



**SHINHAN CARD CO., LTD.**

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

## **Contents**

<b>Independent Auditors' Report</b>	1
Statements of Financial Position	2
Statements of Income	3
Statements of Appropriation of Retained Earnings	4
Statements of Changes in Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	8
Internal Accounting Control System Review Report	57
Report on the Operations of Internal Accounting Control System	58

## **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, 2010 and 2009, 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. as of December 31, 2010 and 2009 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.  
Seoul, Korea  
March 4, 2011

This report is effective as of March 4, 2011, 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.

**Statements of Financial Position**

As of December 31, 2010 and 2009

*(In millions of won, except share data)*

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Cash and due from banks	3	₩ 1,067,223	1,039,753
Securities	4	382,116	411,444
Credit card assets, net	5,11	13,363,008	10,940,596
Loans, net	6,11	201,399	88,874
Installment financing assets, net	7,11	1,107,942	1,047,682
Lease assets, net	8,11	680,233	651,471
Securitization assets, net	9,10,11	2,757,772	1,888,830
Property and equipment, net	12	61,063	66,621
Other assets	11,13,14,20	1,475,756	1,437,612
<b>Total assets</b>		<b>₩ 21,096,512</b>	<b>17,572,883</b>
<b>Liabilities</b>			
Borrowings	15	₩ 2,315,739	1,519,858
Debentures, net	16,21	10,168,477	8,483,809
Retirement and severance benefits	18	11,228	1,089
Other liabilities	17,19,20,22	3,471,838	2,926,632
<b>Total liabilities</b>		<b>15,967,282</b>	<b>12,931,388</b>
<b>Stockholder's equity</b>			
Common stock of ₩ 5,000 par value		626,847	626,847
Authorized – 2,000,000,000 shares			
Issued and outstanding – 125,369,403 shares			
in 2010 and 2009			
Capital surplus		860,592	860,592
Accumulated other comprehensive income	26,29	197,881	217,157
Retained earnings		3,443,910	2,936,899
<b>Total stockholder's equity</b>		<b>5,129,230</b>	<b>4,641,495</b>
<b>Total liabilities and stockholder's equity</b>		<b>₩ 21,096,512</b>	<b>17,572,883</b>

**Statements of Income**

For the years ended December 31, 2010 and 2009

*(In millions of won, except earnings per share)*

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<b>Operating revenue</b>			
Interest income:			
Interest on due from banks		₩ 19,474	19,553
Interest on credit card assets		1,311,649	1,016,033
Interest on loans		3,605	4,183
Interest on installment financing assets		94,334	104,830
Interest on lease assets		41,470	40,143
		<u>1,470,532</u>	<u>1,184,742</u>
Realized and unrealized gain on securities	29	44,225	55,268
Reversal of allowance for doubtful accounts		26,062	-
Gain on foreign currency transaction		50,199	90,190
Fee and commission income		1,948,905	1,736,037
Asset securitization income		267,350	462,409
Others		252,804	165,068
<b>Total operating revenue</b>		<u>4,060,077</u>	<u>3,693,714</u>
<b>Operating expense</b>			
Interest expense		653,282	564,017
Realized and unrealized loss on securities		-	1,834
Losses on loans		-	107,733
Loss on foreign currency transaction		10,636	4,511
Fee and commission expense		1,439,913	1,147,240
Selling and administrative expenses	31	726,335	667,966
Others		41,540	85,615
<b>Total operating expense</b>		<u>2,871,706</u>	<u>2,578,916</u>
<b>Net operating income</b>		<u>1,188,371</u>	<u>1,114,798</u>
Non-operating expense, net		(8,318)	(14,244)
<b>Income before income tax expense</b>		<u>1,180,053</u>	<u>1,100,554</u>
Income taxes	27	73,024	243,799
<b>Net income</b>		<u>₩ 1,107,029</u>	<u>856,755</u>
<b>Earnings per share</b>	28	<u>₩ 8,830</u>	<u>6,834</u>

SHINHAN CARD CO., LTD.

**Statements of Appropriation of Retained Earnings**

For the years ended December 31, 2010 and 2009

Date of Appropriation for 2010: March 22, 2011

Date of Appropriation for 2009: March 23, 2010

*(In millions of won, except dividends per share)*

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<b>Unappropriated retained earnings</b>			
Balance at beginning of year		₩ 2,141,781	1,945,046
Net income		<u>1,107,029</u>	<u>856,755</u>
<b>Balance at end of year before appropriation</b>		<u>3,248,810</u>	<u>2,801,801</u>
<b>Appropriation of retained earnings</b>			
Legal Reserve		60,002	60,002
Cash dividends	32	<u>600,018</u>	<u>600,018</u>
Dividends per share (dividend as a percentage of par value):			
₩ 4,786 (95.72%) for 2010			
₩ 4,786 (95.72%) for 2009			
		<u>660,020</u>	<u>660,020</u>
<b>Unappropriated retained earnings to be carried over to subsequent year</b>		<u>₩ 2,588,790</u>	<u>2,141,781</u>

**Statements of Changes in Equity**

For the years ended December 31, 2010 and 2009

*(In millions of won)*

		<b>Common Stock</b>	<b>Capital surplus</b>	<b>Accumulated other comprehensive income</b>	<b>Retained earnings</b>	<b>Total stockholder's equity</b>
<b>Balance at January 1, 2009</b>	₩	626,847	860,592	36,982	2,130,292	3,654,713
Dividends		-	-	-	(50,148)	(50,148)
Net income for the period		-	-	-	856,755	856,755
Change in fair value of available-for-sale securities, net of tax		-	-	115,789	-	115,789
Unrealized loss of equity method accounted investees, net of tax		-	-	(620)	-	(620)
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	65,006	-	65,006
<b>Balance at January 1, 2010</b>	₩	626,847	860,592	217,157	2,936,899	4,641,495
Dividends		-	-	-	(600,018)	(600,018)
Net income for the period		-	-	-	1,107,029	1,107,029
Change in fair value of available-for-sale securities, net of tax		-	-	(21,866)	-	(21,866)
Unrealized loss of equity method accounted investees, net of tax		-	-	(64)	-	(64)
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	2,654	-	2,654
<b>Balance at December 31, 2010</b>	₩	626,847	860,592	197,881	3,433,910	5,129,230

**Statements of Cash Flows**

For the years ended December 31, 2010 and 2009

*(In millions of won)*

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Net income	₩ 1,107,029	856,755
Adjustments for:		
Bad debt expense	-	107,731
Reversal of allowance for doubtful accounts	(26,062)	-
Depreciation and amortization	38,900	41,476
Accrual for retirement and severance benefits	19,662	20,450
Share-based compensation expense	3,293	2,946
Reversal of Impairment losses on available-for-sale securities, net	(317)	(1,535)
Reversal of Impairment losses on held-to-maturity securities, net	(22,848)	(26,765)
Provision for membership reward program	348,624	222,922
Interest expense	9,576	9,473
Foreign currency translation gain, net	(31,389)	(74,098)
Equity in loss of equity method accounted investees, net	254	501
Loss on valuation of derivatives, net	31,472	74,291
Amortization of deferred loan origination fees	(54,122)	(87,067)
Others, net	17,247	11,039
Changes in assets and liabilities:		
Decrease in deposits	-	50,279
Decrease in available-for-sale securities	-	636
Decrease in held-to-maturity securities	24,070	27,006
Increase in credit card assets	(2,383,690)	(2,538,888)
(Increase) decrease in loans	(111,858)	16,407
(Increase) decrease in installment financing assets	(55,905)	136,518
(Increase) decrease in lease assets	(27,754)	35,135
(Increase) decrease in securitization assets	(853,082)	1,511,410
Decrease in deferred income tax assets	54,231	75,132
Decrease in financial derivative assets	65,909	30,311
Increase in financial derivative liabilities	8,792	-
Increase in other assets	(129,579)	(160,113)
Decrease in acquired loans	542	1,113
Decrease in income taxes payable	(106,307)	(60,098)
Payment of retirement and severance benefits	(6,519)	(46,639)
Decrease (increase) in deposit for severance benefit insurance	(3,004)	5,640
Increase (decrease) in other liabilities	247,517	(338,029)
<b>Net cash used in operating activities</b>	<b>(1,835,318)</b>	<b>(96,061)</b>



SHINHAN CARD CO., LTD.

