



SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

Contents

	Page
Independent Auditors' Report	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Comprehensive Income	3
Consolidated Statements of Changes in Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	7

Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated statements of financial position of Shinhan Card Co., Ltd. and its subsidiaries (collectively the "Group") as of December 31, 2012 and 2011 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

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

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 7, 2013

This report is effective as of March 7, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2012 and 2011

(In millions of won, except share data)

	Note	2012	2011
Assets			
Cash and due from banks	7,35 ₩	480,833	758,431
Trading financial assets	8	100,023	150,056
Derivative assets	9	2,983	126,130
Loans and receivables, net	10	20,156,564	19,480,828
Available-for-sale financial assets	11	486,540	457,702
Property and equipment	12	122,683	102,990
Intangible assets	13	82,013	61,318
Deferred tax assets	34	166,543	255,538
Other assets	15	681,736	963,892
Total assets	₩	22,279,918	22,356,885
Liabilities			
Derivative liabilities	9 ₩	105,398	12,772
Borrowings	16	1,912,800	2,459,800
Debentures, net	17	10,923,431	11,432,060
Liability for defined benefit obligations	18	15,182	37,385
Current tax liabilities	34	95,588	146,509
Provisions	19	375,200	395,919
Other liabilities	20	3,119,142	2,642,178
Total liabilities		16,546,741	17,126,623
Equity			
Common stock of ₩5,000 par value	22	626,847	626,847
Authorized - 2,000,000,000 shares			
Issued and outstanding - 125,369,403 shares in 2012 and 2011			
Capital surplus	22	860,592	860,592
Capital adjustments	22	583	322
Accumulated other comprehensive income	22	309,979	257,080
Retained earnings	22	3,935,176	3,485,421
Total equity		5,733,177	5,230,262
Total liabilities and equity	₩	22,279,918	22,356,885

See accompanying notes to consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2012 and 2011

<i>(In millions of won, except earnings per share)</i>	Note	2012	2011 Restated
Interest income		₩ 2,032,209	2,095,215
Interest expense		(622,016)	(735,480)
Net interest income	27	<u>1,410,193</u>	<u>1,359,735</u>
Fee and commission income		2,171,286	2,083,302
Fee and commission expense		(1,925,382)	(1,763,595)
Net fee and commission income	28	<u>245,904</u>	<u>319,707</u>
Dividend income	29	37,335	52,460
Net trading income	8	854	1,116
Net income (loss) on derivatives	9	(154,821)	42,998
Net income (loss) on foreign currency transactions	37	168,072	(29,416)
Net gain on sale of available-for-sale financial Assets	11	112,646	109,023
Net impairment loss on financial assets	30	(293,133)	(151,867)
General administrative expenses	31	(612,857)	(656,932)
Other operating income, net	32	<u>52,483</u>	<u>65,038</u>
Operating income		<u>966,676</u>	<u>1,111,862</u>
Non-operating income (loss), net	33	316	(11,705)
Gain on sale of investments in associates	14	24	-
Profit before income tax		<u>967,016</u>	<u>1,100,157</u>
Income tax expense	34	(217,252)	(224,227)
Profit for the year		<u>749,764</u>	<u>875,930</u>
Net change in unrealized fair value of available-for-sale financial assets		38,316	55,865
Net gain on cash flow hedges		14,583	4,301
Other comprehensive income for the year, net of tax		<u>52,899</u>	<u>60,166</u>
Total comprehensive income for the year		<u>₩ 802,663</u>	<u>936,096</u>
Earnings per share	25	<u>₩ 5,980</u>	<u>6,987</u>

See accompanying notes to consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Change in Equity
For the years ended December 31, 2012 and 2011

		2011					
		Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholder's equity
<i>(In millions of won)</i>							
Balance at January 1, 2011	₩	626,847	860,592	(251)	196,914	3,509,517	5,193,619
Dividends		-	-	-	-	(900,026)	(900,026)
Retained earnings after appropriation		-	-	-	-	2,609,491	2,609,491
Profit for the year		-	-	-	-	875,930	875,930
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	55,865	-	55,865
Net gain on cash flow hedges		-	-	-	4,301	-	4,301
Share-based payment transactions		-	-	573	-	-	573
Balance at December 31, 2011	₩	<u>626,847</u>	<u>860,592</u>	<u>322</u>	<u>257,080</u>	<u>3,485,421</u>	<u>5,230,262</u>

		2012					
		Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholder's equity
<i>(In millions of won)</i>							
Balance at January 1, 2012	₩	626,847	860,592	322	257,080	3,485,421	5,230,262
Dividends		-	-	-	-	(300,009)	(300,009)
Retained earnings after appropriation		-	-	-	-	3,185,412	3,185,412
Profit for the year		-	-	-	-	749,764	749,764
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	38,316	-	38,316
Net gain on cash flow hedges		-	-	-	14,583	-	14,583
Share-based payment transactions		-	-	261	-	-	261
Balance at December 31, 2012	₩	<u>626,847</u>	<u>860,592</u>	<u>583</u>	<u>309,979</u>	<u>3,935,176</u>	<u>5,733,177</u>

See accompanying notes to consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flow
For the years ended December 31, 2012 and 2011

(In millions of won)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Income before income tax	₩ 967,016	1,100,157
Adjustment for:		
Interest income	(2,032,209)	(2,095,215)
Interest expense	622,016	735,480
Dividend income	(37,335)	(52,460)
Fee and commission income	(175,398)	(159,755)
Fee and commission expense	196,265	171,214
Net gain on valuation of trading financial assets	(23)	(56)
Net loss (gain) on valuation and transaction of derivatives	154,821	(42,998)
Net foreign currency transaction loss (gain)	(148,230)	55,837
Net gain on sales of available-for-sale financial assets	(112,646)	(109,023)
Net impairment loss on financial assets	293,133	151,867
General administrative expenses	57,930	88,280
Other, net	(15,585)	(8,953)
Gains on sale of investments in associates	(24)	-
	<u>(1,197,285)</u>	<u>(1,265,782)</u>
Changes in assets and liabilities:		
Trading financial assets	50,056	50,046
Loans and receivables, net	(904,665)	(653,371)
Other assets	320,307	96,955
Liability for defined benefit obligations	(31,692)	(17,522)
Provisions	(45,901)	(21,072)
Other liabilities	555,262	74,346
	<u>(56,633)</u>	<u>(470,618)</u>
Payment of income tax	(196,148)	(242,588)
Receipt of interest	1,791,164	1,823,162
Payment of interest	(554,555)	(713,515)
Receipt of dividend	37,335	52,460
	<u>790,894</u>	<u>283,276</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Decrease in restricted due from banks	-	159,934
Increase in restricted due from banks	(16,696)	-
Proceeds from disposal of available-for-sale financial assets	152,569	137,842
Proceeds from disposal of property and equipment	-	170
Acquisition of property and equipment	(45,550)	(45,474)
Proceeds from disposal of intangible assets	250	3,494
Acquisition of intangible assets	(40,027)	(40,316)
Proceeds from disposal of investments in associates	24	-
Decrease in guarantee deposits	54,475	3,797
Increase in guarantee deposits	(51,470)	(8,168)
	<u>53,575</u>	<u>211,279</u>
Net cash provided by investing activities	₩	

See accompanying notes to consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
 Consolidated Statements of Cash Flow
 For the years ended December 31, 2012 and 2011

(In millions of won)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Cash flows from financing activities			
Repayment of call money	₩	-	(15,300)
Proceeds from borrowings		720,000	2,997,800
Repayment of borrowings		(1,267,000)	(2,838,439)
Proceeds from debentures		2,670,836	3,611,789
Repayment of debentures		(3,042,782)	(3,532,729)
Cash inflows from cash flow hedges		89,120	63,892
Cash outflows from cash flow hedges		(8,928)	(20,971)
Dividends paid		(300,009)	(900,027)
Net cash used in financing activities		<u>(1,138,763)</u>	<u>(633,985)</u>
Net decrease in cash and cash equivalents		(294,294)	(139,430)
Cash and cash equivalents at beginning of year	35	<u>727,322</u>	<u>866,752</u>
Cash and cash equivalents at end of year	35 ₩	<u>433,028</u>	<u>727,322</u>

See accompanying notes to consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

1. Reporting entity

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

(a) Parent company

The parent company was incorporated on December 17, 1985, under the name of Express Credit Card Corporation, to provide credit card services. The address of the Company's registered office is 1Ga Chungmu-Ro, Jung-Gu, Seoul. 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 acquisition of SHC Management Co., Ltd.

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

As of December 31, 2012, the Company has 36 branch offices, approximately 2.76 million merchants in its network and 15.07 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. ("Shinhan Financial Group")

(b) Subsidiaries

As of December 31, 2012, consolidated special purpose entities ("SPEs") are summarized below. In addition to SPEs, three specified money trusts are consolidated.

Parent company	Subsidiaries	Location	Fiscal year-end	Percentage of share
Shinhan Card	Shinhan Card 2010-1	Rep. of Korea	December 31	0.5%
"	Shinhan Card 2011-1	"	"	"
"	Shinhan Card 2011-2	"	"	"
"	Shinhan Card 2011-3	"	"	"
"	Shinhan Card 2012-1	"	"	"

Although parent company's percentage of share for SPEs is less than holding a majority, SPEs are operated according to necessity for parent company's certain business and parent company hold a majority of benefit in SPEs operation. For this reason, parent company is considered to have power to control SPEs.

(c) Change in subsidiaries

The list of subsidiaries that were newly acquired and excluded from consolidation for the years ended December 31, 2012 is as follows:

(i) Newly acquired subsidiaries

Subsidiaries	Reason
Shinhan Card 2012-1	New Investment

(ii) Excluded subsidiaries

Subsidiaries	Reason
SHC 2008 Asset Securitization Specialty Co., Ltd	Liquidation

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed under article 13 of the *Act on External Audits of Corporations in the Republic of Korea*.

(b) Basis of measurement

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

- derivative financial instruments are measured at fair value;
- trading financial assets are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- liabilities for defined benefit obligations are recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

2. Basis of preparation, continued

(e) Changes in accounting policies

(i) Changes in accounting policies

- Financial Instruments: Disclosures

The Group has applied the amendments to K-IFRS No.1107, 'Financial Instruments: Disclosures' since January 1, 2012. The amendments require disclosing the nature of transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Group derecognizes transferred financial assets but still retains their specific risks and rewards, the amendments require additional disclosures of their risks.

