 8.75	₩	7,500,000	6,041,000
Less : Discounts				<u>(7,319)</u>	<u>(3,964)</u>
				<u>7,492,681</u>	<u>6,037,036</u>
Debentures in foreign currency	2010.04.12~2012.05.14	3.92 ~ 5.80		992,460	1,131,750
Less : Discounts				<u>(1,332)</u>	<u>(3,102)</u>
				<u>991,128</u>	<u>1,128,648</u>
			₩	<u>8,483,809</u>	<u>7,165,684</u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(16) Debentures, Continued

(b) Convertible bond as of December 31, 2009 and 2008 is as follows:

	<u>Maturity</u>	<u>Annual Interest Rate (%)</u>		<u>2009</u>	<u>2008</u>
Non-guaranteed, subordinated convertible bond	2009.1.21	3.0	₩	-	299,670
Add : Redemption premium				-	99,001
Less : Conversion right adjustment				-	(1,283)
Discounts				-	(49)
			₩	-	<u>397,339</u>

Above convertible bond has been fully redeemed as of December 31, 2009.

(c) Bond with stock warrants as of December 31, 2009 and 2008 is as follows:

	<u>Maturity</u>	<u>Annual Interest rate (%)</u>		<u>2009</u>	<u>2008</u>
Bond with stock warrant	2009.2.12	3.0	₩	-	282,665
Add : Redemption premium				-	73,015
Less : Stock warrants adjustment				-	(2,027)
Discounts				-	(79)
			₩	-	<u>353,574</u>

Above bond with stock warrants has been fully redeemed as of December 31, 2009.

(d) As of December 31, 2009, the maturities of debentures are as follows:

2010.1 ~ 2010.12	₩	2,728,632
2011.1 ~ 2011.12		2,606,788
2012.1 ~ 2012.12		2,547,040
2013.1 ~ 2013.12		<u>610,000</u>
	₩	<u>8,492,460</u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(17) Other Liabilities

Other liabilities as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Accounts payable	₩ 1,300,036	1,426,608
Advance from customers	79,256	68,834
Withholdings	116,500	188,681
Accrued expenses	219,452	152,327
Unearned revenue	16,827	14,332
Tax payable	125,839	185,936
Guarantee deposits	248,458	257,895
Derivative liabilities (note 20)	5,801	13,859
Provision for membership reward program (note 19)	273,233	246,429
Other allowances (note 22)	501,178	508,063
Compensation for members	3,913	1,674
Other	36,139	31,715
	<u>₩ 2,926,632</u>	<u>3,096,353</u>

(18) Retirement and Severance Benefits

(a) Changes in retirement and severance benefits for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Balance at beginning of the period	₩ 109,624	108,218
Payment	(46,757)	(27,858)
Provision	20,450	28,353
Other	118	911
Balance at end of the year	83,435	109,624
Less: Contribution to National Pension Fund	(919)	(1,039)
Pension assets for severance benefit	(80,412)	-
Deposit for severance benefit insurance	(1,015)	(86,946)
	<u>₩ 1,089</u>	<u>21,639</u>

The Company maintains an employees' severance benefit trust arrangement with Shinhan Bank and others. Under this arrangement, the Company has made a deposit and pension assets in the amount equal to 99.25% and 79.31% of the retirement and severance benefits liability as of December 31, 2009 and 2008, respectively. This deposit and pension assets are to be used to guarantee the required payments to the retirees and are reflected in the statements of financial position as a reduction of the retirement and severance benefits liability.

(b) The Company's contribution to the defined contribution plan is ₩ 135 million for the year ended December 31, 2009 and is expensed as retirement and severance benefits.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(18) Retirement and Severance Benefits, Continued

(c) Pension assets for severance benefit as of December 31, 2009 consist of the following:

		<u>2009</u>
Cash and due from banks	₩	54,655
Securities		24,357
Others		<u>1,400</u>
	₩	<u><u>80,412</u></u>

(19) Provision for Membership Reward Program

The Company provides membership rewards for cardholders with the future estimated expenses accounted for as liabilities in the balance sheet. Changes in provision of membership reward program for the years ended December 31, 2009 and 2008 are as follows:

		<u>2009</u>	<u>2008</u>
Beginning balance	₩	246,429	212,775
Payment		(196,118)	(166,968)
Provision		<u>222,922</u>	<u>200,622</u>
Ending balance	₩	<u><u>273,233</u></u>	<u><u>246,429</u></u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(20) Derivatives

- (a) The Company has entered into currency swap contracts to hedge future interest rate and foreign exchange risk resulting in changes of cash flows and fair value related to foreign currency borrowings and debentures. Details of currency swap contracts outstanding as of December 31, 2009 and 2008 are as follows:

Currency swap	2009			2008		
	Trading	Hedging	Total	Trading	Hedging	Total
\$	-	850,000	850,000	-	920,000	920,000

- (b) The Company has entered into interest rate swap contracts to hedge future interest rate risk resulting in changes in cash flows related to borrowings and debentures in Won. As of December 31, 2009 and 2008, details of interest rate swap are as follows:

Interest rate swap	2009			2008		
	Trading	Hedging	Total	Trading	Hedging	Total
₩	-	440,000	440,000	-	965,000	965,000

- (c) Details of the valuation of derivative instruments as of December 31, 2009 are as follows:

	Derivative assets	Derivative Liabilities	Accumulated other comprehensive income
Currency swap	₩ 167,670	-	(19,904)
Currency swap	-	1,332	(592)
Interest rate swaps	429	-	335
Interest rate swaps	-	4,469	(3,486)
₩	<u>168,099</u>	<u>5,801</u>	<u>(23,647)</u>

(21) Foreign Currency Denominated Assets and Liabilities

Details of assets and liabilities denominated in foreign currency as of December 31, 2009 and 2008 are as follows:

(in millions of Won and thousands of U.S. dollar)

Liabilities:	Foreign Currency		Won equivalent	
	2009	2008	2009	2008
Borrowings	\$ -	20,000	₩ -	25,150
Debentures	\$ 850,000	900,000	<u>₩ 992,460</u>	<u>1,131,750</u>
			<u>₩ 992,460</u>	<u>1,156,900</u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(22) Other Allowances

Details of other allowances as of December 31, 2009 and 2008 are as follows:

	2009			
	Beginning Balance	Provision	Reversal/ Payment	Ending balance
Allowance for unused credit commitments	₩ 485,738	2,821	-	488,559
Allowance for litigation (note 23(a))	21,325	-	9,706	11,619
Allowance for electronic commerce	1,000	-	-	1,000
	<u>₩ 508,063</u>	<u>2,821</u>	<u>9,706</u>	<u>501,178</u>
	2008			
	Beginning balance	Provision	Reversal/ Payment	Ending balance
Allowance for unused credit commitments	₩ 455,639	30,099	-	485,738
Allowance for litigation	14,385	6,958	18	21,325
Allowance for electronic commerce	1,000	-	-	1,000
	<u>₩ 471,024</u>	<u>37,057</u>	<u>18</u>	<u>508,063</u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(23) Commitments and Contingencies

- (a) As of December 31, 2009, the Company has 13 pending lawsuits as a defendant (total claim amount : ₩ 17,032 million) of which a legal provision of to ₩11,619 million is included in other allowances in the accompanying financial statements. The Company's management believes that, although the outcome of these cases is uncertain, their ultimate resolution will not have a material adverse impact on the Company's operations or financial position.
- (b) As of December 31, 2009, the Company has bank overdraft agreements for borrowings up to ₩ 397,000 million with eight banks including Kookmin Bank. In addition, the Company has agreements with Korea Exchange Bank and Woori Bank in relation to discount of notes up to ₩ 100,000 million and ₩ 100,000 million, respectively.
- (c) As of December 31, 2009, the Company has received guarantees of ₩ 66,471 million and ₩ 2,802 million from Seoul Guarantee Insurance Co., Ltd. and National Agricultural Cooperative Federation for the required court deposit and discharge of payment, respectively.

(24) Share-Based Payment

The share based options granted by Shinhan Financial Group Co., Ltd. to employees of former Shinhan Card Co., Ltd. were part of the business transfer effective October 1, 2007. The Company assumes the difference between the exercise price and the market price on the date of exercise in cash and recognizes compensation costs in selling and administrative expense. Compensation costs are calculated using the intrinsic value method for the fourth to fifth grants and the fair value method for the sixth and seventh grants.