**Statements of Cash Flows, Continued**

For the years ended December 31, 2010 and 2009

(In millions of won)

	<u>2010</u>	<u>2009</u>
<b>Cash flows from investing activities</b>		
Decrease in equity method accounted investments	₩ 130	1,499
Refund of guarantee deposits	31,962	26,947
Disposal of property and equipment	541	251
Increase in guarantee deposits	(41,618)	(16,688)
Acquisition of property and equipment	(19,643)	(19,329)
Acquisition of intangible assets	(9,911)	(11,975)
<b>Net cash used in investing activities</b>	<u>(38,539)</u>	<u>(19,295)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	2,047,000	1,781,659
Proceeds from debentures	4,564,096	3,487,764
Repayment of borrowings	(1,251,119)	(2,648,075)
Repayment of debentures	(2,858,632)	(2,857,084)
Dividends paid	(600,018)	(50,148)
<b>Net cash provided by (used in) financing activities</b>	<u>1,901,327</u>	<u>(285,884)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	27,470	(401,240)
Cash and cash equivalents at beginning of year	<u>1,038,382</u>	<u>1,439,622</u>
<b>Cash and cash equivalents at end of year</b>	<u>₩ <u>1,065,852</u></u>	<u>1,038,382</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

**1. Organization and Description of Business**

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, 2010, the Company has 48 branch offices, approximately 2.55 million merchants in its network and 15.18 million personal credit cardholders. The Company's outstanding common shares amount to ₩626,847 million and the Company is a wholly owned subsidiary of Shinhan Financial Group Co., Ltd.

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies**

**(a) Basis of Financial Statements Presentation**

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language. 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. Except for the items explained in note 2(t) related to consolidated tax return, the Company applied the same accounting policies that were adopted in the previous year's financial statements.

**Notes to Financial Statements**

December 31, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, 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 restructured 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, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, 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 statement of income 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 statement of income 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 equity securities are recorded at fair value measured by the valuation model of independent and professional institutes using reliable data. 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 issuer'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 amounts 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, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(e) Investments in Associates and Subsidiaries**

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 statement of income, 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 or subsidiaries.

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

**(f) Property and Equipment**

Property and equipment are stated at cost. 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

**Notes to Financial Statements**

December 31, 2010 and 2009

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

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.

**(h) Intangible Assets**

Costs incurred during the development phase are recognized as assets only if the criteria are met for recognition in Statements of Korean Accounting Standards ("SKAS") No. 3 *Intangible Assets* and there is evidence that the intangible asset will generate probable future economic benefit. If the costs incurred fail to satisfy these criteria, they are recorded as expenses as incurred.

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:

Descriptions	Useful lives
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.

**Notes to Financial Statements**

December 31, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(i) Convertible Bonds and Bonds with Warrants**

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 capital surplus 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.

**(l) 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 at the end 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 statements of financial position as a reduction of the liability for retirement and severance benefits. When deposits for severance benefits exceed provision for retirement benefit, the excess amount is recorded as other asset.

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 reduces the retirement and severance benefit amount to be paid to the employees when they leave the Company and is accordingly reflected in the accompanying statements of financial position as a reduction of the liability for retirement and severance benefits.

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.

**Notes to Financial Statements**

December 31, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(l) Retirement and Severance Benefits, Continued**

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 end 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, are reflected in the accompanying statements of financial position as a reduction of the liability for retirement and severance benefits.

**(m) Valuation of Receivables and Payables at Present Value**

Receivables and payables arising from long-term installment transactions, long-term cash loans, 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) Foreign Currency Translation**

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 end of reporting period, with the resulting gains and losses recognized in the statement of income. 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.



**Notes to Financial Statements**

December 31, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(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.

**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 statement of income 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.

**Notes to Financial Statements**

December 31, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued****(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.

**(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.

**Notes to Financial Statements**

December 31, 2010 and 2009

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(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 the end of the reporting period.

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

**(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, 2010 and 2009

**3. Cash and due from banks**

(a) Cash and due from banks as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	₩ 1,065,852	1,038,382
Due from banks	1,371	1,371
	<u>₩ 1,067,223</u>	<u>1,039,753</u>

(b) Deposits which are restricted in use for as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>	<u>Restrictions</u>
Jeonbuk Bank	₩ 100	100	Pledged as collateral for cash advances
Woori Bank and others	34	34	Deposit for checking accounts
Korea Post	338	338	Pledged as collateral for a lease
	<u>₩ 472</u>	<u>472</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, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Available-for-sale securities	₩ 376,777	404,493
Held-to-maturity securities	5,339	6,561
Equity method accounted investments	-	390
	<u>₩ 382,116</u>	<u>411,444</u>

(a) Available-for-sale securities

(i) Available-for-sale securities as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Equity securities	₩ 376,777	404,493

**Notes to Financial Statements**

December 31, 2010 and 2009

**4. Securities, Continued**

(a) Available-for-sale securities, Continued

(ii) Available-for-sale securities as of December 31, 2010 and 2009 are summarized as follows:

*(In millions of won)*

	2010		2009	
	Adjusted acquisition cost	Net asset or fair value	Book Value	Book value
Marketable equity securities				
Korea Ratings Corporation	₩ 360	1,116	1,116	1,020
	360	1,116	1,116	1,020
Non-marketable equity and debt securities				
MasterCard Inc. (*1 and *4)	1,992	40,865	40,865	45,008
BC Card Co., Ltd. (*4)	5,840	63,441	63,441	53,272
Visa Inc. (with restrictions on disposal) (*2 and *4)	54,422	90,504	90,504	199,852
Visa Inc. (without restrictions on disposal) (*3 and *4)	23,324	169,845	169,845	95,408
Kihyup Technology Banking Corp. (*4)	1,000	1,013	1,013	1,050
MIRAE Credit Information Services Corp. (*4)	3,236	3,474	3,474	3,129
Korea Credit-Card Electronic-Settlement Service Co., Ltd. (*5)	546	861	861	861
Korea Smart Card Co., Ltd. (*4)	1,355	1,672	1,672	1,355
MYbi Co., Ltd. (*5)	200	200	200	200
SMARTRO Co., Ltd. (*5)	900	900	900	900
Korea Credit Bureau Co., Ltd. (*4)	2,250	2,459	2,459	2,011
Epion Technologies Corp. (*5)	21	21	21	21
F&U Credit Information Co., Ltd. (*5)	400	400	400	400
Other (*5)	5	6	6	6
	95,491	375,661	375,661	403,473
	₩ 95,851	376,777	376,777	404,493

(\*1) MasterCard Inc. shares are restricted from exercising voting rights.

(\*2) Visa Inc. shares are restricted from disposal and exercising voting rights until March 25, 2011.

(\*3) Visa Inc. shares are restricted from exercising voting rights.

(\*4) Valuation methods which were applied to measure fair value by external pricing agency, Korea Asset Pricing, 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, 2010 and 2009

**4. Securities, Continued**

(a) Available-for-sale securities, Continued

(iii) Changes in impairment losses on available-for-sale securities

Impairment losses and reversal of impairment losses on available-for-sale securities for the years ended December 31, 2010 and 2009 were as follows:

		2010		2009	
		Impairment	Reversal	Impairment	Reversal
Available-for-sale securities	₩	-	317	3	1,538

(b) Held-to-maturity securities

(i) Held-to-maturity securities as of December 31, 2010 and December 31, 2009 are summarized as follows:

		2010			2009	
		Face Value	Acquisition cost	Fair Value	Book value	Book Value
Sangroksu 1st	₩	341,891	236,608	5,339	5,339	6,561

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

Impairment losses and reversal of impairment losses on held-to-maturity securities for years ended December 31, 2010 and 2009 were as follows:

		2010		2009	
		Impairment	Reversal	Impairment	Reversal
Held-to-maturity securities	₩	-	22,848	1,635	28,400

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, 2010 and 2009

**4. Securities, Continued**

(b) Held-to-maturity securities, Continued

(iii) As of December 31, 2010, the maturity of held-to-maturity securities is summarized as follows:

		<b>Book value</b>
		<hr/>
(In millions of won)		
Within one year	₩	5,339

(c) Equity method accounted investments

(i) Equity method accounted investments as of December 31, 2010 and 2009 are summarized as follows:

			<b>2010</b>		<b>2009</b>	
			<b>Acquisition</b>	<b>Book</b>	<b>Acquisition</b>	<b>Book</b>
			<b>cost</b>	<b>value</b>	<b>cost</b>	<b>Value</b>
	<b>Investee</b>	<b>Percentage</b>				
		<b>of</b>				
		<b>ownership</b>				
	High Technology Investment, Ltd.	-	₩ -	-	148	142
	Shinhan KT Mobile Card Co., Ltd.	50.0%	1,000	-	1,000	248
			₩ 1,000	-	1,148	390

High Technology Investment, Ltd. liquidated in the current year.