- Presentation of financial statements

The Group adopted the amendments pursuant to the amended K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The amendments require that operating income (loss) is calculated as revenue less: (1) cost of goods sold, and (2) selling, general and administrative expenses, and is presented separately in the statement of comprehensive income. Taking into account the nature of the Group's business, operating income (loss) that is calculated as the sum of the net interest income, the net fee and commission income and the other operating income and non-operating income (loss) not included in operating income (loss) are presented separately in the statement of comprehensive income.

(ii) Impact of change in accounting policy

The Group retrospectively applied the amendment to K-IFRS No. 1001, for which the impact is as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Operating income before adoption of the amendments	₩ 966,992	1,100,157
Changes		
Non-operating incomes		
Gains on assets contributed	4,966	5,586
Gains on disposition of property and equipment	-	110
Gains on disposition of intangible asset	-	75
Reversal of impairment loss on intangible asset	12	-
Others	5,626	17,355
	<u>10,604</u>	<u>23,126</u>
Non-operating losses		
Donations	8,531	20,995
Legal provision	432	11,307
Losses on disposition of property and equipment	5	17
Losses on disposition of intangible asset	5	-
Impairment loss of intangible asset	799	2,135
Others	516	377
	<u>10,288</u>	<u>34,831</u>
Operating income after adoption of the amendments	₩ <u>966,676</u>	<u>1,111,862</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

2. Basis of preparation, continued

(f) Date of authorization for Issue

The consolidated financial statements were authorized for issue by the Board of Director's meeting on February 6, 2013 and will be finally authorized for issue by a general meeting of stockholders on March 27, 2013.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies

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

(a) Operating segment

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

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the parent company. Control exists when the parent company has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has the control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(ii) Special purpose entities (SPEs)

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

(iii) Investments in associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decision. Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognized initially at cost.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(b) Basis of consolidation, continued

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(c) Cash and cash equivalents

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

(d) Non-derivative financial assets

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

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Four categories of financial assets are set below and the carrying amounts of each of the following categories are disclosed in note 37.

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Loans and receivables

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(d) Non-derivative financial assets, continued

Available-for-sale financial assets

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

Dividend income is recognized in profit or loss when the Group becomes entitled to the dividend.

Changes in fair value are recognized in other comprehensive income until the investment is sold or impaired, where upon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

Derecognition of financial assets

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

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

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

Offsetting

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

(e) Derivative financial instruments

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

a) Hedge accounting

The Group holds derivative financial instruments such as interest rate swaps and currency swaps to hedge its foreign currency and interest rate risk exposures. The Group designates certain derivatives as hedging instruments for the purpose of hedging the exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments (fair value hedge) and the exposure to variability in cash flows that is attributable to a risk associated with changes in foreign exchange rates of highly probable forecast transactions or firm commitments (cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(e) Derivative financial instruments, continued

undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss together with changes in the fair value of the hedged items that are attributable to the hedged risk in the same line item in the consolidated statement of comprehensive income as the hedged item.

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

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income.

The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued, prospectively. The cumulative gain or loss previously recognized in other comprehensive income remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

b) *Embedded derivatives*

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(e) Derivative financial instruments, continued

c) Other derivatives

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

(f) Fair value of financial instruments

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

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

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

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(g) Impairment of financial assets

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

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

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

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

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

Loans and receivables

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(g) Impairment of financial assets, continued

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

Financial assets carried at cost

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

Available-for-sale financial assets

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in other comprehensive income in equity, to profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity instrument is recognized in other comprehensive income. In addition, an impairment loss that has been recognized on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured is not reversed. The impairment losses on available-for-sale financial assets are reduced from the carrying amount directly.

Held-to-maturity financial assets

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(h) Property and equipment

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

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

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

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

The estimated useful lives and depreciation methods are as follows.

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(i) Intangible assets

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than club memberships, from the date that they are available for use.

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

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

(j) Impairment of non-financial assets

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

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(k) Leases

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

Finance lease

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

Operating lease

For an operating lease, revenue 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 Group. The Group also recognizes initial direct costs incurred in negotiating and arranging an operating lease, as a separated asset. The depreciation for leased assets is consistent with the Group's depreciation for similar assets.

(l) Non-derivative financial liabilities

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

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

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(m) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

Long-term employee benefits are employee benefits that are not due to be settled within 12 months after the end of the period in which the employees render the related service. The Group's net obligation in respect of long-term employee benefits other than pension for current and prior periods; that benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on high credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iii) Post-employment benefit plan

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

Defined contribution plans

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

Defined benefit plans

The defined benefit liabilities are calculated at the present value of the defined benefit obligations less the fair value of the plan assets at the end of the reporting period. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on high credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. With regard to actuarial gains and losses which arise from application of actuarial assumptions, the Group recognizes all actuarial gains and losses in profit or loss.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(m) Employee benefits, continued

When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. If the defined benefit plan is introduced incipiently or amended, and the benefits vest immediately, the expense is recognized immediately in profit or loss.

(iv) Termination benefits

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

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

(n) Provisions

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

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

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(o) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on the settlement of monetary items and on translating monetary items are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

(p) Share capital

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

(q) Share-based payment transactions

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

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(r) Interest and fee income recognition

The Group recognizes interest and fee income from cardholders and merchants on an accrual basis. However, the Group recognizes service charges and interest income from delinquent cardholders on 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 by the effective interest rate method.

(s) Customer loyalty programmes

The fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits ("points") and other components of the fee and commission income. The Group provides awards, in the form of price discounts and by offering a variety of gifts. The amount allocated to the points is estimated by reference to the fair value of the monetary and non-monetary benefits for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recognized as accrued income and revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to provide the benefits. The amount of revenue recognized in those circumstances is based on the number of points that have been redeemed in exchange for benefits, relative to the total number of points that are expected to be redeemed.

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

(t) Finance income and finance costs

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

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(u) Income taxes

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

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

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

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

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

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

(v) Earnings per share

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

(w) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2012, and the Group has not early adopted them.

(i) K-IFRS No.1110, *Consolidated Financial Statements*

The standard introduces a single control model to determine whether an investee should be consolidated. As a result, the Company may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The standards are effective for annual periods beginning on or after January 1, 2013. Management believes the impact of the new standard on the Company's consolidated financial statements is not significant.

(ii) K-IFRS No.1111, *Joint Arrangements*

The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant K-IFRS applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013. Management believes the impact of the new standard on the Group's consolidated financial statements is not significant.

(iii) K-IFRS No.1112, *Disclosure of Interests in Other Entities*

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013. Management believes the impact of the new standard on the Group's consolidated financial statements is not significant.

(iv) Amendments to K-IFRS No. 1019, *Employee Benefits*

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standards are effective for annual periods beginning on or after January 1, 2013. Management cannot estimate in the process of evaluating the impact of the amendments on the Group's consolidated financial statements as of December 31, 2012.

(v) K-IFRS No. 1113, *Fair Value Measurement*

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standards are effective for annual periods beginning on or after January 1, 2013. Management believes the impact of the new standard on the Group's consolidated financial statements is not significant.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

3. Significant accounting policies, continued

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

(vi) Amendments to K-IFRS No. 1001, *Presentation of Financial Statements*

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The standards are effective for annual periods beginning on or after July 1, 2012. Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

4. Financial risk management

(a) General information of risk management

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

- credit risk
- liquidity risk
- market risk

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

(i) Organization for risk management

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

In addition, the Group established a Credit Review Committee to separate the credit review from credit policy decision-making. The Credit Review Committee is led by the CRO and consists of heads of relevant divisions and teams which conducts credit evaluations on the credit to corporate customers over a certain amount of money and other significant credit.

(ii) Risk management process

The Group measures credit risk, market risk, interest rate risk and liquidity risk using an Enterprise Risk Management System. The Group uses the system to determine an acceptable level of risks before the establishment of an annual financial plan, and sets an upper growth limit as a guideline, which considers available capital and risk capital. On the basis of organized financial plans in accordance with established guidelines, the Group organizes risk plans and sets risk limits and risk tolerance which encompasses the Group's risk appetite.

Risk limits

Risk limits are set on the basis of the risk capital principles or by the regulatory capital requirements. The Group manages total risk limits, risk limits for each type of risk and risk limits by business segment product. If these risk measurements approach 95% of their risk limits, the Group reports the risk limit measurements to the CRO of Shinhan Financial Group and the CRO report to the Group Risk Management Committee.

Risk tolerance

The Group sets and operates risk tolerance levels to enhance risk management abilities by performing stress tests, monitoring the differences between actual losses and expected losses, and preparing a counter-measure, if necessary.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

4. Financial risk management, continued

(a) General information of risk management, continued

(iii) Risk monitoring

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

Risk dashboard

The risk dashboard is a risk monitoring system to provide early detection and a proactive response to portfolio risks and abnormal symptoms, and monitor key targets by business lines and members (low CB grade). It performs the pre-detection function on certain risk factors such as an unexpected increase in assets and external news stories. By regular monitoring, the risk management team analyzes the cause, and prepares and implements a counter-measure.

Risk measurement and monitoring report

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

Especially, it is important for the Group to enhance proactive forecasting abilities for short-term delinquency indicators since the asset turnover period is short in the credit card business. The Group operates a roll-rate based forecasting model for short-term delinquency by reflecting seasonal effects.

In addition, the forecasting of medium term credit quality indicators for the more than six months period is essential to support establishing a proactive strategy for changes in macroeconomic environment and market conditions. The Group operates a forecasting model which is based on scenario analysis considering the trend of changes in portfolios and a statistical model using both internal and external variables. The Group continuously searches for a forecasting model which is more accurate and predictive.

(iv) Enterprise crisis management system

Enterprise crisis management includes quantitative crisis recognition, determination of crisis stage, setting up action items, and debriefing.

Internal and external crisis indicators are categorized as core or leading indicators. The risk management team analyzes qualitative information and meets with heads of departments to determine an action plan, if necessary.

Enterprise crisis stage consists of Normal 1, Normal 2, Cautionary 1, Cautionary 2, Crisis Impending, and Crisis, which is determined by scoring based on internal and external indicators.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

4. Financial risk management, continued

(a) General information of risk management, continued

Internal indicators are categorized according to asset quality, capital adequacy, profitability, and liquidity. External indicators are categorized into real economy, family credit, and money market, which influence the credit card business in general so that connectivity between internal indicators and external indicators can be enhanced.