Details of stock options in effect as of December 31, 2009 are as follows:

	4th grant	5th grant	6th grant	7th grant
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Shares granted	112,400 shares	166,700 shares	95,900 Shares	131,675 Shares
Shares outstanding	61,099 shares	137,146 shares	74,906 shares	110,690 shares
Method of settlement	Cash-settle	Cash-settle	Stock or Cash-settle	Stock or Cash-settle
Exercise price in Won	₩28,006	₩38,829	₩54,560	₩49,053
Exercise period	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date	Within 4 years after 3 years from grant date

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(24) Share-Based Payment, Continued

	4th grant	5th grant	6th grant	7th grant
Terms:				
Service period	-	-	Two years from grant date	Two years from grant date
Market performance				
Management	-	-	Increase rate of stock price and target ROE	Increase rate of stock price and target ROE
Employee	-	-	Achievement of annual target ROE for three consecutive years	Achievement of annual target ROE for three consecutive years
Maturity	7 years after grant date	7 years after grant date	7 years after grant date	7 years after grant date
Grant employees	Managements & officers	Managements & officers	Managements & officers	Managements
Cumulative expense recognized as of current period	-	-	₩ 573 million	₩ 1,004 million
Expense to be recognized in subsequent periods	-	-	-	₩ 86 million
Risk-free interest rate	-	-	3.98%	4.37%
Expected exercise period	-	-	2.75 years	3.75 years
Expected stock price volatility	-	-	44.94%	39.92%
Expected dividend yield ratio	-	-	0.81%	1.46%
Fair value of stock option in Won	-	-	Management: ₩ 7,585 Employee: ₩ 8,638	₩9,852

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(25) Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Valuation gain on available-for-sale securities	₩ 241,010	125,200
Valuation loss on available-for-sale securities	(269)	(248)
Unrealized holding gain on equity method investment securities	63	683
Effective portion of valuation gain on cash flow hedges	335	564
Effective portion of valuation loss on cash flow hedges	<u>(23,982)</u>	<u>(89,217)</u>
	<u>₩ 217,157</u>	<u>36,982</u>

(26) Income Taxes

(a) The Company was subject to income taxes on taxable income at the following normal tax rates.

Taxable income	Tax rate	
	2009 ~ 2011	Thereafter
Up to ₩ 200 million	12.1%	11%
Over ₩ 200 million	24.2%	22%

(b) The components of income tax expense for the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Current income tax payable	₩ 168,667	219,213
Changes in deferred tax due to temporary differences	125,951	(28,911)
Changes in deferred tax due to accumulated tax loss carry forward	-	155,973
Income tax benefit adjusted to equity	<u>(50,819)</u>	<u>37,525</u>
Income tax expense	<u>₩ 243,799</u>	<u>383,800</u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(26) Income Taxes, Continued

(c) The income tax expense calculated by applying statutory tax rates to the Company's taxable income for the year differs from the actual tax expense in the statement of income for the year ended December 31, 2009 and 2008 for the following reasons:

	2009	2008
Income before income taxes	₩ 1,100,554	1,324,375
Expense for income taxes at normal tax rates	266,334	364,203
Adjustments:	(22,535)	19,597
Non taxable income	(1,655)	(3,133)
Non deductible expense	1,067	1,427
Tax credit	-	-
Change effects in tax rate	(751)	89,108
Change in probability of temporary differences	(8,606)	(67,246)
Tax return	(12,568)	-
Others	(22)	(559)
Income tax expense	₩ 243,799	383,800
Effective tax rate	22.2%	29%

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(26) Income Taxes, Continued

(d) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2009 and 2008 are as follows:

	2009				
	Beginning balance	Decrease (*)	Increase (*)	Ending Balance	Deferred tax asset (liability)
Deductible temporary differences:					
Donations	₩ 15,959	15,959	-	-	-
Depreciation	4,767	3,370	684	2,081	476
Available-for-sale securities	409,480	313,647	309,303	405,136	90,522
Held-to-maturity securities	116,734	116,734	89,969	89,969	21,772
Accrued income	356	-	-	356	78
Provision for membership reward program	246,429	246,429	273,233	273,233	60,111
Deferred loan origination fees	64,765	64,765	-	-	-
Premium on redemption of convertible bonds	99,001	99,001	-	-	-
Premium on redemption of bonds with stock warrants	73,015	73,015	-	-	-
Compensation for cardholders	1,674	-	1,888	3,562	783
Equity in gain or loss of equity method investees	276	-	501	777	171
Valuation gain or loss on derivatives	113,657	83,340	-	30,317	6,670
Allowance for doubtful accounts	169,059	169,059	123,855	123,855	28,338
Other allowances	508,063	508,063	501,530	501,530	110,336
Intangible asset	32	30	-	2	1
Bonuses	18,760	18,760	59,566	59,566	14,415
Provision for prepaid membership program	32,701	9,902	-	22,799	5,016