(ii) Changes in the equity method accounted investments for the year ended December 31, 2010 were as follows:

		<b>2010</b>				
		<b>Beginning</b>	<b>Equity in</b>	<b>Stock</b>	<b>Changes in</b>	<b>Ending</b>
		<b>balance</b>	<b>earnings</b>	<b>redemption</b>	<b>other</b>	<b>balance</b>
					<b>comprehensive</b>	
					<b>income</b>	
	High Technology Investment, Ltd.	₩ 142	(6)	(55)	(81)	-
	Shinhan KT Mobile Card Co., Ltd.	248	(248)	-	-	-
		₩ 390	(254)	(55)	(81)	-

The Company accounted for its investment in 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.

The Company discontinued the application of the equity method due to its investment in Shinhan KT Mobile Card Co., Ltd. being reduced to zero. The unrecognized losses from equity method are ₩ 4 milion as of December 31, 2010.

**Notes to Financial Statements**

December 31, 2010 and 2009

**4. Securities, Continued**

(c) Equity method accounted investments, Continued

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

<u>Investee</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net loss</u>
Shinhan KT Mobile Card Co., Ltd.	54	63	102	(505)

*(In millions of won)*

**5. Credit Card Assets**

Credit card assets as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Lump-sum purchases	₩ 3,289,880	2,761,774
Installment purchases	3,832,767	3,058,251
Cash advances	1,900,672	1,811,071
Revolving	1,002,139	825,109
Card loans	3,267,674	2,516,539
Restructured loans	211,234	298,267
Purchasing card	396,611	390,560
	<u>13,900,977</u>	<u>11,661,571</u>
Less : Allowance for doubtful accounts	(535,767)	(699,791)
Deferred loan origination fees	(2,202)	(21,184)
	<u>₩ 13,363,008</u>	<u>10,940,596</u>

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 to 36 months. The Company imposes service charges on merchants for these payments and charges interest ranging 10.9% to 21.8% per annum on the outstanding installment balances to the credit cardholders.



**Notes to Financial Statements**

December 31, 2010 and 2009

**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 28.34% per annum from credit cardholders over the term of the cash advances, approximately 45 days.

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 8.34% to 26.84% for revolving lump-sum purchases and revolving cash advances.

The Company provides card loans with maturities ranging from two to 36 months at an annual interest rate of 7.6% to 26.9%.

Restructured loans are delinquent receivables converted into loans, with a card loan period of less than five years except for credit recovery loans which have a loan period of less than twelve years. Restructured loans consist of loans that are repaid in equal installments of principal and interest without a grace period after conversion into restructured 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 restructured loans are determined based on the credit ratings of debtors.

**6. Loans**

Loans as of December 31, 2010 and 2009 are summarized as follows:

*(In millions of won)*

	<u>2010</u>	<u>2009</u>
Bonds purchased under resale agreements	₩ 200,000	87,000
General loans	2,508	1,564
Loans for working capital	<u>28</u>	<u>1,042</u>
	202,536	89,606
Less : Allowance for doubtful accounts	<u>(1,137)</u>	<u>(732)</u>
	<u>₩ 201,399</u>	<u>88,874</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

**7. Installment Financing Assets**

Installment financing assets as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Installment for durable goods	₩ 1,154,527	1,089,646
Installment for houses	1,836	2,435
Installment for others	<u>1,403</u>	<u>8,571</u>
	1,157,766	1,100,652
Less : Allowance for doubtful accounts	(16,732)	(21,595)
Deferred loan origination fees	<u>(33,092)</u>	<u>(31,375)</u>
	<u>₩ 1,107,942</u>	<u>1,047,682</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, 2010, the Company provides installment financing on purchases of durable goods, houses and others at annual interest rates of 3.9% to 24.4% 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.

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, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Financing lease receivables	₩ 684,657	656,264
Operating lease assets	53	7,334
Canceled financing lease receivables	744	364
Canceled financing lease asset	<u>343</u>	<u>2,390</u>
	685,797	666,352
Less : Allowance for doubtful accounts	(5,466)	(7,239)
Accumulated depreciation	<u>(98)</u>	<u>(7,642)</u>
	<u>₩ 680,233</u>	<u>651,471</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

**8. Lease Assets, Continued**

## (a) Financing Lease

(i) As of December 31, 2010, total investment in financing leases and present value of minimum lease payments for each of the following periods are summarized as follows:

<i>(In millions of won)</i>	<u>Total investment</u>	<u>Present value of minimum lease payment</u>
Auto lease assets		
Within one year	₩ 333,727	300,393
Between one year through five years	408,581	385,007
Over five years	1	1
	<u>₩ 742,309</u>	<u>685,401</u>

(ii) As of December 31, 2010, allowance for doubtful account provided for minimum lease payment is ₩ 5,466 million.

## (b) Operating Lease Assets

(i) As of December 31, 2010 and 2009, operating lease assets at acquisition cost classified by industry are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Automobile	₩ 53	7,334

(ii) As of December 31, 2010, minimum lease payments under operating leases for each of the following periods are summarized as follows:

<i>(In millions of won)</i>	<u>Auto lease</u>
Within one year	₩ 15

(iii) Changes in operating lease assets, net of accumulated depreciation for the year ended December 31, 2010 were as follows:

<i>(In millions of won)</i>	<u>Beginning balance, net</u>	<u>Increase</u>	<u>Disposal</u>	<u>Depreciation</u>	<u>Ending balance, net</u>
Operating lease assets	₩ 1	-	1	-	-
Canceled lease assets	2,081	4,850	6,219	414	298
	<u>₩ 2,082</u>	<u>4,850</u>	<u>6,220</u>	<u>414</u>	<u>298</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

**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, 2010 and 2009, Securitization Assets are as summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Trusted assets:		
Credipia 2005 plus 2	₩ -	576,611
Credipia 2006 plus 1A/1B	765,811	319,767
Shinhan Card 2007-1	464,160	163,639
Shinhan Card 2007-2	453,722	254,988
Shinhan Card 2008-1	443,547	219,703
SHC 2008 Asset Securitization Specialty Co., Ltd.	239,871	216,142
Shinhan Card 2010-1	236,821	-
	<u>2,603,932</u>	<u>1,750,850</u>
Subordinated bonds:		
SHC 2008 Asset Securitization Specialty Co., Ltd.	188,400	188,400
	<u>2,792,332</u>	<u>1,939,250</u>
Less: Allowance for doubtful accounts	(34,560)	(50,420)
	<u>₩ 2,757,772</u>	<u>1,888,830</u>

As of December 31, 2010, the receivables transferred excluding Securitization Assets are ₩ 920,744 million.

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.

**Notes to Financial Statements**

December 31, 2010 and 2009

**10. Transfer of Receivables**

The receivables transferred to SPC as of December 31, 2010 and 2009 are summarized as follows:

(In millions of won)

<b>SPC</b>	<b>2010</b>	<b>Transferred asset</b>	<b>Transfer date</b>
Credipia 2006 plus 1A/1B	₩ 765,811	Credit Card Assets & Installment Financing Assets	2006.09.27
Shinhan Card 2007-1	510,410	Credit Card Assets	2007.12.04
Shinhan Card 2007-2	546,122	Credit Card Assets	2007.12.07
Shinhan Card 2008-1	550,005	Credit Card Assets	2008.06.26
SHC 2008 Asset Securitization Specialty Co., Ltd.	778,271	Credit Card Assets	2008.11.27
Shinhan Card 2010-1	562,457	Credit Card Assets	2010.11.12
	<b>₩ 3,713,076</b>		

(In millions of won)

<b>SPC</b>	<b>2009</b>	<b>Transferred asset</b>	<b>Transfer date</b>
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
	<b>₩ 3,734,049</b>		

**11. Allowance for Doubtful Accounts**

Allowance for doubtful accounts as of December 31, 2010 and 2009 are as follows:

(In millions of won)

	<b>2010</b>		
	<b>Balance</b>	<b>Allowance</b>	<b>Provision Ratio (%)</b>
Credit card assets	₩ 13,900,977	535,767	3.85
Loans	202,536	1,137	0.56
Installment financing assets	1,157,766	16,732	1.45
Lease assets	685,401	5,466	0.80
Securitization assets	2,792,332	34,560	1.24
Others	778,959	13,443	1.73
	<b>₩ 19,517,971</b>	<b>607,105</b>	<b>3.11</b>

**Notes to Financial Statements**

December 31, 2010 and 2009

**11. Allowance for Doubtful Accounts, Continued***(In millions of won)*

	<b>2009</b>		
	<b>Balance</b>	<b>Allowance</b>	<b>Provision Ratio (%)</b>
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
	<b>₩ 16,130,167</b>	<b>793,469</b>	<b>4.92</b>