Based on the assessment of crisis stage, appropriate action items for each crisis stage are set up and implemented. For the purpose of efficient operation of the Enterprise Crisis Management System, detailed roles and responsibilities for each organization are predefined. Crisis management organizations consist of a Risk management working-level meeting which performs daily monitoring, the meeting of heads of departments related to crisis management which is convened above the Cautionary stage, Risk Management Council, Crisis Management Council whose head is the CEO, and Group Crisis Management Council whose head is the CEO of the Shinhan Financial Group. These organizations and their detailed roles and responsibilities enable the Group to cope a with crisis systemically.

(v) Evaluation process

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

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

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

(vi) Credit Scoring System

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(b) Credit risk

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

The Group estimated credit risk of financial instruments using PD (Probability of Default), LGD (Loss Given Default), EAD (Exposure at Default) on the basis of risk estimation methodology of Basel. The Group improves correlation index of Basel basis conservatively to reflect credit card crisis in 2003 and nature of credit card business. Credit risks of derivatives, due from banks and securities were assessed using modified standard methodology of Basel. Amount of credit risks is divided into respective business segment and merchandise segment, and the Group sets limit for each segment that is monitored in the process of risk control. Contingency plans in case that credit risks assessed approach the limit are prepared in advance.

(i) Exposure to credit risk

Carrying amount of financial instruments represents the maximum exposure to credit risk. Exposure to credit risk of the Group as of December 31, 2012 and 2011 are as follows:

	2012	2011
Due from banks and Loans and receivables		
Bank	₩ 1,422,051	1,225,034
Household	17,909,017	17,540,857
Credit sales	10,254,324	9,649,810
Cash advances	2,569,433	2,996,866
Card loans	3,132,669	3,235,621
Installment finance and others	1,952,591	1,658,560
Government/Public institution/the Bank of Korea	132,319	63,927
Corporate	1,173,961	1,409,415
	<u>20,637,348</u>	<u>20,239,233</u>
Available-for-sale financial assets		
Debt securities	3,869	5,805
Other Assets		
Other financial Assets	467,171	755,871
	<u>₩ 21,108,388</u>	<u>21,000,909</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(b) Credit risk, continued

(ii) Analysis of the past due and impaired amounts

Set out below is an analysis of the past due and impaired amounts of due from banks, loans and receivables by counterparties, debt securities as of December 31, 2012 and 2011 are as follow :

		2012			
		Neither past due nor impaired	Past due but not impaired	Impaired	Total
Bank	₩	1,414,001	8,226	-	1,422,227
Household		17,461,248	656,462	539,451	18,657,161
Credit sales		10,065,722	343,809	138,917	10,548,448
Cash advances		2,516,908	141,920	117,888	2,776,716
Card loans		3,098,563	114,985	72,896	3,286,444
Installment finance and others		1,780,055	55,748	209,750	2,045,553
Government/Public institution/the Bank of Korea		109,832	24,331	53	134,216
Corporate		1,065,584	112,840	8,632	1,187,056
		<u>20,050,665</u>	<u>801,859</u>	<u>548,136</u>	<u>21,400,660</u>
Allowance for doubtful accounts		(328,424)	(95,028)	(335,991)	(759,443)
	₩	<u>19,722,241</u>	<u>706,831</u>	<u>212,145</u>	<u>20,641,217</u>
		2011			
		Neither past due nor impaired	Past due but not impaired	Impaired	Total
Bank	₩	1,225,122	11	-	1,225,133
Household		17,177,233	594,457	443,807	18,215,497
Credit sales		9,510,743	289,393	102,452	9,902,588
Cash advances		2,948,491	149,744	104,010	3,202,245
Card loans		3,211,266	106,558	52,478	3,370,302
Installment finance and others		1,506,733	48,762	184,867	1,740,362
Government/Public institution/the Bank of Korea		60,794	3,653	3	64,450
Corporate		1,352,156	62,121	14,541	1,428,818
		<u>19,815,305</u>	<u>660,242</u>	<u>458,351</u>	<u>20,933,898</u>
Allowance for doubtful accounts		(336,065)	(88,399)	(264,396)	(688,860)
	₩	<u>19,479,240</u>	<u>571,843</u>	<u>193,955</u>	<u>20,245,038</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(b) Credit risk, continued

(iii) Information about the credit quality of financial assets that are neither past due nor impaired

The Group classified due from banks, loans and receivables as several risk segments. Credit quality of risk segments that have less than average probability of default is determined to be outstanding and that of others is determined to be normal. Information about the credit quality of due from banks, loans and receivables that are neither past due nor impaired as of December 31, 2012 and 2011 are as follows:

		2012		
		Outstanding	Normal	Total
Bank	₩	1,411,792	2,197	1,413,989
Household		16,039,844	1,098,299	17,138,143
Credit sales		9,348,938	569,305	9,918,243
Cash advances		2,115,359	307,699	2,423,058
Card loans		2,876,501	146,273	3,022,774
Installment finance and others		1,699,046	75,022	1,774,068
Government/Public institution/the				
Bank of Korea		40,567	68,673	109,240
Corporate		573,824	487,045	1,060,869
	₩	<u>18,066,027</u>	<u>1,656,214</u>	<u>19,722,241</u>

		2011		
		Outstanding	Normal	Total
Bank	₩	1,208,406	16,618	1,225,024
Household		15,281,107	1,567,488	16,848,595
Credit sales		8,600,669	768,810	9,369,479
Cash advances		2,356,431	486,602	2,843,033
Card loans		1,401,560	213,271	3,135,718
Installment finance and others		1,375,013	98,805	1,500,365
Government/Public institution/the				
Bank of Korea		31,996	28,432	60,428
Corporate		682,897	662,296	1,345,193
	₩	<u>17,204,406</u>	<u>2,274,834</u>	<u>19,479,240</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(b) Credit risk, continued

(iv) Analysis of the age of financial assets that are past due but not impaired

Management of the Group judged past due within 90 days as not impaired unless other information can be demonstrated that this is not the case. Analysis of the age of financial assets that are past due but not impaired as of December 31, 2012 and 2011 are as follows:

		2012			
		In 30 days	After 30 days through 60 days	After 60 days through 90 days	Total
Bank	₩	8,062	-	-	8,062
Household		516,886	34,663	12,575	564,124
Credit sales		280,887	16,848	5,854	303,589
Cash advances		101,860	8,015	3,205	113,080
Card loans		83,012	7,268	2,749	93,029
Installment finance and others		51,127	2,532	767	54,426
Government/Public institution/the Bank of Korea		18,748	868	3,450	23,066
Corporate		108,274	2,671	634	111,579
	₩	<u>651,970</u>	<u>38,202</u>	<u>16,659</u>	<u>706,831</u>

		2011			
		In 30 days	After 30 days through 60 days	After 60 days through 90 days	Total
Bank	₩	10	-	-	10
Household		455,720	36,582	15,869	508,171
Credit sales		231,137	16,920	6,940	254,997
Cash advances		103,492	10,217	4,746	118,455
Card loans		76,656	7,074	3,373	87,103
Installment finance and others		44,435	2,371	810	47,616
Government/Public institution/the Bank of Korea		2,607	883	9	3,499
Corporate		54,998	4,068	1,097	60,163
	₩	<u>513,335</u>	<u>41,533</u>	<u>16,975</u>	<u>571,843</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(b) Credit risk, continued

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

Carrying amounts of available-for-sale financial assets were estimated considering the reasonably estimated recoverable amounts. Available-for-sale financial assets that are individually determined to be impaired as of December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Debt securities			
Sangroksu 1 st ABS Co., Ltd.	₩	3,869	5,805

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(b) Credit risk, continued

(vi) Industrial concentration of credit risk

Industrial concentration of credit risk of due from banks, loans and receivables, debt securities as of December 31, 2012 and 2011 is as follows:

		December 31, 2012								
		Finance and insurance	Manu-facturing	Retail and whole-sale	Real estate and service	Con-struction	Hotel and leisure	Other	Retail customer	Total
Bank	₩	1,422,051	-	-	-	-	-	-	-	1,422,051
Household		-	-	-	-	-	-	-	17,909,017	17,909,017
Credit sales		-	-	-	-	-	-	-	10,254,324	10,254,324
Cash advances		-	-	-	-	-	-	-	2,569,433	2,569,433
Card loans		-	-	-	-	-	-	-	3,132,669	3,132,669
Installment finance and others		-	-	-	-	-	-	-	1,952,591	1,952,591
Government/Public institution/the										
Bank of Korea		18,747	274	280	2,253	181	36	110,548	-	132,319
Corporate		34,131	172,465	180,021	32,989	129,286	5,405	623,533	-	1,177,830
	₩	<u>1,474,929</u>	<u>172,739</u>	<u>180,301</u>	<u>35,242</u>	<u>129,467</u>	<u>5,441</u>	<u>734,081</u>	<u>17,909,017</u>	<u>20,641,217</u>
		December 31, 2011								
		Finance and insurance	Manu-facturing	Retail and whole-sale	Real estate and service	Con-struction	Hotel and leisure	Other	Retail customer	Total
Bank	₩	1,225,034	-	-	-	-	-	-	-	1,225,034
Household		-	-	-	-	-	-	-	17,540,857	17,540,857
Credit sales		-	-	-	-	-	-	-	9,649,810	9,649,810
Cash advances		-	-	-	-	-	-	-	2,996,866	2,996,866
Card loans		-	-	-	-	-	-	-	3,235,621	3,235,621
Installment finance and others		-	-	-	-	-	-	-	1,658,560	1,658,560
Government/Public institution/the										
Bank of Korea		18,773	150	127	1,038	150	35	43,654	-	63,927
Corporate		59,065	131,553	145,793	21,909	32,122	4,595	1,020,183	-	1,415,220
	₩	<u>1,302,872</u>	<u>131,703</u>	<u>145,920</u>	<u>22,947</u>	<u>32,272</u>	<u>4,630</u>	<u>1,063,837</u>	<u>17,540,857</u>	<u>20,245,038</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk could be caused by maturity mismatch of financial assets and liabilities, or temporary insolvency by unexpected cash outflow. It includes economical loss that the Group will have in the process of financing high interest rate, or disposal of invested assets in order to avoid lack of funds. The Group managed liquidity risk by considering all liquidity variation factors that can cause cash inflows and cash outflows.

The Group sets the goal of month-end liquidity as the level in which the Group could pay all the obligations in the next three months. Real liquidity gap ratio of maturity of financial assets and liabilities, liquidity buffer ratio, refinancing ratio, success ratio of financing, and ABS to borrowings ratio are major indices of liquidity risks. Levels of them are defined as cautious, apprehensive, and risky. The Group implements liquidity risk management monitoring the indices and contingency plan is prepared.