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(26) Income Taxes, Continued

	2009				
	Beginning balance	Decrease (*)	Increase (*)	Ending Balance	Deferred tax asset (liability)
Deductible temporary differences:					
Accrued expense	₩ 5,381	313	-	5,068	1,115
Membership	1,322	653	-	669	147
Share-Based Payment	-	-	1,004	1,004	243
Goodwill	293,267	78,205	-	215,062	50,755
	<u>2,174,698</u>	<u>1,801,245</u>	<u>1,361,533</u>	<u>1,734,986</u>	<u>390,949</u>
Taxable temporary differences:					
Unrealized gain on available-for-sale securities	(160,195)	-	(148,447)	(308,642)	(67,901)
Conversion right adjustment	(1,283)	(1,283)	-	-	-
Stock warrant adjustment	(2,027)	(2,027)	-	-	-
Unrealized holding gain on equity method investment securities	(876)	(795)	-	(81)	(18)
Valuation gain on derivatives related to changes in foreign currency	(787)	(759)	100	72	18
Bond discounts	(1,843)	(1,031)	-	(812)	(197)
	<u>(167,011)</u>	<u>(5,895)</u>	<u>(148,347)</u>	<u>(309,463)</u>	<u>(68,098)</u>
	<u>₩ 2,007,687</u>	<u>1,795,350</u>	<u>1,213,186</u>	<u>1,425,523</u>	<u>322,851</u>

(*) The changes of temporary differences in prior year are reflected in current years' income tax adjustments.

	2008				
	Beginning Balance	Decrease	Increase	Ending balance	Deferred tax asset (liability)
Deductible temporary differences:					
Donations	₩ 15,959	-	-	15,959	3,757
Depreciation	3,892	1,259	2,134	4,767	1,070
Available-for-sale securities	349,284	397,845	458,041	409,480	90,102
Held-to-maturity securities	128,568	121,850	110,016	116,734	25,681
Accrued income	342	-	14	356	78
Provision for membership reward program	212,775	212,775	246,429	246,429	54,214
Deferred loan origination fees	45,848	45,848	64,765	64,765	14,533
Premium on redemption of convertible bonds	99,001	-	-	99,001	23,958
Premium on redemption of bonds with stock warrants	73,015	-	-	73,015	17,670
Compensation for credit cardholders	1,674	-	-	1,674	368

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(In millions of Won)

(26) Income Taxes, Continued

	2008				
	Beginning Balance	Decrease	Increase	Ending balance	Deferred tax asset (liability)
Deductible temporary differences:					
Equity in gain or loss of equity method investees ₩	76	-	200	276	61
Allowance for doubtful accounts	131,858	139,458	176,659	169,059	37,937
Other allowances	471,024	471,024	508,063	508,063	111,774
Intangible asset	32	-	-	32	7
Bonuses	4,000	4,000	18,760	18,760	4,540
Provision for prepaid membership program	35,093	8,206	5,814	32,701	7,194
Accrued expense	864	-	4,517	5,381	1,184
Membership	1,322	-	-	1,322	291
Goodwill	371,471	78,204	-	293,267	66,239
	<u>1,946,098</u>	<u>1,480,469</u>	<u>1,595,412</u>	<u>2,061,041</u>	<u>460,658</u>
Taxable temporary differences:					
Unrealized gain on available-for-sale securities	(51,865)	-	(108,330)	(160,195)	(35,243)
Conversion rights adjustment	(23,211)	(23,211)	(1,283)	(1,283)	(310)
Stock warrant adjustment	(18,907)	(18,907)	(2,027)	(2,027)	(491)
Unrealized holding gain on equity method investment securities	(221)	-	(655)	(876)	(193)
Bond discounts	(2,622)	(779)	-	(1,843)	(434)
Valuation gain or loss on derivatives	(15,643)	(16,160)	113,140	113,657	25,005
Valuation gain on derivatives related to changes in foreign currency	(351)	(351)	(787)	(787)	(190)
	<u>(112,820)</u>	<u>(59,408)</u>	<u>58</u>	<u>(53,354)</u>	<u>(11,856)</u>
Tax loss carry forward	567,177	567,177	-	-	-
₩	<u>2,400,455</u>	<u>1,988,238</u>	<u>1,595,470</u>	<u>2,007,687</u>	<u>448,802</u>