**12. Property and Equipment**

(a) Changes in property and equipment for the years ended December 31, 2010 and 2009 were as follows:

*(In millions of won)*

	<b>2010</b>				
	<b>Beginning Balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Depreciation</b>	<b>Ending Balance</b>
Land	₩ 21,108	-	73	-	21,035
Buildings	9,725	-	201	326	9,198
Computers	24,872	15,987	4	17,545	23,310
Equipment	10,853	3,656	13	7,005	7,491
Vehicles	63	-	-	34	29
	<b>₩ 66,621</b>	<b>19,643</b>	<b>291</b>	<b>24,910</b>	<b>61,063</b>

*(In millions of won)*

	<b>2009</b>				
	<b>Beginning Balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Depreciation</b>	<b>Ending Balance</b>
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
	<b>₩ 76,532</b>	<b>19,329</b>	<b>236</b>	<b>29,004</b>	<b>66,621</b>

(b) As of December 31, 2010 and 2009 the officially declared values of land as announced by the Minister of Land, Transport and Maritime Affairs are ₩ 22,024 million and ₩ 21,074 million, respectively. The officially declared value, which is used for government purposes, does not represent the fair value.

**Notes to Financial Statements**

December 31, 2010 and 2009

**12. Property and Equipment, Continued**

## (c) Insured Assets

Insured assets as of December 31, 2010 are summarized as follows:

(In millions of won)

<u>Type of insurance</u>	<u>Assets covered</u>	<u>Insurance company</u>		<u>Amount covered</u>
Property all risks policy	Buildings, etc.	Samsung Fire & Marine Insurance ., Ltd.	₩	54,058

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

**13. Other Assets**

Other assets as of December 31, 2010 and 2009 are summarized as follows:

(In millions of won)

	<u>2010</u>	<u>2009</u>
Accounts receivable	₩ 697,344	611,296
Accrued income	77,338	64,539
Advance payments	170,935	117,689
Prepaid expenses	33,229	16,456
Guarantee deposits	107,464	102,636
Deferred income tax assets, net (note 27)	274,057	322,851
Derivative assets (note 20)	89,556	168,099
Intangible assets, net of accumulated amortization	27,872	31,537
Loans to employees, net	3,915	6,625
Acquired loans	7,479	8,020
Other	10	1,556
	<u>1,489,199</u>	<u>1,451,304</u>
Less : Allowance for doubtful accounts	<u>(13,443)</u>	<u>(13,692)</u>
	<u>₩ 1,475,756</u>	<u>1,437,612</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

**14. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2010 and 2009 were as follows:

*(In millions of won)*

	2010			2009		
	Development cost	Others	Industrial Property	Development cost	Others	
Beginning balance	₩ 21,887	9,650	2	27,976	1,444	
Acquisition	8,844	1,067	-	1,980	9,995	
Amortization	(8,412)	(5,164)	(2)	(8,069)	(1,789)	
Ending balance	₩ 22,319	5,553	-	21,887	9,650	

**15. Borrowings**

Borrowings as of December 31, 2010 and 2009 are summarized as follows:

*(In millions of won)*

	Annual Interest Rate (%)	2010		2009	
Call money	2.58	₩	15,300		58,200
Commercial paper	3.05~5.10		825,439		511,659
General borrowings	4.21~5.82		570,000		50,000
Borrowings from Shinhan Financial Group Co., Ltd.	4.37~6.90		900,000		800,000
Overdrawn account	5.60		5,000		99,999
		₩	2,315,739		1,519,858

As of December 31, 2010, the maturities of borrowings are as follows:

*(In millions of won)*

2011.1 ~ 2011.12	₩	1,678,739
2012.1 ~ 2012.12		537,000
2013.1 ~ 2013.12		-
2014.1 ~ 2014.12		-
2015.1 ~ 2015.12		100,000
	₩	2,315,739



**Notes to Financial Statements**

December 31, 2010 and 2009

**16. Debentures**

(a) Debentures as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<b>Maturity</b>	<b>Annual Interest rate (%)</b>	<b>2010</b>	<b>2009</b>
Debentures in won	2011.01.05~2015.12.23	3.37~8.75	₩ 9,201,992	7,500,000
Less : Discounts			(4,558)	(7,319)
			<u>9,197,434</u>	<u>7,492,681</u>
Debentures in foreign currency	2011.02.11~2013.06.28	3.37 ~ 5.80	972,404	992,460
Less : Discounts			(1,361)	(1,332)
			<u>971,043</u>	<u>991,128</u>
			<u>₩ 10,168,477</u>	<u>8,483,809</u>

(b) As of December 31, 2010, the maturities of debentures are summarized as follows:

	<i>(In millions of won)</i>
2011.1 ~ 2011.12	₩ 2,746,947
2012.1 ~ 2012.12	3,035,006
2013.1 ~ 2013.12	1,807,951
2014.1 ~ 2014.12	1,014,492
2015.1 ~ 2015.12	<u>1,570,000</u>
	<u>₩ 10,174,396</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

**17. Other Liabilities**

Other liabilities as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Accounts payable	₩ 1,705,482	1,300,036
Advance from customers	117,558	79,256
Withholdings	191,040	116,500
Accrued expenses	258,180	219,452
Unearned revenue	17,547	16,827
Tax payable	19,532	125,839
Guarantee deposits	255,930	248,458
Derivative liabilities (note 20)	30,028	5,801
Provision for membership reward program (note 19)	287,196	273,233
Other allowances (note 22)	509,638	501,178
Compensation for members	3,867	3,913
Other	75,840	36,139
	<u>₩ 3,471,838</u>	<u>2,926,632</u>

**18. Provision for Retirement and Severance Benefits**

(a) Changes in retirement and severance benefits for the years ended December 31, 2010 and 2009 were as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Balance at beginning of the period	₩ 83,435	109,624
Payment	(6,478)	(46,757)
Provision	19,662	20,450
Other	(41)	118
Balance at end of the year	96,578	83,435
Less: Contribution to National Pension Fund	(867)	(919)
Pension assets for severance benefit	(83,419)	(80,412)
Deposit for severance benefit insurance	(1,064)	(1,015)
	<u>₩ 11,228</u>	<u>1,089</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 87.47% and 99.25% of the retirement and severance benefits liability as of December 31, 2010 and 2009, 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 ₩ 878 million for the year ended

**Notes to Financial Statements**

December 31, 2010 and 2009

December 31, 2009 and is expensed as retirement and severance benefits.

**18. Provision for Retirement and Severance Benefits, Continued**

(c) Pension assets for severance benefit as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Cash and due from banks	₩ 60,066	54,655
Securities	21,425	24,357
Others	<u>1,928</u>	<u>1,400</u>
	<u>₩ 83,419</u>	<u>80,412</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 statement of financial position. Changes in provision of membership reward program for the years ended December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<u>2010</u>	<u>2009</u>
Beginning balance	₩ 273,233	246,429
Payment	(334,661)	(196,118)
Provision	<u>348,624</u>	<u>222,922</u>
Ending balance	<u>₩ 287,196</u>	<u>273,233</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

**20. Derivatives**

## (a) Purpose of transactions

The Company has entered into currency swap contracts to hedge future interest rate and foreign exchange risk resulting in changes in cash flows related to debentures in foreign currency and interest rate swap contracts to hedge future interest rate risk resulting in changes in cash flows related to borrowings and debentures in won.

## (b) The notional amounts of unsettled derivative instruments as of December 31, 2010 and 2009 are summarized as follows:

*(In millions of won)*

		2010			2009		
		Trading	Hedging	Total	Trading	Hedging	Total
Currency swap	₩	-	972,404	972,404	-	992,460	992,460
Interest rate swap		-	250,000	250,000	-	440,000	440,000
	₩	-	1,222,404	1,222,404	-	1,432,460	1,432,460

## (c) Valuation of derivative instruments as of December 31, 2010 and 2009 are summarized as follows:

*(In millions of won)*

		2010					
		Valuation gain (loss) in earnings			Valuation gain (loss) in equity	Fair value	
		Trading	Hedge	Total		Assets	Liabilities
Currency swap	₩	-	(31,472)	(31,472)	(17,915)	88,567	25,092
Interest rate swap		-	-	-	(3,079)	989	4,936
	₩	-	(31,472)	(31,472)	(20,994)	89,556	30,028

*(In millions of won)*

		2009					
		Valuation gain (loss) in earnings			Valuation gain (loss) in equity	Fair value	
		Trading	Hedge	Total		Assets	Liabilities
Currency swap	₩	-	(74,291)	(74,291)	(20,496)	167,670	1,332
Interest rate swap		-	-	-	(3,151)	429	4,469
	₩	-	(74,291)	(74,291)	(23,647)	168,099	5,801

The Company applied cash flow hedges to transactions expected to occur in the period ending May 14, 2015 and the amount of gain on valuation of derivatives before tax included in accumulated other comprehensive loss, which is expected to be recognized as current loss within the twelve months from December 31, 2010, is ₩ 1,392 million. Gain and loss on derivatives transactions recognized as profit and loss upon expiration of hedging instrument were ₩ 6,147 million and ₩ 2,712 million, respectively. The Company did not reclassify any amount from equity to current year. recognized as profit the forecast transactions that were no longer expected to occur.