(i) Non-derivatives

A maturity analysis for non-derivatives financial assets and liabilities as of December 31, 2012 and 2011 that shows the remaining contractual maturities is as follows. Such undiscounted contractual cash flows that include expected interest differ from the amount included in the statement of financial position based on discounted cash flows.

		December 31, 2012						
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Over 5 years	Total
Assets:								
Cash and due from banks	₩	480,904	-	-	-	-	-	480,904
Loans and receivables		9,845,551	4,838,262	2,295,041	2,113,104	2,356,106	366,720	21,814,784
Trading financial assets		100,023	-	-	-	-	-	100,023
Available-for-sale financial assets		-	-	-	-	-	486,540	486,540
Other financial assets		267,237	145,615	-	-	-	74,002	486,854
		<u>10,693,715</u>	<u>4,983,877</u>	<u>2,295,041</u>	<u>2,113,104</u>	<u>2,356,106</u>	<u>927,262</u>	<u>23,369,105</u>
Liabilities:								
Borrowings		172,670	106,041	7,995	45,990	1,690,960	-	2,023,656
Debentures		139,148	383,882	825,691	2,282,276	8,344,740	-	11,975,737
Other financial liabilities		2,425,834	11,209	20,445	42,459	158,712	46,804	2,705,463
		<u>2,737,652</u>	<u>501,132</u>	<u>854,131</u>	<u>2,370,725</u>	<u>10,194,412</u>	<u>46,804</u>	<u>16,704,856</u>
	₩	<u>7,956,063</u>	<u>4,482,745</u>	<u>1,440,910</u>	<u>(257,621)</u>	<u>(7,838,306)</u>	<u>880,458</u>	<u>6,664,249</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

		December 31, 2011						
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Over 5 years	Total
Assets:								
Cash and due from banks	₩	758,658	-	-	-	-	-	758,658
Loans and receivables		9,004,803	5,050,529	2,313,133	2,100,154	2,398,592	302,544	21,169,755
Trading financial assets		150,103	-	-	-	-	-	150,103
Available-for-sale financial assets		6	-	-	-	-	457,696	457,702
Other financial assets		397,149	300,864	-	-	-	77,007	775,020
		<u>10,310,719</u>	<u>5,351,393</u>	<u>2,313,133</u>	<u>2,100,154</u>	<u>2,398,592</u>	<u>837,247</u>	<u>23,311,238</u>
Liabilities:								
Borrowings		63,828	286,261	688,285	270,568	1,266,675	-	2,575,617
Debentures		207,258	655,777	1,123,617	1,448,912	9,163,387	31,035	12,629,986
Other financial liabilities		1,951,689	158,227	19,091	35,172	171,428	44,451	2,380,058
		<u>2,222,775</u>	<u>1,100,265</u>	<u>1,830,993</u>	<u>1,754,652</u>	<u>10,601,490</u>	<u>75,486</u>	<u>17,585,661</u>
	₩	<u>8,087,944</u>	<u>4,251,128</u>	<u>482,140</u>	<u>345,502</u>	<u>(8,202,898)</u>	<u>761,761</u>	<u>5,725,577</u>

(ii) Derivatives

A maturity analysis for derivative financial assets and liabilities as of December 31, 2012 and 2011 that shows remaining contractual maturities is as follows:

		2012					
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Total
Cash inflow	₩	4,617	51,019	102,167	449,116	1,346,600	1,953,519
Cash outflow		(7,950)	(57,143)	(118,397)	(487,118)	(1,440,778)	(2,111,386)
	₩	<u>(3,333)</u>	<u>(6,124)</u>	<u>(16,230)</u>	<u>(38,002)</u>	<u>(94,178)</u>	<u>(157,867)</u>
		2011					
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Total
Cash inflow	₩	1,452	5,862	473,575	178,984	1,535,050	2,194,923
Cash outflow		(3,422)	(12,593)	(393,088)	(200,851)	(1,548,016)	(2,157,970)
	₩	<u>(1,970)</u>	<u>(6,731)</u>	<u>80,487</u>	<u>(21,867)</u>	<u>(12,966)</u>	<u>36,953</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(d) Market risk

Market risk from trading positions is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The Group has been exposed to interest rate risk of financial assets and liabilities and only foreign exchange rate risk of foreign currency equity securities because the Group hedges all cash flow of foreign currency liabilities by currency rate swap. The Group does not hold equity securities for the purpose of trading. Therefore, there is no exposure to equity price risk related to trading position.

The Group assesses risks of expected transactions and set up limits to control market risks to the extent that the Group can handle. The Group assessed market risks on the basis of Basel standard methodology, set up risk limits respectively, monitored, and established an action plan in case that market risks get close to, or exceed limits.

(i) Market risk management from trading positions

The Group assessed market risk from trading positions by standard methodology of Financial Supervisory Service. Market risk of trading financial assets and available-for-sale financial assets as of December 31, 2012 and 2011 are as follows:

		2012			
		Average	Maximum	Minimum	At December 31
Interest rate	₩	358	900	250	500
Foreign exchange		35,291	40,972	32,313	36,905
	₩	35,649	41,872	32,563	37,405
		2011			
		Average	Maximum	Minimum	At December 31
Interest rate	₩	688	750	500	750
Foreign exchange		26,611	34,683	23,127	34,683
	₩	27,299	35,433	23,627	35,433

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(d) Market risk, continued

(ii) Interest rate risk management from non-trading positions

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

Interest rate VaR (Value at Risk) is maximum expected loss of net assets by negative variation of interest rate. Interest rate VaR is assessed using interest rate repricing gap for each maturity level of accounts affected by interest rate, modified duration proxy and expected interest rate variation. Modified duration for each maturity level and interest rate shock (200bp) suggested by Basel is applied in calculation of VaR.

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

Interest rate VaR and EaR of non-trading positions as of December 31, 2012 and 2011 are as follows:

	2012	2011
Interest rate VaR	₩ 338,930	324,331
Interest rate EaR	29,318	45,233

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(d) Market risk, continued

(iii) Foreign exchange risk

The Group has been exposed to foreign exchange risk of equity securities and financial liabilities denominated in a foreign currency other than the functional currency, Korean won. Cash outflows of liabilities denominated by foreign currency were hedged by currency rate swap. Accordingly, foreign exchange risk of equity securities affects the Group. Exposures to foreign exchange risk of foreign currency denominated assets and liabilities as of December 31, 2012 and 2011 are as follows:

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

		2012		
		Foreign currency		Won equivalent
		U.S. dollar	Singapore dollar	
Cash	USD	45	SGD	- ₩ 49
Available-for-sale financial assets		430,689	-	461,311
Debentures		1,685,000	50,000	1,848,578
On-balance exposure		(1,254,266)	(50,000)	(1,387,218)
Off-balance derivative exposure		1,685,000	50,000	1,848,578
Net position	USD	430,734	SGD	- ₩ 461,360

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

		2011		
		Foreign currency		Won equivalent
		U.S. dollar	Singapore dollar	
Cash	USD	23	SGD	- ₩ 26
Available-for-sale financial assets		375,912	-	433,539
Debentures		1,825,000	50,000	2,149,095
On-balance exposure		(1,449,065)	(50,000)	(1,715,530)
Off-balance derivative exposure		1,825,000	50,000	2,149,095
Net position	USD	375,935	SGD	- ₩ 433,565

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

4. Financial risk management, continued

(e) Capital risk management

The Group has exposure to credit risk, liquidity risk and market risk. By maintaining an optimal capital structure, the Group controls the financial risks, enhances safety and soundness of financial institution, stabilizes the financial system, and advances credit standing.

The Group operates the credit card business under the Specialized Credit Financial Business Act. Accordingly, the Group should obey Regulation on Supervision of Credit Specialized Financial Business. The regulation requires the Group to maintain more than eight percent of adjusted equity capital ratio. Adjusted total assets and adjusted equity capital for the ratio are based on the statements of financial position and adjusted by the regulation that reflects standards of Bank for International Settlements and the nature of credit card business. The Group obeys the minimum ratio of adjusted equity capital requirement regulation by Specialized Credit Financial Business as of December 31, 2012.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

5. Use of estimates and judgments

Estimates and underlying assumptions are reviewed on an ongoing basis considering historical experience and predictable future events based on current conditions.

(a) Valuation of financial instruments

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

(b) Allowance for doubtful accounts

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy is discussed in note 3. (g).

(i) Individually assessed loan impairment

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realizable value of any underlying collateral.

(ii) Collectively assessed loan impairment

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(c) Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

5. Use of estimates and judgments, continued

(d) Liability for defined benefit obligations

Present value of the defined benefit obligation is determined by independent qualified actuary using the Projected Unit Credit Method considering actuarial assumptions about variables such as future increases in salaries, employee turnover and discount rate.

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

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

(f) Income taxes

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

6. Operating Segments

The Group has a single reportable segment.

- (a) Details of revenues recognized four financial services products each financial service groups provided by the Group for year ended December 31, 2012 and 2011 are as follows:

		2012				
		Credit card	Installment financing	Leasing	Others	Total
Interest income	₩	1,829,296	101,487	47,735	53,691	2,032,209
Fee and commission income		2,135,495	3,866	4,084	27,841	2,171,286
Other operating income		9,540	761	131	384,993	395,425
	₩	<u>3,974,331</u>	<u>106,114</u>	<u>51,950</u>	<u>466,525</u>	<u>4,598,920</u>

		2011				
		Credit card	Installment financing	Leasing	Others	Total
Interest income	₩	1,884,518	104,990	53,376	52,331	2,095,215
Fee and commission income		2,075,587	3,501	3,886	328	2,083,302
Other operating income		33,950	1,650	314	310,821	346,735
	₩	<u>3,994,055</u>	<u>110,141</u>	<u>57,576</u>	<u>363,480</u>	<u>4,525,252</u>

- (b) Revenues from external customers for the years ended December 31, 2012 and 2011 are attributed to the Republic of Korea that is the Group's country of domicile.
- (c) There is no single external customer with whom revenues from transactions amount to 10 percent or more of the Group's revenues for the years ended December 31, 2012 and 2011.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

7. Cash and due from banks

(a) Details of cash and due from banks as of December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Cash	₩	49	26
Deposits in won:			
Time deposits		1,338	1,455
Others		479,446	756,950
		<u>480,784</u>	<u>758,405</u>
	₩	<u>480,833</u>	<u>758,431</u>