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(26) Income Taxes, Continued

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

(f) The deferred tax assets and liabilities that are directly charged or credited to other comprehensive income for the year ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Temporary difference	Deferred tax assets (liabilities)	Temporary difference	Deferred tax assets (liabilities)
Unrealized gain on available-for-sale securities	₩ 148,474	(32,664)	108,375	(20,975)
Unrealized loss on available-for-sale securities	(27)	6	(44)	(5)
Unrealized holding gain on equity method investment securities	(794)	175	654	(132)
Unrealized gain on derivatives	(294)	64	(16,160)	4,483
Unrealized loss on derivatives	83,634	(18,399)	(113,141)	24,822
Gains on capital reduction	-	-	(106,655)	29,332
	₩ <u>230,993</u>	<u>(50,818)</u>	<u>(126,971)</u>	<u>37,525</u>

(27) Earnings Per Share

Earnings per common share are calculated by dividing net income by the weighted average number of shares of common stock outstanding. Earnings per share for the year ended December 31, 2009 and 2008 are computed as follows:

(in millions of Won, except shares outstanding and earnings per share)

	2009	2008
Net income available for common stock	₩ 856,755	940,575
Weighted average number of shares common stock outstanding	125,369,403	125,369,403
Earnings per share in Won	₩ <u>6,834</u>	<u>7,502</u>

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December 31, 2009 and 2008

(In millions of Won)

(28) Statement of Comprehensive Income

Comprehensive income for the year ended December 31, 2009 is as follows:

	2009	2008
Net income	₩ 856,755	940,575
Other comprehensive income:		
Changes in fair value of available-for-sale securities, net		
tax effect : ₩32,658 million for 2009		
₩20,980 million for 2008	115,789	87,350
Effective portion of changes in fair value of cash flow hedges, net		
tax effect : ₩ 18,335 million for 2009		
₩ 29,305 million for 2008	65,006	(99,995)
Decrease in unrealized holding gain on equity method investment securities		
tax effect : ₩174 million for 2009		
₩132 million for 2008	(620)	523
Comprehensive income	₩ 1,036,930	928,453

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December 31, 2009 and 2008

(In millions of Won)

(29) Related Party Transactions

(a) As of December 31, 2009, related parties of the Company is as follows:

Name of company	Control relationship
Shinhan Financial Group Co., Ltd.	Parent company

(b) Significant transactions with related parties for the year ended December 31, 2009 and 2008 are as follows:

Related party / Account	2009	
	Revenue	Expense
Shinhan Financial Group Co., Ltd.		
Interest expense	₩ -	60,790
Royalty expense	-	9,484
Shinhan Bank		
Interest income	966	-
Fee and commission income	438	-
Rent	31	-
Interest expense	-	19,712
Fee and commission expense	-	145,247
Rent	-	4,745
Loss on valuation of derivatives	-	23,374
Shinhan Investment Corp. (former Good Morning Shinhan Securities Co., Ltd.)		
Interest income	3	-
Fee and commission expense	-	86
Rent	-	1,002
Interest expense	-	276
Shinhan Data System Co., Ltd.		
Fee and commission income	-	-
Fee and commission expense	-	2,107
Shinhan Credit Information Co., Ltd.		
Fee and commission income	7	-
Rent	524	-
Fee and commission expense	-	24,729
Shinhan Life Insurance Co., Ltd.		
Interest income	538	-
Fee and commission income	13,659	-
Interest expense	-	2,113
Fee and commission expense	-	225
Selling and administrative expenses	-	101
Cardif Life Insurance Co., Ltd. (former SH&C Life Insurance Co., Ltd.)		
Fee and commission income	1,309	-
Jeju Bank		
Fee and commission income	267	-
Fee and commission expense	-	47
SHC Management Co., Ltd. (former Shinhan Card Co., Ltd.)		
Fee and commission income	129	-
Fee and commission expense	-	-
Shinhan KT Mobile Card Co., Ltd.		
Fee and commission expense	-	126