**Notes to Financial Statements**

December 31, 2010 and 2009

**21. Foreign Currency Denominated Liabilities**

Liabilities denominated in foreign currency as of December 31, 2010 and 2009 are summarized as follows:

*(In millions of won, thousands of U.S. dollar and thousands of Singapore dollar )*

		<b>Foreign Currency</b>			<b>Won equivalent</b>	
		<b>2010</b>	<b>2009</b>		<b>2010</b>	<b>2009</b>
Liabilities:						
Debentures	USD	815,000	850,000	₩	928,204	992,460
Debentures	SGD	50,000	-		44,200	-
		<u>865,000</u>	<u>850,000</u>	₩	<u>972,404</u>	<u>992,460</u>

**22. Other Allowances**

Other allowances as of December 31, 2010 and 2009 are summarized as follows:

*(In millions of won)*

		<b>2010</b>			
		<b>Beginning Balance</b>	<b>Provision</b>	<b>Reversal/ Payment</b>	<b>Ending Balance</b>
Allowance for unused credit commitments	₩	488,559	16,133	-	504,692
Allowance for litigation (note 23(a))		11,619	4,222	11,895	3,946
Allowance for electronic commerce		1,000	-	-	1,000
	₩	<u>501,178</u>	<u>20,355</u>	<u>11,895</u>	<u>509,638</u>

*(In millions of won)*

		<b>2009</b>			
		<b>Beginning balance</b>	<b>Provision</b>	<b>Reversal/ Payment</b>	<b>Ending Balance</b>
Allowance for unused credit commitments	₩	485,738	2,821	-	488,559
Allowance for litigation		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>

**Notes to Financial Statements**

December 31, 2010 and 2009

**23. Commitments and Contingencies**

- (a) As of December 31, 2010, the Company has 29 pending lawsuits as a defendant. Total claim amount is ₩ 17,825 million, of which a legal provision of ₩ 3,946 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, 2010, the Company has bank overdraft agreements for borrowings up to ₩ 8,660,000 million with 10 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, 2010, the Company has received guarantees of ₩ 68,367 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. Retained Earning**

- (a) Legal reserve

The Korean Commercial Code requires the Company to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stock in connection with a free issue of shares.

**Notes to Financial Statements**

December 31, 2010 and 2009

**25. Share-Based Payment**

Share-Based Payment in effect as of December 31, 2010 is summarized as follows:

## (a) Stock options

<i>(In millions of won)</i>	<b>4th grant</b>	<b>5th grant</b>	<b>6th grant</b>	<b>7th grant(*)</b>
Method of settlement	Cash-settlement	Cash-settlement	Cash-settlement	The Company's Choice of Settlement
Valuation Technique	Intrinsic value	Intrinsic value	Fair value	Fair value
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩ 28,006	₩ 38,829	₩ 54,560	₩ 49,053
Shares granted	112,400 shares	166,700 Shares	95,900 Shares	131,675 shares
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
Changes in number of shares granted:				
Outstanding at January 1, 2010	61,099 shares	137,146 Shares	74,542 Shares	110,290 shares
Exercised	-	-	-	-
Outstanding at December 31, 2010	61,099 shares	137,146 Shares	74,542 Shares	110,290 Shares
Vesting Condition:				
Service period	-	-	Two years from grant date	Two years from grant date
Performance condition	-	-	Based on relative stock price (33.4%) Based on 3 year management index (66.6%)	Based on relative stock price (33.4%) Based on 3 year management index (66.6%)
Risk-free interest period	-	-	2.99%	3.14%
Expected exercise period	-	-	1.6 years	2.3 years
Expected stock price volatility	-	-	26.59%	42.31%
Expected dividend yield ratio	-	-	1.10%	0.55%
Fair value of stock option in won	-	-	₩ 6,969	₩ 14,465

(\*) The Company has settled the past stock options in cash. Accordingly, the Company regarded the 7th grant as cash-settled type and recognized the liability for the stock options and compensation costs at fair value.

**Notes to Financial Statements**

December 31, 2010 and 2009

**25. Share-Based Payment, Continued**

(b) Share-base arrangements with performance conditions

	<b>Granted as of 2010</b>
Type	Cash-settled type
Vesting period	2010 ~ 2012
Performance condition	Based on relative stock price (33.4%) Based on 4 year management index (66.6%)
Estimated number of shares granted	34,944

The amount of cash payment for the Company's cash-settled share-based payment arrangements with performance conditions is determined based on the arithmetic mean of weighted average share prices for the past two-months, past one-month and past one-week from the date at 4 years from the beginning of the fiscal year which includes the grant date. The fair value of cash payment is estimated using the closing share price at the end of reporting period.

(c) Stock compensation costs calculated for the period ended December 31, 2010

<i>(In millions of won)</i>	<b>4th grant</b>	<b>5th grant</b>	<b>6th grant</b>	<b>7th grant</b>	<b>Performance-condition</b>	<b>Total</b>
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008	April 1, 2010	
Accrued expense related to compensation costs	₩ 1,055	884	574	1,004	-	3,517
Compensation costs recorded for the period	280	627	(54)	591	1,849	3,293

**26. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2009</b>
Unrealized gain on valuation of available-for-sale securities	₩ 218,875	241,010
Unrealized loss on valuation of available-for-sale securities	-	(269)
Unrealized gain on equity method accounted investments	-	63
Effective portion of valuation gain on cash flow hedges	772	335
Effective portion of valuation loss on cash flow hedges	(21,918)	(23,982)
	₩ 197,729	217,157



**Notes to Financial Statements**

December 31, 2010 and 2009

**27. Income Taxes**

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

<b>Taxable income</b>	<b>Tax rate</b>				
	<b>2009 and thereafter</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Thereafter</b>
Up to ₩ 200 million		12.1%	11%	11.0%	11%
Over ₩ 200 million		24.2%	24.2%	24.2%	22%

In December 2009, the Korean government postponed the reduction of the corporate income tax rate (including resident tax) from 24.2% to 22% until 2012.

(b) The components of income tax expense for the years ended December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>		<b>2010</b>	<b>2009</b>
Current income tax payable	₩	32,178	168,667
Changes in deferred tax due to temporary differences		48,851	125,951
Income tax benefit adjusted to equity		5,435	(50,819)
Consolidated tax return adjustment		(13,440)	-
Income tax expense	₩	73,024	243,799

(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 years ended December 31, 2010 and 2009 for the following reasons:

<i>(In millions of won)</i>		<b>2010</b>	<b>2009</b>
<b>Income before income taxes</b>	₩	1,180,053	1,100,554
<b>Expense for income taxes at normal tax rates</b>		285,573	266,334
Adjustments:			
Non taxable income		(2,763)	(1,655)
Non deductible expense		1,034	1,067
Tax credit		(370)	-
Change effects in tax rate		(620)	(751)
Change in probability of realizing temporary differences		-	(8,606)
Tax return		(196,987)	(12,568)
Others		597	(22)
		(199,109)	(22,535)
Consolidated tax return adjustment		(13,440)	-
<b>Income tax expense</b>	₩	73,024	243,799
<b>Effective tax rate</b>		6.6%	22.2%

**Notes to Financial Statements**

December 31, 2010 and 2009

**27. Income Taxes, Continued**

(d) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2010 and 2009 are summarized as follows:

(In millions of won)