(b) Restricted due from banks as of December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>	<u>Restrictions</u>
Time deposits				
Woori Bank and others	₩	47,330	30,515	Cash of SPC
Jeonbuk Bank		100	100	Pledged as collateral for cash advances
Korea Post		338	338	Pledged as collateral for a lease
Shinhan Bank		-	117	Guarantee for defect
		<u>47,768</u>	<u>31,070</u>	
Other deposits				
Woori Bank and others		37	39	Deposit for checking accounts
	₩	<u>47,805</u>	<u>31,109</u>	

8. Trading financial assets

(a) Details of trading financial assets as of December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
MMF (Money market fund) and other	₩	100,023	150,056

(b) Net income on trading financial assets for the years ended December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Gain on valuation of trading financial assets	₩	23	56
Gain on sale of trading financial assets		831	1,060
	₩	<u>854</u>	<u>1,116</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

9. Derivatives

(a) Derivative assets and liabilities

The notional amounts and fair values of derivative assets and liabilities as of December 31, 2012 and 2011 are as follows:

Hedged item	Notional amounts	2012		Notional amounts	2011		
		Fair value Assets	Fair value Liabilities		Fair value Assets	Fair value Liabilities	
Cash flow hedges:							
Currency rate swap	Bonds payables in foreign currency	₩ 1,848,578	1,157	100,156	2,149,095	124,665	11,052
Interest rate swap	Borrowings and bonds in won	780,000	1,826	5,242	450,000	1,465	1,720
		₩ <u>2,628,578</u>	<u>2,983</u>	<u>105,398</u>	<u>2,599,095</u>	<u>126,130</u>	<u>12,772</u>

(b) Gain (loss) on derivatives

Gain (loss) on derivatives for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Gain on valuation of derivatives	₩ -	56,308
Loss on valuation of derivatives	(151,335)	-
Gain on transaction of derivatives	2,240	5,464
Loss on transaction of derivatives	(5,726)	(18,774)
	₩ <u>(154,821)</u>	<u>42,998</u>

(c) Cash flow hedge activity

For cash flow hedges, the amount that is recognized in other comprehensive income and the amount that is reclassified from equity to profit or loss for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Recognized in other comprehensive income	₩ (135,582)	47,890
Reclassified from equity to profit or loss	154,821	(42,998)
Deferred tax effect	(4,656)	(591)
Changes in other comprehensive income, net	₩ <u>14,583</u>	<u>4,301</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

10. Loans and receivables

(a) Details of loans and receivables as of December 31, 2012 and 2011 are as follows:

	December 31, 2012	December 31, 2011
Credit card assets:		
Lump-sum purchases	₩ 4,387,066	4,190,309
Installment purchases	5,608,052	5,327,052
Cash advances	2,394,250	2,672,512
Revolving cash advances	372,527	515,719
Revolving purchases	1,224,047	1,133,209
Card loans	3,286,449	3,370,394
Restructured loans	208,040	191,813
Purchasing card	334,045	441,919
Less : Allowance for doubtful accounts	(743,441)	(674,952)
Present value discount account	(22,868)	(27,474)
Deferred loan origination costs	(17,531)	(14,912)
	<u>17,030,636</u>	<u>17,125,589</u>
Loans:		
General loans	1,602	2,714
Bonds purchased under resale agreements	931,000	450,000
Loans to employee stock ownership association	576	1,698
Factoring receivables	287,089	-
Other	6,809	7,110
Less : Allowance for doubtful accounts	(592)	(703)
Present value discount account	(1)	(27)
Deferred loan origination costs	2020	-
	<u>1,228,503</u>	<u>460,792</u>
Installment financing assets:		
Installment for cars	1,241,210	1,224,261
Installment for houses	979	1,308
Installment for others	165	257
Less : Allowance for doubtful accounts	(12,956)	(10,794)
Deferred loan origination costs	(8,966)	(15,861)
	<u>1,220,432</u>	<u>1,199,171</u>
Lease assets:		
Financing lease receivables	680,085	699,348
Cancelled financing lease receivables	288	299
Less : Allowance for doubtful accounts	(2,454)	(2,411)
Deferred loan origination costs	(926)	(1,960)
	<u>676,993</u>	<u>695,276</u>
	<u>₩ 20,156,564</u>	<u>19,480,828</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

10. Loans and receivables, continued

(b) Changes in allowance for doubtful accounts for the years ended December 31, 2012 and 2011 are as follows:

		2012		
		Loans and receivables	Other assets	Total
Beginning balance	₩	688,860	17,327	706,187
Provision for allowance		293,484	17,862	311,346
Write-offs		(493,517)	(18,120)	(511,637)
Unwinding effect		(1,524)	-	(1,524)
Allowance related to disposal of loans		6,125	-	6,125
Recoveries		263,243	885	264,128
Others		2,772	-	2,772
Ending balance	₩	<u>759,443</u>	<u>17,954</u>	<u>777,397</u>
		2011		
		Loans and receivables	Other assets	Total
Beginning balance	₩	686,273	17,485	703,758
Provision for allowance		161,412	13,915	175,327
Write-offs		(451,527)	(14,702)	(466,229)
Unwinding effect		(1,460)	-	(1,460)
Allowance related to disposal of loans		68	-	68
Recoveries		290,314	629	290,943
Others		3,780	-	3,780
Ending balance	₩	<u>688,860</u>	<u>17,327</u>	<u>706,187</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

10. Loans and receivables, continued

(c) Financing lease assets

Total investments in financing lease and present value of minimum lease payments as of December 31, 2012 and 2011 are as follows:

	2012		
	Total investment	Unrealized interest income	Present value of minimum lease payment
Less than one year	₩ 330,115	29,604	300,511
One year to five years	402,336	22,474	379,862
Over five years	-	-	-
	<u>₩ 732,451</u>	<u>52,078</u>	<u>680,373</u>
	2011		
	Total investment	Unrealized interest income	Present value of minimum lease payment
Less than one year	₩ 314,035	33,008	281,027
One year to five years	442,632	24,034	418,598
Over five years	22	-	22
	<u>₩ 756,689</u>	<u>57,042</u>	<u>699,647</u>

(d) Changes in deferred loan origination fees

Changes in deferred loan origination fees for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Beginning balance	₩ (32,733)	(38,444)
Increase	(61,213)	(72,419)
Decrease	68,543	78,130
Ending balance	<u>₩ (25,403)</u>	<u>(32,733)</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

11. Available-for-sale financial assets

(a) Details of available-for-sale financial assets as of December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Debt securities			
Corporate bonds	₩	3,869	5,805
Equity securities			
Stock(*)		482,668	451,892
Equity investments		2	2
Beneficiary certificates		1	3
		<u>482,671</u>	<u>451,897</u>
	₩	<u>486,540</u>	<u>457,702</u>

(*) As of December 31, 2012, Korea Credit-Card Electronic-Settlement Service Co., Ltd. and three other non-marketable equity security investments are recognized at acquisition cost since fair value could not be reliably determined. The carrying amount of the entities, on the cost basis of accounting, is ₩1,461 million as of December 31, 2012 and 2011, respectively.

(b) Changes in available-for-sale financial assets for the years ended December 31, 2012 and 2011 are as follows:

		<u>2012</u>			<u>2011</u>		
		<u>Equity securities</u>	<u>Debt securities</u>	<u>Total</u>	<u>Equity securities</u>	<u>Debt securities</u>	<u>Total</u>
Beginning balance	₩	451,897	5,805	457,702	375,877	5,339	381,216
Disposal		(106,342)	(20,149)	(126,491)	(95,872)	(23,015)	(118,887)
Changes in unrealized fair value of available for sale financial assets		122,558	-	122,558	170,684	-	170,684
Foreign exchange differences		14,558	-	14,558	1,229	-	1,229
Reversal of impairment loss (impairment loss)(*)		-	18,213	18,213	(21)	23,481	23,460
Ending balance	₩	<u>482,671</u>	<u>3,869</u>	<u>486,540</u>	<u>451,897</u>	<u>5,805</u>	<u>457,702</u>

(*) Epion Technologies Corp. (former Daum Tech), which was recognized at cost, was impaired during 2011. As the fair value of debt securities increase during 2011 and 2012, impairment losses previously recognized are reversed.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

11. Available-for-sale financial assets, continued

(c) Gain on sale of available-for-sale financial assets for the years ended December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Gain on sale of available-for-sale financial assets	₩	112,646	109,023

The Company disposed 880,000 shares of Visa Card Inc, which have limited voting rights, and recognized a gain on the sale of available-for-sale financial assets of ₩98,974 million in the consolidated statement of comprehensive income during 2012. In addition, the Company disposed 609,000 shares of BC Card Inc, and recognized a gain on the sale of available-for-sale financial assets of ₩88,841 million in the consolidated statement of comprehensive income during 2011.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

12. Property and equipment

(a) Details of Property and equipment as of December 31, 2012 and 2011 are as follows:

		2012			
		Land	Buildings	Other	Total
Acquisition cost	₩	31,176	7,280	383,512	421,968
Accumulated depreciation		-	(757)	(298,528)	(299,285)
	₩	<u>31,176</u>	<u>6,523</u>	<u>84,984</u>	<u>122,683</u>
		2011			
		Land	Buildings	Other	Total
Acquisition cost	₩	31,176	7,280	359,474	397,930
Accumulated depreciation		-	(505)	(294,435)	(294,940)
	₩	<u>31,176</u>	<u>6,775</u>	<u>65,039</u>	<u>102,990</u>

(b) Changes in property and equipment for the years ended December 31, 2012 and 2011 are as follows:

		2012			
		Land	Buildings	Other	Total
Beginning balance	₩	31,176	6,775	65,039	102,990
Acquisition		-	-	45,550	45,550
Disposal		-	-	(5)	(5)
Depreciation		-	(252)	(30,899)	(31,151)
Others		-	-	5,299	5,299
Ending balance	₩	<u>31,176</u>	<u>6,523</u>	<u>84,984</u>	<u>122,683</u>
		2011			
		Land	Buildings	Other	Total
Beginning balance	₩	31,176	7,028	49,115	87,319
Acquisition		-	-	45,474	45,474
Disposal		-	-	(20)	(20)
Depreciation		-	(253)	(31,294)	(31,547)
Others		-	-	1,764	1,764
Ending balance	₩	<u>31,176</u>	<u>6,775</u>	<u>65,039</u>	<u>102,990</u>

(c) Insured Assets

Insured assets as of December 31, 2012 are summarized as follows:

Type of insurance	Assets covered	Insurance company	Amount covered
Property all risks policy	Buildings, etc.	Samsung Fire & Marine Insurance, Ltd.	₩ 91,165