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(29) Related Party Transactions, Continued

Related party / Account	2008	
	Revenue	Expense
Shinhan Financial Group Co., Ltd.		
Interest expense	₩ -	53,310
Royalty expense	-	18,825
Shinhan Bank		
Interest income	548	-
Fee and commission income	7,862	-
Gain on valuation of derivatives	98,983	-
Interest expense	-	5,093
Fee and commission expense	-	117,324
Rent	-	3,006
Shinhan Investment Corp. (former Good Morning Shinhan Securities Co., Ltd.)		
Interest income	9	-
Fee and commission expense	-	94
Rent	-	1,053
Interest expense	-	24
Shinhan Data System Co., Ltd.		
Fee and commission income	3	-
Fee and commission expense	-	1,428
Shinhan Credit Information Co., Ltd.		
Fee and commission income	7	-
Fee and commission expense	-	13,658
Shinhan Life Insurance Co., Ltd.		
Interest income	390	-
Fee and commission income	25,578	-
Interest expense	-	442
Fee and commission expense	-	531
Selling and administrative expenses	-	254
Cardif Life Insurance Co., Ltd. (former SH&C Life Insurance Co., Ltd.)		
Fee and commission income	3,004	-
Jeju Bank		
Fee and commission income	228	-
Fee and commission expense	-	84
SHC Management Co., Ltd. (former Shinhan Card Co., Ltd.)		
Fee and commission income	250	-
Fee and commission expense	-	2,756

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(29) Related Party Transactions, Continued

(c) Significant balances with the related parties as of December 31, 2009 and 2008 are as follows:

Related party / Account	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Shinhan Financial Group Co., Ltd.				
Credit card assets	₩ 234	-	152	-
Borrowings	-	800,000	-	1,180,000
Accrued expenses	-	7,199	-	7,879
Shinhan Bank				
Cash and due from bank	57,800	-	604,658	-
Credit card assets	3,674	-	4,093	-
Deposit for severance benefit insurance	1,351	-	43,220	-
Derivative assets	53,621	-	64,004	-
Guarantee deposits	23,586	-	5,013	-
Borrowings	-	58,200	-	1,122,000
Debentures	-	-	-	39,654
Derivative liabilities	-	4,075	-	12,256
Accounts payable	-	20	-	-
Shinhan Capital Co., Ltd.				
Credit card assets	195	-	187	-
Shinhan Investment Corp. (former Good Morning Shinhan Securities Co., Ltd.)				
Guarantee deposits	3,974	-	3,974	-
Cash and cash equivalents	311	-	238	-
Credit card assets	1,173	-	975	-
Cardif Life Insurance Co., Ltd. (former SH&C Life Insurance Co., Ltd.)				
Credit card assets	88	-	68	-
Accrued income	-	-	127	-
Shinhan Credit Information Co., Ltd.				
Credit card assets	90	-	51	-
Accounts payable	-	2,171	-	881
Jeju Bank				
Deposit	247	-	279	-
Accounts payable	-	19	-	-
Shinhan Private Equity, Inc.				
Credit card assets	33	-	34	-

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(29) Related Party Transactions, Continued

Related party / Account	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Shinhan Data System Co., Ltd.				
Credit card assets	₩ 47	-	29	-
Accrued expenses	-	276	-	171
Shinhan BNP Paribas ITMC Co.,Ltd.				
Credit card assets	70	-	55	-
SHC Management Co., Ltd. (former Shinhan Card Co., Ltd.)				
Accrued income	5	-	26	-
Shinhan Life Insurance Co., Ltd.				
Deposit for severance benefit insurance	9,108	-	14,826	-
Credit card assets	1,644	-	1,790	-
Debentures	-	25,000	-	25,205
Accrued expenses	-	442	-	-
Accounts payable	-	102	-	-
SH Asset Management				
Credit card assets	-	-	83	-
Shinhan Aitas Co., Ltd.				
Credit card assets	75	-	-	-
Shinhan KT Mobile Card Co., Ltd.				
Credit card assets	56	-	-	-