	<b>2010</b>				
	<b>Beginning Balance</b>	<b>Decrease (* )</b>	<b>Increase (* )</b>	<b>Ending Balance</b>	<b>Deferred tax asset (liability)</b>
Deductible temporary differences:					
Education tax	₩ -	27	4,929	4,902	1,186
Depreciation	2,081	1,931	1,788	1,938	444
Available-for-sale securities	405,136	309,313	308,031	403,854	88,848
Held-to-maturity securities	89,969	89,969	67,120	67,120	16,243
Accrued income	356	7	-	349	77
Provision for membership reward program	273,233	273,233	287,196	287,196	63,183
Compensation for cardholders	3,562	46	351	3,867	851
Losses from equity method accounted investments	777	93	316	1,000	220
Valuation gain or loss on derivatives	30,317	2,842	(560)	26,915	5,921
Allowance for doubtful accounts	123,855	123,948	20,137	20,044	4,498
Other allowances	501,530	501,530	509,638	509,638	112,120
Intangible asset	2	2	-	-	-
Bonuses	59,566	59,566	25,695	25,695	6,218
Provision for prepaid membership Program	22,799	8,988	-	13,811	3,039
Accrued expense	5,068	5,068	3,327	3,327	732
Membership	669	-	-	669	147
Valuation gain on derivatives related to changes in foreign currency	72	238	251	85	21
Share-Based Payment	1,004	1,277	1,242	969	235
Goodwill	215,062	78,204	-	136,858	31,829
Consolidation tax return effect	-	-	-	-	57
	₩ 1,735,058	1,456,282	1,229,461	1,508,237	335,869
Taxable temporary differences:					
Unrealized gain on available-for-sale securities	(308,642)	(38,202)	(10,170)	(280,610)	(61,734)
Unrealized holding gain of equity method accounted investments	(81)	(81)	-	-	-
Bond discounts	(812)	(512)	(22)	(322)	(78)
	(309,535)	(38,795)	(10,192)	(280,932)	(61,812)
	₩ 1,425,523	1,417,487	1,219,269	1,227,305	274,057

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

## Notes to Financial Statements

December 31, 2010 and 2009

## 27. Income Taxes, Continued

*(In millions of won)*

	<b>2009</b>				
	<b>Beginning balance</b>	<b>Decrease</b>	<b>Increase</b>	<b>Ending Balance</b>	<b>Deferred tax asset (liability)</b>
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
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
Accrued expense	5,381	313	-	5,068	1,115
	₩ 2,174,698	1,801,245	1,361,533	1,734,986	390,949
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 accounted investments	(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)
	(167,011)	(5,895)	(148,347)	(309,463)	(68,098)
	₩ 2,007,687	1,795,350	1,213,186	1,425,523	322,851

**Notes to Financial Statements**

December 31, 2010 and 2009

**27. 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 years ended December 31, 2010 and 2009 are summarized as follows:

*(In millions of won)*

	2010		2009	
	Temporary Difference	Deferred tax assets (liabilities)	Temporary difference	Deferred tax assets (liabilities)
Change in unrealized gain on available- for-sale securities	₩ (28,377)	6,242	148,474	(32,664)
Change in unrealized loss on available- for-sale securities	345	(76)	(27)	6
Change in unrealized loss on equity method investment securities	(81)	17	(794)	175
Change in unrealized gain on derivatives	560	(123)	(294)	64
Change in unrealized loss on derivatives	2,842	(625)	83,634	(18,399)
	₩ <u>(24,711)</u>	<u>5,435</u>	<u>230,993</u>	<u>(50,818)</u>

**28. 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 years ended December 31, 2010 and 2009 are summarized as follows:

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

	2010	2009
Net income available for common stock	₩ 1,107,029	856,755
Weighted average number of common stocks outstanding	<u>125,369,403</u>	<u>125,369,403</u>
Earnings per share in won	₩ <u>8,830</u>	<u>6,834</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

**29. Statement of Comprehensive Income**

Comprehensive income for the years ended December 31, 2010 and 2009 is summarized as follows:

*(In millions of won)*

	<u>2010</u>	<u>2009</u>
<b>Net income</b>	₩ 1,107,029	856,755
<b>Other comprehensive income:</b>		
Changes in fair value of available-for-sale securities, net of tax effect of ₩ 6,166 million for 2010 and ₩ 32,658 million for 2009	(21,866)	115,789
Effective portion of changes in fair value of cash flow hedges, net of tax effect of ₩ 748 million for 2010 and ₩ 18,335 million for 2009	2,654	65,006
Decrease in unrealized gain on equity accounted method investment, net of tax effect of ₩ 17 million for 2010 and ₩ 174 million for 2009	(64)	(620)
<b>Comprehensive income</b>	<u>₩ 1,087,753</u>	<u>1,036,930</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

**30. Related Party Transactions**

(a) As of December 31, 2010, related parties of the Company are summarized as follows:

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

(b) Significant transactions with related parties for the years ended December 31, 2010 and 2009 were as follows:

<i>(In millions of won)</i>	<b>2010</b>	
Related party / Account	Revenue	Expense
Shinhan Financial Group Co., Ltd.		
Interest expense	₩ -	50,730
Royalty expense	-	8,752
Shinhan Bank		
Interest income	66	-
Fee and commission income	153	-
Rent	30	-
Interest expense	-	16,394
Fee and commission expense	-	155,060
Rent	-	2,812
Loss on valuation of derivatives	-	8,926
Shinhan Investment Corp.		
Interest income	112	-
Fee and commission expense	-	443
Rent	-	1,001
Interest expense	-	963
Shinhan Data System Co., Ltd.		
Fee and commission income	1	-
Fee and commission expense	-	7,314
Shinhan Credit Information Co., Ltd.		
Fee and commission income	13	-
Rent	178	-
Fee and commission expense	-	23,436
Shinhan Life Insurance Co., Ltd.		
Interest income	269	-
Fee and commission income	11,818	-
Interest expense	-	-
Fee and commission expense	-	434
Selling and administrative expenses	-	194
Cardif Life Insurance Co., Ltd.		
Fee and commission income	964	-
Jeju Bank		
Interest income	1	-
Fee and commission income	260	-
Fee and commission expense	-	28
SHC Management Co., Ltd.		
Fee and commission income	55	-
Shinhan KT Mobile Card Co., Ltd.		
Fee and commission expense	-	278

**Notes to Financial Statements**

December 31, 2010 and 2009

**30. Related Party Transactions, Continued***(In millions of won)*

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.		
Interest income	3	-
Fee and commission expense	-	86
Rent	-	1,002
Interest expense	-	276
Shinhan Data System Co., Ltd.		
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	-	101
Selling and administrative expenses	-	225
Cardif 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.		
Fee and commission income	129	-
Shinhan KT Mobile Card Co., Ltd.		
Fee and commission expense	-	126

**Notes to Financial Statements**

December 31, 2010 and 2009

**30. Related Party Transactions, Continued**

(c) Significant balances with the related parties as of December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Related party / Account				
Shinhan Financial Group Co., Ltd.				
Credit card assets	₩ 270	-	234	-
Borrowings	-	900,000	-	800,000
Accrued expenses	-	9,403	-	7,199
Accounts payable	-	98,507	-	-
Shinhan Bank				
Cash and due from bank	26,693	-	57,800	-
Credit card assets	11,951	-	3,674	-
Deposit for severance benefi insurance	1,064	-	1,351	-
Derivative assets	35,091	-	53,621	-
Guarantee deposits	29,913	-	23,586	-
Borrowings	-	15,300	-	58,200
Derivative liabilities	-	3,346	-	4,075
Accounts payable	-	25	-	20
Accrued expenses	-	1,740	-	-
Shinhan Capital Co., Ltd.				
Credit card assets	140	-	195	-
Shinhan Investment Corp.				
Guarantee deposits	3,974	-	3,974	-
Cash and cash equivalents	468	-	311	-
Credit card assets	1,285	-	1,173	-
Debentures	-	1,393	-	11,383
Accrued expenses	-	20	-	54
Plan assets	10,498	-	10,038	-
Cardif Life Insurance Co., Ltd.				
Credit card assets	99	-	88	-
Shinhan Credit Information Co., Ltd.				
Credit card assets	136	-	90	-
Accounts payable	-	2,246	-	2,171
Jeju Bank				
Deposit	203	-	247	-
Accounts payable	-	10	-	19
Shinhan Private Equity, Inc.				
Credit card assets	40	-	33	-
Shinhan Data System Co., Ltd.				
Credit card assets	56	-	47	-
Accrued expenses	-	1,696	-	276
Shinhan BNP Paribas ITMC Co., Ltd.				
Credit card assets	68	-	70	-
SHC Management Co., Ltd.				
Accrued income	-	-	5	-