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

13. Intangible assets

(a) Details of Intangible assets as of December 31, 2012 and 2011 are as follows:

		December 31, 2012			
		Club memberships	Development cost	Other	Total
Acquisition Cost	₩	15,213	104,957	14,784	134,954
Accumulated amortization		-	(38,356)	(11,663)	(50,019)
Impairment losses		(2,922)	-	-	(2,922)
	₩	<u>12,291</u>	<u>66,601</u>	<u>3,121</u>	<u>82,013</u>

		December 31, 2011			
		Club memberships	Development cost	Other	Total
Acquisition Cost	₩	14,660	73,374	12,705	100,739
Accumulated amortization		-	(26,572)	(10,714)	(37,286)
Impairment losses		(2,135)	-	-	(2,135)
	₩	<u>12,525</u>	<u>46,802</u>	<u>1,991</u>	<u>61,318</u>

(b) Changes in intangible assets for the years ended December 31, 2012 and 2011 are as follows:

		2012			
		Club memberships	Development cost	Other	Total
Beginning balance	₩	12,525	46,802	1,991	61,318
Acquisition		809	39,218	-	40,027
Substitution		-	(7,185)	2,078	(5,107)
Disposal		(256)	-	-	(256)
Amortization		-	(12,234)	(948)	(13,182)
Impairment(*)		(799)	-	-	(799)
Impairment reversal		12	-	-	12
Ending balance	₩	<u>12,291</u>	<u>66,601</u>	<u>3,121</u>	<u>82,013</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

13. Intangible assets, continued

		2011			
		Club memberships	Development cost	Other	Total
Beginning balance	₩	14,660	22,320	5,553	42,533
Acquisition		-	39,226	1,090	40,316
Substitution		-	(1,793)	553	(1,240)
Disposal		-	(3,419)	-	(3,419)
Amortization		-	(9,532)	(5,205)	(14,737)
Impairment(*)		(2,135)	-	-	(2,135)
Impairment reversal		-	-	-	-
Ending balance	₩	12,525	46,802	1,991	61,318

14. Investments in associates

(a) Investments in associates as of December 31, 2012 and 2011 are summarized as follows:

		2012			2011		
		Acquisition cost	Net assets	Carrying amount	Acquisition cost	Net assets	Carrying amount
Shinhan KT Mobile Card Co., Ltd.	₩	-	-	-	1,000	26	-

Shinhan KT Mobile Card Co., Ltd. went into liquidation on February 25, 2012, upon which ₩24 million of gains on investments in associates were recognized in the consolidated interim financial statements of comprehensive income.

15. Other assets

Other assets as of December 31, 2012 and 2011 are summarized as follows:

		2012	2011
Guarantee deposits	₩	74,002	77,007
Present value discount account		(1,729)	(1,822)
Accounts receivable		303,704	585,538
Allowance for doubtful accounts		(4,138)	(5,569)
Accrued income		105,958	109,670
Allowance for doubtful accounts		(13,816)	(11,758)
Advance payments		142,606	129,680
Prepaid expenses		72,709	78,955
Others		2,440	2,191
	₩	681,736	963,892

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

16. Borrowings

Borrowings as of December 31, 2012 and 2011 are summarized as follows:

	<u>Interest rate (%)</u>	<u>2012</u>	<u>2011</u>
Borrowings:		₩	
Commercial paper	2.93~4.19	1,042,800	1,499,800
General borrowings	4.17	100,000	350,000
Borrowings from Shinhan Financial Group	4.12~4.91	700,000	550,000
Overdrawn account	3.81	70,000	60,000
		₩	
		<u>1,912,800</u>	<u>2,459,800</u>

17. Debentures

Debentures as of December 31, 2012, and 2011 are summarized as follows:

	<u>Maturity</u>	<u>Interest rate (%)</u>		<u>2012</u>	<u>2011</u>
Debentures in won	2013.01.04~ 2017.12.22	2.96~6.75	₩	9,115,780	9,300,780
Less: discount				(30,827)	(6,935)
				<u>9,084,953</u>	<u>9,293,845</u>
Debentures in foreign currency	2013.04.20~ 2016.03.28	2.23~4.80		1,848,578	2,149,095
Less: discount				(10,100)	(10,880)
				<u>1,838,478</u>	<u>2,138,215</u>
			₩	<u>10,923,431</u>	<u>11,432,060</u>

18. Employee benefits

(a) Defined benefit plan assets and liabilities as of December 31, 2012 and 2011 are as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Present value of defined benefit obligations	₩ 149,114	140,556
Fair value of plan assets	(133,932)	(103,171)
Recognized liabilities for defined benefit obligations	₩ <u>15,182</u>	<u>37,385</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

18. Employee benefits, continued

- (b) Changes in the present value of defined benefit obligations for the years ended December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Beginning balance	₩	140,556	100,696
Current service cost		18,352	14,822
Interest expense		7,105	6,217
Actuarial (gain) losses		(11,652)	21,554
Benefits paid by the plan		(5,708)	(3,378)
Others (*)		461	645
Ending balance	₩	<u>149,114</u>	<u>140,556</u>

(*) Amount of transfer from related parties

- (c) Changes in the present value of plan assets for the years ended December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Beginning balance	₩	103,171	85,350
Expected return on plan assets		4,297	3,379
Actuarial (gain) losses		18	(347)
Contributions paid into the plan		31,360	20,002
Benefits paid by the plan		(4,914)	(5,213)
Ending balance	₩	<u>133,932</u>	<u>103,171</u>

- (d) Details of the amounts included in the fair value of plan assets for each category of financial instruments as of December 31, 2012 and 2011 are as follows:

		<u>2012</u>		<u>2011</u>	
		<u>Amounts</u>	<u>Ratio</u>	<u>Amounts</u>	<u>Ratio</u>
Cash and due from banks	₩	102,615	76.6%	72,167	69.9%
Securities		28,681	21.4%	28,230	27.4%
Others		2,636	2.0%	2,774	2.7%
Fair value of plan assets	₩	<u>133,932</u>	<u>100.0%</u>	<u>103,171</u>	<u>100.0%</u>

- (e) Details of expense recognized in profit or loss for the years ended December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Current service costs	₩	18,352	14,822
Interest expense		7,105	6,217
Expected return on plan assets		(4,297)	(3,379)
Actuarial (gain) losses		(11,670)	21,901
	₩	<u>9,490</u>	<u>39,561</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

18. Employee benefits, continued

(f) Actuarial assumptions as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate (AA0)	4.22%	5.30%
Expected return on plan assets(*)	4.59%	4.00%
Future salary increasing rate	2.8%	4.06%
	+ upgrade rate	+ upgrade rate

(*) Since the plan assets are deposited in products that guarantee the principal and interest, the Company determines the expected rate of return on plan assets considering the market interest rates of the time deposits and fees.

(g) Historical information for the amounts related to defined benefit plans recognized for the current year and previous years are as follows:

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Defined benefit obligations	₩ 149,114	140,556	100,696	78,191
Plan assets	(133,932)	(103,171)	(85,350)	(83,727)
Surplus/(deficit)	15,182	37,385	15,346	(5,536)
Experience adjustments on plan liabilities	11,652	(21,554)	(10,304)	-
Experience adjustments on plan assets	18	(347)	46	-

(h) The amounts recognized as an expense for defined contribution plans were ₩1,325 million and ₩1,182 million for the years ended December 31, 2012 and 2011, respectively.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

19. Provisions

Details of provisions as of December 31, 2012 and 2011 are as follows:

		2012				
		Allowance for litigation	Provision for membership reward program	Allowance for unused credit commitments	Other (*)	Total
Beginning balance	₩	12,185	24,439	345,288	14,007	395,919
Provision (recoveries)		432	39,143	(16,814)	2,422	25,183
Payment		(4,682)	(38,709)	-	(2,511)	(45,902)
Ending balance	₩	<u>7,935</u>	<u>24,873</u>	<u>328,474</u>	<u>13,918</u>	<u>375,200</u>

(*) Provision of other included ₩192 million that is for the provision for restoration costs.

		2011				
		Allowance for litigation	Provision for membership reward program	Allowance for unused credit commitments	Other (*)	Total
Beginning balance	₩	3,946	25,203	367,514	13,366	410,029
Provision (recoveries)		11,307	17,265	(22,226)	4,898	11,244
Payment		(3,068)	(18,029)	-	(4,257)	(25,354)
Ending balance	₩	<u>12,185</u>	<u>24,439</u>	<u>345,288</u>	<u>14,007</u>	<u>395,919</u>

(*) Provision of other included ₩525 million that is for the provision for restoration costs.

20. Other liabilities

Details of other liabilities as of December 31, 2012 and 2011 are as follows:

		2012	2011
Accounts payable	₩	2,023,492	1,689,745
Accrued expenses		301,351	257,549
Advances from customers		66,963	73,835
Unearned revenue (Note 21)		230,546	206,096
Withholdings		224,490	145,068
Guarantee deposits, net		243,144	238,402
Advances of gift card and others, net		28,064	30,795
Others		1,092	688
	₩	<u>3,119,142</u>	<u>2,642,178</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

21. Deferred revenue of customer loyalty programmes

Changes in deferred revenue of customer loyalty programmes for the years ended 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Beginning balance	₩ 149,580	138,624
Revenue deferment	183,828	170,711
Revenue realization	(175,398)	(159,755)
Ending balance	₩ <u>158,010</u>	<u>149,580</u>

22. Equity

(a) Equity as of December 31, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Common stock	₩ 626,847	626,847
Capital surplus		
Gains on capital reduction	852,646	852,646
Gains on sale of treasury stock	2	2
Other additional capital	7,944	7,944
	<u>860,592</u>	<u>860,592</u>
Capital adjustments		
Stock options	583	322
Accumulated other comprehensive income		
Unrealized gain on valuation of available-for-sale securities	314,463	276,147
Effective portion of valuation loss on cash flow hedges	(4,484)	(19,067)
	<u>309,979</u>	<u>257,080</u>
Retained earnings		
Legal reserve	313,424	285,103
Reserve for credit losses	269,024	-
Revaluation surplus of property and equipment	10,216	-
Retained earnings (*)	3,342,512	3,200,318
	<u>3,935,176</u>	<u>3,485,421</u>
	₩ <u>5,733,177</u>	<u>5,230,262</u>

(*) ₩246,082 million as of December 31, 2012 is planned to be transferred to reserve for credit losses.