(30) Selling and Administrative Expenses

Details of selling and administrative expenses for the year ended December 31, 2009 and 2008 are as follows:

	2009	2008
Salaries and wages	₩ 254,526	260,378
Provision for retirement and severance benefits	20,585	113,001
Other employee benefits	54,279	49,938
Rent	22,113	25,829
Entertainment	1,200	1,498
Depreciation	31,616	54,113
Amortization	9,860	9,138
Taxes and dues	23,671	19,089
Advertising	84,851	100,931
Other	165,265	158,524
	₩ 667,966	792,439

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(31) Dividends

(a) Interim dividend is as follows:

	2009	(share, Won) 2008
Total number of shares issued and outstanding	125,369,403	125,369,403
Par value per share in Won	₩ 5,000	5,000
Dividends as a percentage of par value	-	95.72%
Dividends per share in Won	₩ -	4,786

(b) Dividends for the years ended December 31, 2009 and 2008 are as follows:

	2009	(share, Won) 2008
Total number of shares issued and outstanding	125,369,403	125,369,403
Par value per share in Won	₩ 5,000	5,000
Dividends as a percentage of par value	95.72%	8.00%
Dividends per share in Won	₩ 4,786	400

(c) Payout ratios for the years ended December 31, 2009 and 2008 are calculated as follows:

	2009	2008
Dividends	₩ 600,000	650,166
Net income	856,755	940,575
Dividends as a percentage of net income	₩ 70.03%	69.12%

(32) Gain from Visa Inc. Shares

The Company received 6,659,345 outstanding shares on October 1, 2007 and 1,238,777 outstanding shares on March 12, 2008 in exchange for its membership interest in Visa Inc. related to its initial public offering resulting in non-operating gain of ₩ 128,351 million and ₩ 49,093 million for the year ended December 31, 2007 and 2008, respectively. Meanwhile, on April 1, 2008 the Company paid SHC Management Co., Ltd. (former Shinhan Card Co., Ltd.) ₩ 103,818 million for 2,051,511 outstanding shares Visa Inc. shares, which had not been included in the transferred assets as of October 1, 2007, in accordance with the additional Business Transfer Agreement for settlements. In addition, the Company disposed 4,437,600 shares of Visa Inc. and realized gain of ₩ 88,581 million on available-for-sale securities for the year ended December 31, 2008.

SHINHAN CARD CO., LTD.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(33) Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Salaries and wages	₩ 139,571	164,051
Provision for retirement and severance benefit	20,585	113,001
Other employee benefits	54,279	49,938
Rent expense	22,113	25,829
Depreciation expenses on operating lease assets	2,612	11,941
Depreciation	29,004	42,172
Taxes and dues	23,671	19,089

(34) Results of Operations for the Last Interim Period

	2009	2008
	4th quarter	4th quarter
Operating revenue	₩ 962,389	990,020
Operating income	321,192	207,318
Net income for the period	242,173	126,785
Earnings per share	1,932	1,011

(35) Date of Authorization for Issue

The 2009 financial statements were authorized for issue on January 29, 2010, at the Board of Directors Meeting.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(36) Plans and Status for the First-time Adoption of K-IFRS (International Financial Reporting Standards)

(a) Overview of K-IFRS adoption

Under the Financial Supervisory Commission's announced roadmap for the adoption of K-IFRS in March 2007 and article 13 of the Act on External Audit of Stock Companies, the Company is required to prepare for financial statements in accordance with K-IFRS from 2011. In August 2007, the Company organized an IFRS Task Force Team ("IFRS TFT") and performed preliminary analysis of the effects of K-IFRS adoption and newly established the financial reporting system and other. The IFRS TFT is proceeding to prepare for consolidated financial information for opening balance at January 1, 2010.

(b) K-IFRS Adoption Status

(i) Action Plan and Status

① Phase 1: Impact Analysis

The Company identified differences between Statements of Korean Financial Accounting Standards (current Korean Accounting Standards) and K-IFRS, and assessed the potential impact of K-IFRS adoption over the period from August of 2007 to February of 2008. Also, the Company has provided K-IFRS training course to its employees to enhance K-IFRS knowledge.