**Notes to Financial Statements**

December 31, 2010 and 2009

**30. Related Party Transactions, Continued**

<i>(In millions of won)</i>	<b>2010</b>		<b>2009</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Related party / Account				
Shinhan Life Insurance Co., Ltd.				
Deposit for severance benefit insurance	9,330	-	9,108	-
Credit card assets	1,821	-	1,644	-
Accrued income	606	-	-	-
Debentures	-	-	-	25,000
Accrued expenses	-	-	-	442
Accounts payable	-	114	-	102
Shinhan Aitas Co., Ltd.				
Credit card assets	138	-	75	-
Shinhan KT Mobile Card Co., Ltd.				
Credit card assets	-	-	56	-

**31. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2010 and 2009 are summarized as follows:

<i>(In millions of won)</i>	<b>2010</b>	<b>2009</b>
Salaries and wages	₩ 230,028	254,526
Provision for retirement and severance benefits	38,526	20,585
Other employee benefits	57,654	54,279
Rent	20,575	22,113
Entertainment	1,180	1,200
Depreciation	25,324	31,616
Amortization	13,576	9,860
Taxes and dues	28,998	23,671
Advertising	131,100	84,851
Other	179,374	165,265
	₩ 726,335	667,966

**Notes to Financial Statements**

December 31, 2010 and 2009

**32. Dividends**

Dividends for the years ended December 31, 2010 and 2009 are summarized as follows:

*(share, won)*

	<b>2010</b>	<b>2009</b>
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%	95.72%
Dividends per share in won	₩ 4,786	4,786

Payout ratios for the years ended December 31, 2010 and 2009 are summarized as follows:

*(In millions of won)*

	<b>2010</b>	<b>2009</b>
Dividends	₩ 600,018	600,018
Net income	1,107,029	856,755
Dividends as a percentage of net income	₩ 54.20%	70.03%

**33. Value Added Information**

Accounts included in the computation of value added for the years ended December 31, 2010 and 2009 are summarized as follows:

*(In millions of won)*

	<b>2010</b>	<b>2009</b>
Salaries and wages	₩ 146,032	139,571
Provision for retirement and severance benefit	38,526	20,585
Other employee benefits	57,654	54,279
Rent expense	20,575	22,113
Depreciation expenses on operating lease assets	414	2,612
Depreciation	24,910	29,004
Taxes and dues	28,998	23,671

**34. Results of Operations for the Last Interim Period***(In millions of won)*

	<b>2010</b>	<b>2009</b>
	<b>4th quarter</b>	<b>4th quarter</b>
Operating revenue	₩ 1,044,616	962,389
Operating income	795,742	321,192
Net income for the period	367,930	242,173
Earnings per share	2,935	1,932

**Notes to Financial Statements**

December 31, 2010 and 2009

**35. Date of Authorization for Issue**

The 2010 financial statements were authorized for issue on February 7, 2011, at the Board of Directors Meeting.

**36. Change in Accounting Estimate**

The Company establishes the allowance for credit card assets, loans, installment financing assets, and finance leases using loss ratio analysis. The loss ratio analysis is calculated based on historical data.

The Company changed its calculation method for the loss ratio. The Company used recent 60 months historical data from the end of the reporting date, while it had previously used historical data from 2001. This is a justifiable change in accounting estimate since it permits the Company to estimate allowance for doubtful accounts more reasonably by reflecting recent economic condition. As a result, the allowance for loan losses decreased by ₩ 37,735 million and net income increased by ₩ 28,603 million.

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

Under the roadmap announced by the Financial Supervisory Commission for the adoption of Korean IFRS (the "K-IFRS") in March 2007 and article 13 of the Act on External Audit of Stock Companies, the Company will adopt the K-IFRS from the fiscal year 2010 (the date of first-time adoption to K-IFRS: January 1, 2010).

In August 2007, the Company formed a task force to prepare for its transition from Korean GAAP to K-IFRS. The three phases being conducted for the transition to K-IFRS by the task force are 1) Analysis and Planning Phase, 2) Design Phase and 3) Implementation Phase.

As of the date of the report, all three phases as described above are substantially completed. The Company has been preparing financial statements under K-IFRS from the date of transition and onwards and expects that financial information for the fiscal year 2010 will be Korean IFRS compliant.

(a) Preparation and implementation of K-IFRS adoption

(i) Action plan and current status

① Phase 1: Analysis and Planning Phase

The Company identified differences between the Statements of Korean Financial Accounting Standards (i.e. the current accounting standards) and K-IFRS, and assessed the potential impact of K-IFRS adoption over the period from August 2007 to February 2008. In addition, this phase includes employee training on the impact assessments over the Company's accounting policies and K-IFRS standards.

② Phase 2: Design Phase

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

③ Phase 3: Implementation Phase

Starting January 2010, the Company applied and embedded the changes identified above in the Company's operational system and process. Additionally, the Company verified financial information and analyzed the impact of changes in accordance with K-IFRS.

**Notes to Financial Statements**

December 31, 2010 and 2009

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

(ii) Main Activities

- ① Amendment of Shinhan Financial Group (the "Group") accounting policies and revision of subsidiaries' accounting manuals.

In accordance with K-IFRS, the Group has amended its accounting policies to achieve consistency of accounting policies and treatment between the Group and its subsidiaries based on analysis and impact assessments. To comply with the Group policy, the Company has revised its detailed accounting manual and procedures.

- ② System Re-design

The Company analyzed a financial reporting system and defined business requirement in order to generate financial information in a relevant and efficient manner. The Company completed IFRS system at the end of reporting period and has performed financial data cleansing and embedded data in IFRS system.

Additionally, the Company management was responsible for decision-making at each stage and employee training was provided to enhance practical application of K-IFRS.

- ③ Redesign of internal control over financial reporting

The Company redesigned Internal Control Over Financial Reporting ("ICOFR") based on analysis and impact assessments of K-IFRS adoption and tested design effectiveness of the revised ICOFR. In addition, employees responsible for ICOFR were trained on K-IFRS adoption impact and the revised ICOFR.

- ④ Analysis of potential impact of IFRS revision

The Company analyzed the impact of revision and forthcoming requirements of IFRS on financial information and accounting system as of the reporting date.

- ⑤ Generation and analysis of financial information in accordance with K-IFRS

The Company has generated and analyzed an opening balance as of January 1, 2010 and the quarterly financial information for the year ended December 31, 2010, which was prepared in accordance with K-IFRS.

(iii) K-IFRS Task Force

In order to ensure a smooth transition to K-IFRS, the Company formed K-IFRS Task Force and has engaged an external advisory firm. In addition, IT system personnel have been involved in K-IFRS Task Force to carry out IFRS system operation and maintenance.

**Notes to Financial Statements**

December 31, 2010 and 2009

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

## (b) Significant differences in accounting policies

Significant differences between the accounting policies chosen by the Company under K-IFRS and under Korean GAAP are as follows:

## (i) First-time adoption of K-IFRS

Area	K-IFRS
Business combination	K-IFRS 1103 Business combination was not applied retrospectively to past business combinations before the date of transition.
Deemed cost	The Company elected to measure land and buildings at fair value at the date of transition and use those fair values as their deemed costs.
Cumulative translation differences	The cumulative translation differences for all foreign operations were deemed to be zero at the date of transition.
Derecognition of financial assets and financial liabilities	The derecognition requirements in K-IFRS 1039 Financial Instruments: Recognition and Measurement were applied retrospectively for transactions occurred on or before the date of transition.
Financial asset designated as available for sale or financial instrument designated as a financial asset or financial liability at fair value through profit or loss	Although K-IFRS 1039 Financial Instruments: Recognition and Measurement permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss, those designations are permitted at the date of transition. The Company elected to use these exemptions.
Share-based payment transactions	K-IFRS 1102 Share-based Payment was applied retrospectively to equity instruments that were granted on or before the date of transition.
Decommissioning liabilities included in the cost of property, plant and equipment	The amount that would have been included in the cost of the related asset when the liability first arose is estimated by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period.
Investments in subsidiaries, jointly controlled entities and associates	When the Company prepares separate financial statements in accordance with K-IFRS 1027 Consolidated and Separate Financial Statements and measures its investments in subsidiaries, jointly controlled entities and associates at cost, the deemed cost for such investments is K-GAAP carrying amount at the date of transition.