(b) Capital stock and capital surplus

As of December 31, 2012 and 2011, par value of common stock is ₩5,000 and the Group authorized 2,000,000,000 shares and issued outstanding shares amounted to 125,369,403 shares.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

22. Equity, continued

- (c) Changes in accumulated other comprehensive income for the years ended December 31, 2012 and 2011 are as follows:

		Valuation of available-for-sale securities	Valuation of cash flow hedges	Total
Balance at January 1, 2011	₩	220,282	(23,368)	196,914
Change in fair value of available- for-sale securities		170,684	-	170,684
Foreign exchange differences		1,229	-	1,229
Effective portion of changes in fair value of cash flow hedges		-	47,890	47,890
Reclassification adjustment		(90,068)	(42,998)	(133,066)
Deferred tax effect		(25,980)	(591)	(26,571)
Balance at December 31, 2011		<u>276,147</u>	<u>(19,067)</u>	<u>257,080</u>
Change in fair value of available- for-sale securities		122,558	-	122,558
Foreign exchange differences		14,558	-	14,558
Effective portion of changes in fair value of cash flow hedges		-	(135,582)	(135,582)
Reclassification adjustment		(86,567)	154,821	68,254
Deferred tax effect		(12,233)	(4,656)	(16,889)
Balance at December 31, 2012	₩	<u>314,463</u>	<u>(4,484)</u>	<u>309,979</u>

- (d) Legal reserve

The Korean Commercial Code requires the Group 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.

- (e) Revaluation surplus of property and equipment

The Group elected to measure an item of land and buildings at the date of transition to K-IFRSs at its fair value and use that fair value as its deemed cost at that date. ₩10,216 million of revaluation surplus as a result of revaluation was classified as dividend restriction by the board of directors.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

22. Equity, continued

- (f) Statements of appropriation of retained earnings for the years ended December 31, 2012 and 2011 based on separate financial statements are as follows:

Date of Appropriation for 2012: March 27, 2013

Date of Appropriation for 2011: March 28, 2012

(In millions of won, except dividends per share)

	2012	2011
Unappropriated retained earnings		
Balance at beginning of year	₩ 2,592,748	2,654,398
Interim dividends	-	(300,008)
Dividend per share (dividend as a percentage of par value):		
₩ (-%) for 2012	-	-
₩ 2,393 (47.86%) for 2011	-	-
Net income	749,764	875,930
Balance at end of year before appropriation	3,342,512	3,230,320
Appropriation of retained earnings		
Legal reserve	-	58,322
Reserve for credit losses	246,082	269,024
Reserve for revaluation of property and equipment	-	10,216
Cash dividends	400,053	300,010
Dividends per share (dividend as a percentage of par value):		
₩ 3,191 (63.82%) for 2012		
₩ 2,393 (47.86%) for 2011		
	646,135	637,572
Unappropriated retained earnings to be carried over to subsequent year	₩ 2,696,377	2,592,748

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

23. Reserve for credit losses

In accordance with Regulations on the Supervision of Credit Specialized Financial Business, the Group reserves the difference between allowance for credit losses by K-IFRS and Regulations on the Supervision of Credit Specialized Financial Business in the account of reserve for legal reserve for credit losses. Reserve for credit losses is included in retained earnings, and does not affect net income but by limiting the dividend, prevents credit quality from being compromised.

(a) Reserve for credit losses as of December 31, 2012 and 2011 are summarized as follows:

		<u>2012</u>	<u>2011</u>
Accumulated reserve for credit losses	₩	269,024	-
Accumulated reserve for credit losses, scheduled		<u>246,082</u>	<u>269,024</u>
Ending balance of reserve for credit losses	₩	<u>515,106</u>	<u>269,024</u>

(b) Details of profits after adjusting for reserve for credit losses and provision for reserve for credit losses for the years ended December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Net income for the period	₩	749,764	875,930
Provision for reserve for credit losses		246,082	45,748
Profits after adjusting for reserve for credit losses		503,682	830,182
Earnings per share after reserve for credit losses in won		4,018	6,622

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

24. Operating revenue

(a) Operating revenues for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Operating revenue:		
Interest income	₩ 2,032,209	2,095,215
Fee and commission income	2,171,286	2,083,302
Dividend income	37,335	52,460
Gain on valuation and disposition of trading financial assets	854	1,116
Gains related to derivatives	2,240	61,772
Gains on foreign currency transaction	170,578	33,121
Gains on sale of available-for-sale financial assets	112,646	109,023
Reversal of financial assets' impairment losses	18,213	23,481
Other operating income	53,559	65,762
	<u>₩ 4,598,920</u>	<u>4,525,252</u>

25. Earnings per share

Earnings per share for the years ended December 31, 2012 and 2011 are as follows:

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

	<u>2012</u>	<u>2011</u>
Net income available for common stock	₩ 749,764	875,930
Weighted average number of common stocks outstanding	125,369,403	125,369,403
Earnings per share in won	<u>₩ 5,980</u>	<u>6,987</u>

The Group has no dilutive potential ordinary shares and stock options. Therefore diluted earnings per share is equal basic earnings per share for the years ended December 31, 2012 and 2011.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

26. Share-based payment

Share-based payment as of December 31, 2012 is summarized as follows:

(a) Stock options

	4th grant	5th grant	6th grant	7th grant
Method of settlement	Cash-settlement	Cash-settlement	Cash-settlement	Cash-settlement
Valuation technique	Fair value	Fair 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	110,000 shares	166,700 shares	102,900 shares	135,175 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, 2012	7,299	120,372	74,632	110,707
Changes	(7,299)	-	-	-
Outstanding at December 31, 2012	-	120,372	74,632	110,707
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%)
Valuation model	Black-Scholes Model	Black-Scholes Model	Black-Scholes Model	Black-Scholes Model
Risk-free interest period	-	2.74%	2.74%	2.74%
Expected exercise period	-	2 months	8 months	14 months
Expected stock price volatility	-	23.62%	25.71%	30.84%
Expected dividend yield ratio	-	1.82%	1.82%	1.61%
Fair value of stock option in won	-	₩1,059	₩74	₩1,409

The equity instruments granted are wholly vested as of December 31, 2012. The weighted average share price for 305,711 stock options outstanding at December 31, 2012 is ₩46,372.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

26. Share-based payment, continued

(b) Share-based payment arrangements with performance conditions

(i) Performance share granted as of December 31, 2012 were as follows:

	<u>Granted as of 2010</u>	<u>Granted as of 2011</u>	<u>Granted as of 2012</u>
Type	Equity-settled type	Equity-settled type	Equity-settled type
Vesting period	2010 ~ 2011	2011 ~ 2013	2012 ~ 2014
Performance condition	Based on relative stock price (33.4%)	Based on relative stock price (33.4%)	Based on relative stock price (33.4%)
	Based on 4 year management index (66.6%)	Based on 4 year management index (66.6%)	Based on 4 year management index (66.6%)
Estimated number of shares granted	97,697 shares	4,524 shares	8,832 shares

(ii) Granted shares and the fair value of grant date as of December 31, 2012 were as follows:

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

<u>Grant date</u>	<u>Grant shares</u>	<u>Fair value(*)</u>	<u>Estimated shares(**)</u>
April 1, 2010	129,700	₩ 45,150	97,697
January 11, 2011	6,900	52,900	4,524
February 28, 2012	28,200	46,650	7,730
August 24, 2012	9,300	36,150	1,102
	<u>174,100</u>		<u>111,053</u>

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

(**) Grant shares at grant date were adjusted pursuant to increase rate of stock price (33.4%) and achievement of target ROE (66.6%) based on standard quantity applicable to the days of service among specified period of service, which allows for the determination of acquired quantity at the end of the operation period.

(c) Stock compensation costs calculated for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Stock options	₩ (788)	(3,163)
Share-based payment arrangements with performance conditions	1,658	1,900
	<u>₩ 870</u>	<u>(1,263)</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

26. Share-based payment, continued

(d) Details of accrued expenses and the intrinsic value as of December 31, 2012 are as follows:

	<u>Accrued expense related to compensation costs</u>	<u>Intrinsic values (*1)</u>
Stock options	₩ 289	3
Share-based payment arrangements with performance conditions (**)	4,314	4,314
	<u>₩ 4,603</u>	<u>4,317</u>

(*) The intrinsic value of share-based payments is based on the quoted market price of ₩38,850 per share for stock options and the fair value of share-base arrangements with performance conditions is considered as intrinsic value.

(**) Payments according to arrangements with Shinhan Financial Group are calculated on the basis of the closing price on December 31, 2012, and have been recognized as liabilities directly deducted from the capital.

27. Net interest income

Details of net interest incomes for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Interest income		
Cash and due from banks	₩ 13,645	20,063
Credit card assets	1,849,160	1,903,210
Loans	17,084	10,405
Installment loans	101,487	104,990
Financing leases	47,735	53,376
Others	3,098	3,171
	<u>2,032,209</u>	<u>2,095,215</u>
Interest expense		
Call money	(3,230)	(4,192)
Borrowings	(91,293)	(106,155)
Debentures	(463,626)	(546,125)
Securitized debentures	(53,605)	(67,207)
Others	(10,262)	(11,801)
	<u>(622,016)</u>	<u>(735,480)</u>
Net interest income	<u>₩ 1,410,193</u>	<u>1,359,735</u>

Interest income on impaired financial assets for the years ended December 31, 2012 and 2011 are ₩ 19,864 million and ₩18,692 million, respectively.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

28. Net fee and commission income

Details of net fee and commission incomes for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Fee and commission income		
Credit card assets	₩ 2,080,218	2,030,752
Loans	8	11
Installment loans	3,866	3,501
Financing leases	4,084	3,886
Others (*)	83,110	45,152
	<u>2,171,286</u>	<u>2,083,302</u>
Fee and commission expense		
Credit card assets	(1,819,802)	(1,696,379)
Others (*)	(105,580)	(67,216)
	<u>(1,925,382)</u>	<u>(1,763,595)</u>
Net fee and commission income	<u>₩ 245,904</u>	<u>319,707</u>

(*) Other fee and commission income or expense includes profit or loss associated with Shinhan Credit Service (Debt cancelation and debt suspension) given to credit card member. For the years ended, 2012 and 2011, the amount of income related to debt cancelation and debt suspension are ₩55,277 million, ₩44,835 million, respectively, and the amount of expense are ₩20,493 million, ₩22,171 million, respectively.