② Phase 2: Policy Establishment, System Design and Implementation

Based on the outcome of Phase 1, from March 2008 to December 2009, the Company performed detailed GAP and impact analysis, designed and implemented of its IT infrastructure. The Company also has continuously carried out training course for its employees.

③ Phase 3: Preparation for Consolidated Financial Information

Starting January 2010, the Company is proceeding to prepare for opening balance at transition date and consolidated financial statements on a quarterly basis in accordance with K-IFRS. In addition, the Company reorganizes internal accounting control system.

(ii) Major Activities

① Establishment of accounting policies and accounting manuals

For the consistency in application of K-IFRS and the Shinhan Financial Group's accounting policies, the Company reorganized its accounting policy and accounting practice manual to meet the consistency for accounting treatments.

② System Redesign

The Company analyzed a financial reporting system and defined business requirement design in order to produce the financial information in a relevant and efficient manner. Then the Company completed IFRS system at the closing date of reporting period. In addition, the Company has performed financial data cleansing and uploaded data in IFRS system.

Notes to Financial Statements

December 31, 2009 and 2008

(In millions of Won)

(36) Plans and status for the First-time Adoption of K-IFRS (International Financial Reporting Standards), Continued

(iii) Organization and Operation

In order to ensure a complete transition to K-IFRS, the Company organized IFRS TFT including external advisory firm. In order to maximize the efficiency in the major areas affected by the adoption of K-IFRS, IFRS TFT was divided to sub-groups like consolidation, loans, securities, derivatives and other areas. In addition, IT employees participated in IFRS TFT for the purpose of system operation and maintenance.

(c) Future Business Plan

Starting January 2010, the Company is proceeding to prepare for opening balance at transition date and consolidated financial statements on a quarterly basis in accordance with K-IFRS. In addition, the Company reorganizes internal accounting control system.

(d) GAAP Difference Items

GAAP difference items include scope of consolidation, goodwill, loan loss reserves, revenue recognition and employee benefits. Also, transition report is expected to be issued through preparation of financial information at transition date.

Internal Accounting Control System Review Report

English translation of a Report Originally Issued in Korean

To the President of
Shinhan Card Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Shinhan Card Co., Ltd. as of December 31, 2009. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2009, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2009 is not prepared in all material respects, in accordance with IACS issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2009. We did not review the Company's IACS subsequent to December 31, 2009. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 4, 2010

Notice to Readers

This report is annexed in relation to the audit of the financial statements as of and for the year ended December 31, 2009 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

To the Board of Directors and Internal Auditor of
Shinhan Card Co., Ltd.:

I, as the Internal Accounting Control Officer ("IACO") of Shinhan Card Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") as of December 31, 2009.

The Company's management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses.

I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2009, in all material respects, in accordance with the IACS Standards issued by the IACS Operations Committee.

Chun Kuk Lee, Internal Accounting Control Officer

Jae Woo Lee, Chief Executive Officer

January 20, 2010

This report has been translated into English from Korean language report enclosed.

내부회계관리제도 운영실태 평가보고서

신한카드주식회사
이사회 및 감사위원회 귀중

본 내부회계관리자는 2009년 12월 31일 현재 동일자로 종료하는 회계년도에 대한 당사의 내부회계관리제도의 설계 및 운영실태를 평가하였습니다.

내부회계관리제도의 설계 및 운영에 대한 책임은 본 내부회계관리자를 포함한 회사의 경영진에 있습니다. 본 내부회계관리자는 회사의 내부회계관리제도가 신뢰할 수 있는 재무제표의 작성 및 공시를 위하여 재무제표의 왜곡을 초래할 수 있는 오류나 부정 행위를 예방하고 적발할 수 있도록 효과적으로 설계 및 운영되고 있는지의 여부에 대하여 평가하였습니다.

본 내부회계관리자는 내부회계관리제도의 설계 및 운영실태를 평가함에 있어 내부회계관리제도 모범규준을 평가기준으로 사용하였습니다.

본 내부회계관리자의 내부회계관리제도 운영실태 평가 결과, 2009년 12월 31일 현재 당사의 내부회계관리제도는 내부회계관리제도 모범규준에 근거하여 볼 때, 중요성의 관점에서 효과적으로 설계되어 운영되고 있다고 판단됩니다.

2010년 1월 20일

내부회계관리자

이 춘 국 

대 표 이 사

이 재 우 