**Notes to Financial Statements**

December 31, 2010 and 2009

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

(b) Significant Differences in Accounting Policies, Continued

(ii) Major differences between K-IFRS and Current K-GAAP

Area	K-IFRS	K-GAAP
Basis of financial statement preparation	Consolidated financial statement	Individual financial statement
Consolidation scope	Subsidiaries are entities controlled by the Company and the financial statements of all subsidiaries are included in the consolidated financial statements regardless of the size of the subsidiaries. Special purpose entities are consolidated as well if the Company controls the SPEs.	Pursuant the Act on External Audit of Stock Companies, a subsidiary with a prior year's total assets less than ₩ 10 billion is excluded from the scope of consolidation. There is no specific guidance on consolidating special purpose entities.
Allowance for loan losses	Allowance for loan losses that has been incurred but not yet identified are estimated at a specific asset and collective level using the historical experience.	Allowance for loan losses is estimated at a greater of the amount resulting from the expected loss method reasonably estimated using the historical experience and the amount estimated based on the asset classification guidelines of the Financial Services Commission in accordance with the Regulation on Supervision of Credit-specialized Financial Business.
Revenue recognition	All fees associated with origination of loans are deferred and recognized over the expected life of the loan using the effective interest method as an adjustment to the loan balance and interest income.	Fees directly associated with origination of loans are deferred and recognized over the maturity of the loan using the effective interest method as an adjustment to the loan balance and interest income.
Financial instrument: measurement	The appropriate fair value for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. Bid-ask adjustment is applied when measuring financial instrument at fair value. The fair value is measured reflecting credit risk.	Bid price and asking price are not reflected in the fair value of financial instruments. Credit risk is not required to be considered in measuring fair value. In accordance with Best practice for business process of derivative transactions provided by Financial Supervisory Service, counterparty's credit risk is considered in measuring fair value of OTC derivatives.

**Notes to Financial Statements**

December 31, 2010 and 2009

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

(ii) Major differences between K-IFRS and Current K-GAAP, Continued

Area	K-IFRS	Current K-GAAP
Derecognition of financial Instruments	Depends on the extent to which it retains the risks and rewards of ownership of the financial asset, the transferred asset is continued to be recognized, is derecognized or continued to be recognize to the extent of its continuing involvement in the financial asset.	Depends on whether or not the Company retains control over the financial assets, the transferred asset is continued to be recognized or derecognized.
Change in depreciation method	The depreciation method applied to an asset shall be reviewed at least at each fiscal year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate.	The depreciation method shall be applied consistently from period to period unless there are justifiable reasons. The depreciation method for the same kind of property and equipment is applied to newly acquired assets.
Employee benefits	Under the Projected Unit Credit Method, the Company recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation.	The Company establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting period.
Customer Loyalty Programmes	Obligation to provide awards in the future is recognized and measured by allocating some of the consideration received or receivable from the sales transaction to the award credits and deferring the recognition of revenue	The estimated future costs of supplying the awards are recognized as allowance for reward on credit card.

(c) Changes in Consolidation Scope

Parent	Current K-GAAP	K-IFRS
Shinhan Card	Not applicable	Special purpose companies(*) (Seven entities including Shinhan Card 2010-1)

(\*) Under current K-GAAP, consolidation scope is determined in accordance with *Act on External Audit of Stock Companies and Enforcement Decree of the Act* where SPC and wholly owned private equity fund are excluded from consolidation scope. Under K-IFRS, however, those entities are included in the consolidation scope since the Company has control.

**Notes to Financial Statements**

December 31, 2010 and 2009

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

- (d) The effects of the adoption of K-IFRS on the statement of financial position and the results of operation

Reconciliation of the effect of the transition to K-IFRS from K-GAAP on the financial statements of the Company has been prepared on a non-consolidation basis and subject to change following the subsequent GAAP difference analysis or amendment of standards.

- (i) Adjustments to the statements of financial position as of the date of transition, January 1, 2010

*(In millions of won)*

<b>As of January 1, 2010 (the date of transition)</b>		<b>Total asset</b>	<b>Total liability</b>	<b>Total equity</b>
Carrying amount under current K-GAAP	₩	17,572,883	12,931,388	4,641,495
Adjustment items				
Allowance for loan losses		50,932	-	50,932
Allowance for unused loan commitments		-	(124,822)	124,822
Effective interest rate		5,156	(12,497)	17,653
Fair value of financial instruments		(36,179)	-	(36,179)
Impairment of securities		(900)	-	(900)
Accrued income for financial instruments		11,630	-	11,630
Deemed cost for land and buildings		7,988	-	7,988
Change in depreciation method for Furniture, office equipment and others		22,457	-	22,457
Defined benefit obligation (Actuarial valuation )		-	(10,107)	10,107
Fair value of share based payment		-	(1,272)	1,272
Customer Loyalty Programmes		-	(56,053)	56,053
Derecognition requirements of financial instruments		2,150,464	2,171,469	(21,005)
Others		1,029	30,693	(29,664)
Tax effect of adjustment items		(47,644)	-	(47,644)
Total adjustment		<u>2,164,933</u>	<u>1,997,411</u>	<u>167,522</u>
Carrying amount under K-IFRS	₩	<u>19,737,816</u>	<u>14,928,799</u>	<u>4,809,017</u>



**Notes to Financial Statements**

December 31, 2010 and 2009

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

(ii) Adjustments to the statements of financial position as of December 31, 2010

*(In millions of won)*

<b>As of December 1, 2010</b>		<b>Total asset</b>	<b>Total liability</b>	<b>Total equity</b>
Carrying amount under current K-GAAP	₩	21,096,512	15,967,282	5,129,230
Adjustment items				
Allowance for loan losses		(52,796)	-	(52,796)
Allowance for unused loan commitments		-	(137,178)	137,178
Effective interest rate		(3,462)	(15,109)	11,647
Fair value of financial instruments		(35,149)	-	(35,149)
Impairment of securities		(900)	-	(900)
Accrued income for financial instruments		8,881	-	8,881
Deemed cost for land and buildings		7,971	-	7,971
Change in depreciation method for Furniture, office equipment and others		17,553	-	17,553
Defined benefit obligation (Actuarial valuation )		-	4,118	(4,118)
Fair value of share based payment		-	772	(772)
Customer Loyalty Programmes		-	(25,607)	25,607
Derecognition requirements of financial instruments		1,106,367	1,109,499	(3,132)
Others		745	26,634	(25,889)
Tax effect of adjustment items		(21,693)	-	(21,693)
Total adjustment		<u>1,027,517</u>	<u>963,128</u>	<u>64,388</u>
Carrying amount under K-IFRS	₩	<u>22,124,029</u>	<u>16,930,411</u>	<u>5,193,618</u>

**Notes to Financial Statements**

December 31, 2010 and 2009

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

(iii) The effect of the K-IFRS adoption on the net income and comprehensive income of the Company for the year ended December 31, 2010.

*(In millions of won)*

<b>As of December 1, 2010</b>	<b>Net income</b>	<b>Other comprehensive income</b>	<b>Total comprehensive income</b>
Carrying amount under current K-GAAP	₩ 1,107,029	(19,276)	1,087,753
Adjustment items			
Allowance for loan losses	(103,728)	-	(103,728)
Allowance for unused loan commitments	12,356	-	12,356
Effective interest rate	(6,006)	-	(6,006)
Fair value of financial instruments	1,030	-	1,030
Impairment of securities	(317)	317	-
Accrued income for financial instruments	(2,749)	-	(2,749)
Deemed cost for land and buildings	(17)	-	(17)
Change in depreciation method for Furniture, office equipment and others	(4,904)	-	(4,904)
Defined benefit obligation (Actuarial valuation )	(14,224)	-	(14,224)
Fair value of share based payment	(1,793)	-	(1,793)
Customer Loyalty Programmes	(30,446)	-	(30,446)
Derecognition requirements of financial Instruments	-	17,873	17,873
Others	3,774	-	3,774
Tax effect of adjustment items	30,386	(4,436)	25,950
Total adjustment	<u>(116,638)</u>	<u>13,754</u>	<u>(102,884)</u>
Carrying amount under K-IFRS	₩ <u>990,391</u>	<u>(5,522)</u>	<u>984,869</u>

## **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, 2010. 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, 2010 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, 2010. We did not review the Company's IACS subsequent to December 31, 2010. 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.  
Seoul, Korea  
March 4, 2011

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, 2010 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, 2010.

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, 2010, 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 24, 2011

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

## 내부회계관리제도 운영실태 평가보고서

신한카드주식회사  
이사회 및 감사위원회 귀중

본 내부회계관리자는 2010년 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 있는 지의 여부에 대하여 평가하였습니다.

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

본 내부회계관리자의 내부회계관리제도 운영실태 평가 결과, 2010년 12월 31일 현재 당사의 내부회계관리제도는 내부회계관리제도 모범규준에 근거하여 볼 때, 중요성의 관점에서 효과적으로 설계되어 운영되고 있다고 판단됩니다.

2011년 1월 24일

내부회계관리자

이 춘 국



대 표 이 사

이 재 우