29. Dividend income

Details of dividend income for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Available-for-sale financial assets in won	₩ 32,953	50,639
Available-for-sale financial assets in foreign currency	4,382	1,821
	<u>₩ 37,335</u>	<u>52,460</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

30. Impairment and reversal on financial assets impairment losses

Details of impairment and reversal on financial assets for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Impairment		
Available-for-sale financial assets	₩ -	21
Loans and receivables	311,346	175,327
	<u>311,346</u>	<u>175,348</u>
Reversal		
Available-for-sale financial assets	18,213	23,481
Net impairment loss on financial assets	<u>₩ 293,133</u>	<u>151,867</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

31. General administrative expenses

General administrative expenses for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Relate to employees		
Salaries and wages	₩ 157,289	149,063
Bonus	40,389	40,787
Management incentives	22,680	20,368
Share-based compensation expense (benefit)	870	(1,263)
Employee benefits	65,255	58,714
Travel	5,783	5,912
Defined benefit	9,490	39,561
Defined contribution	1,325	1,182
	<u>303,081</u>	<u>314,324</u>
Depreciation and amortization		
Depreciation	31,152	31,547
Amortization of intangible assets	13,182	14,737
Others	92	89
	<u>44,426</u>	<u>46,373</u>
Other general administrative expenses		
Communication	56,704	53,895
Utility	19,138	18,107
Vehicles Maintenance	3,711	3,408
Supplies	24,460	27,707
Rent	24,627	23,956
Insurance	628	761
Repairs	184	152
Entertainment	1,160	1,167
Advertising	98,214	126,738
Training	3,065	3,539
Publication	162	161
Freight	646	676
Provision for asset retirement obligation	46	92
Taxes and dues	32,605	35,876
	<u>265,350</u>	<u>296,235</u>
	₩ <u>612,857</u>	<u>656,932</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

32. Other operating incomes and expenses

Other operating incomes and expenses for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Other operating incomes		
Gains on recovery of bad debt	₩ 15,070	27,967
Reversal of allowance for unused loan commitments	16,814	22,226
Gains on sale of loans	8,091	-
Others	13,584	15,569
	<u>53,559</u>	<u>65,762</u>
Other operating expenses		
Losses on repayment of lease	(1,076)	(724)
	₩ <u>52,483</u>	<u>65,038</u>

33. Non operating incomes and expenses

Other operating revenues and expenses for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Non operating incomes		
Gains on assets contributed	₩ 4,966	5,586
Gains on disposition of property and equipment	-	110
Gains on disposition of intangible assets	-	75
Reversal of impairment loss on intangible asset	12	-
Others	5,626	17,355
	<u>10,604</u>	<u>23,126</u>
Non operating expenses		
Donations	(8,531)	(20,995)
Legal provision	(432)	(11,307)
Losses on disposition of property and equipment	(10)	(17)
Impairment loss of intangible asset	(799)	(2,135)
Others	(516)	(377)
	<u>(10,288)</u>	<u>(34,831)</u>
	₩ <u>316</u>	<u>(11,705)</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

34. Income taxes

- (a) The components of income taxes expenses for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Income tax payable	₩ 161,071	266,589
Adjustments to the tax expense for prior period	(2,981)	(1,682)
Changes in deferred tax due to temporary differences	88,995	(3,174)
Income tax expense associated with article not recognized as profit for the year	(16,972)	(26,746)
Others	<u>(12,861)</u>	<u>(10,760)</u>
Income taxes	₩ <u>217,252</u>	<u>224,227</u>

- (b) The relationship between tax expense and income before income taxes expenses for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Income before income taxes (A)	₩ 967,016	1,100,157
Income taxes at applicable tax rate	234,018	266,238
Adjustments:		
Non-taxable income	(957)	(1,949)
Non-deductible expense	1,231	1,674
Tax deductions	(725)	(300)
Consolidated tax return effect	(12,870)	(10,731)
Refund of income tax	(2,981)	(1,682)
Others	<u>(464)</u>	<u>(29,023)</u>
	(16,766)	(42,011)
Income taxes (B)	₩ <u>217,252</u>	<u>224,227</u>
Effective tax rate (B/A)	<u>22.47%</u>	<u>20.38%</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

34. Income taxes, continued

(c) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2012 and 2011 are as follows:

	2012				
	Beginning deferred tax assets (liabilities)	Change in profit or loss	Change in other compre- hensive income	Change in capital adjustments	Ending deferred tax assets (liabilities)
Accounts receivable	₩ 70	-	-	-	70
Available-for-sale securities	91,016	(4,298)	-	-	86,718
Deferred loan origination costs	(4,500)	(2,293)	-	-	(6,793)
Valuation on property and equipment and depreciation	(1,717)	1,040	-	-	(677)
Derivative assets(liabilities)	5,944	(74)	(4,656)	-	1,214
Accrued expenses	8,340	981	-	-	9,321
Liability for defined benefit obligations	24,151	2,510	-	-	26,661
Deposit for defined benefit obligations	(24,151)	(125)	-	-	(24,276)
Other allowances	172,141	(12,163)	-	-	159,978
Net change in fair value of available-for- sale financial assets	(88,163)	-	(12,233)	-	(100,396)
Allowance for bad debts	52,402	(52,402)	-	-	-
Share-based payment	1,435	(1,783)	-	(83)	(431)
Others	18,570	(3,416)	-	-	15,154
	₩ <u>255,538</u>	<u>(72,023)</u>	<u>(16,889)</u>	<u>(83)</u>	<u>166,543</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

34. Income taxes, continued

	2011				
	Beginning deferred tax assets (liabilities)	Change in profit or loss	Change in other compre- hensive income	Change in capital adjustments	Ending deferred tax assets (liabilities)
Accounts receivable	₩ 77	(7)	-	-	70
Available-for-sale securities	89,285	1,731	-	-	91,016
Deferred loan origination costs	(3,468)	(1,032)	-	-	(4,500)
Valuation on property and equipment and depreciation	(5,458)	3,741	-	-	(1,717)
Derivative assets(liabilities)	5,942	594	(592)	-	5,944
Accrued expenses	8,136	204	-	-	8,340
Liability for defined benefit obligations	13,731	10,420	-	-	24,151
Deposit for defined benefit obligations	(12,825)	(11,326)	-	-	(24,151)
Other allowances	177,268	(5,127)	-	-	172,141
Net change in fair value of available-for- sale financial assets	(62,183)	-	(25,980)	-	(88,163)
Allowance for bad debts	2,621	49,781	-	-	52,402
Share-based payment	404	1,205	-	(174)	1,435
Others	38,834	(20,264)	-	-	18,570
	₩ 252,364	29,920	(26,572)	(174)	255,538

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

34. Income taxes, continued

(d) Deferred income tax expense associated with article, which is not recognized as profit (loss) for the years ended December 31, 2012 and 2011 are as follows.

	2012				
	December 31, 2012		January 1, 2012		Change in tax effect
	Amount	Tax effect	Amount	Tax effect	
Changes in fair value of available-for-sale securities	₩ 314,463	(100,396)	276,147	(88,163)	(12,233)
Effective portion of valuation gain or loss on cash flow hedges	(4,484)	1,431	(19,067)	6,087	(4,656)
Share-based payment	583	(186)	322	(103)	(83)
	₩ 310,562	(99,151)	257,402	(82,179)	(16,972)
	2011				
	December 31, 2011		January 1, 2011		Change in tax effect
	Amount	Tax effect	Amount	Tax effect	
Changes in fair value of available-for-sale securities	₩ 276,147	(88,163)	220,282	(62,183)	(25,980)
Effective portion of valuation gain or loss on cash flow hedges	(19,067)	6,087	(23,368)	6,679	(592)
Share-based payment	322	(103)	(251)	71	(174)
	₩ 257,402	(82,179)	196,663	(55,433)	(26,746)

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

34. Income taxes, continued

- (e) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities before offsetting as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Deferred tax assets	₩ 302,562	377,376
Deferred tax liabilities	(136,019)	(121,838)
	<u>₩ 166,543</u>	<u>255,538</u>

- (f) Deferred tax assets have been recognized as the Group has determined it is probable that future profits will be available against which the Group can utilize the related benefit.
- (g) As of December 31, 2012 and 2011 current tax liabilities are ₩95,588 million and ₩146,509 million, respectively. For consolidated tax return, the amount is paid to the taxation authorities through the controlling company of the Group.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

35. Statements of cash flows

(a) Details of cash and due from banks as of December 31, 2012 and 2011 are summarized as follows:

		<u>2012</u>	<u>2011</u>
Cash	₩	49	26
Available deposits from banks			
Current deposits		1,793	28,956
Deposits on demand		300,286	267,440
Time deposits		900	900
Other		130,000	430,000
		<u>432,979</u>	<u>727,296</u>
Cash and cash equivalents	₩	<u>433,028</u>	<u>727,322</u>

(b) The Group presents the cash inflows and outflows of bank overdrafts and call money as net amounts, because their transactions occur frequently on a large amount, within a short-term period.

(c) Reconciliation of the amounts of cash and cash equivalents in the statement of cash flows with the equivalent items reported in the statement of financial position as of December 31, 2012 and 2011 are as follows:

		<u>2012</u>	<u>2011</u>
Cash and cash equivalents in the statements of financial position	₩	480,833	758,431
Adjustment:			
Restricted due from banks		(47,805)	(31,109)
Cash and cash equivalents in the statements of cash flows	₩	<u>433,028</u>	<u>727,322</u>

(d) The Group presents statements of cash flows using the indirect method and significant non-cash transactions for the years ended December 31, 2012 and 2011 are summarized as follows:

		<u>2012</u>	<u>2011</u>
Valuation of available-for-sale securities	₩	137,116	81,845
Valuation of derivatives		8,233	4,892

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

36. Fair value measurement of financial instruments

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

36. Fair value measurement of financial instruments, continued

- (b) Fair value measurement methods of financial instruments that are measured at amortized cost after initial recognition are as follows:

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

36. Fair value measurement of financial instruments, continued

The book value and the fair value of financial assets and liabilities measured at amortized cost as of December 31, 2012 and 2011 are summarized as follows:

		2012				
		Carrying amount				
	Balance	Deferred loan origination costs and others	Allowance	Total		Fair value
Financial assets						
Cash	₩ 49	-	-	49		49
Deposits	480,784	-	-	480,784		480,788
Credit card assets	17,814,476	(40,399)	(743,441)	17,030,636		20,478,141
Loans	1,227,076	2,019	(592)	1,228,503		17,337,337
Installment assets	1,242,354	(8,966)	(12,956)	1,220,432		1,226,565
Lease assets	680,373	(926)	(2,454)	676,993		681,493
Other assets	486,854	(1,729)	(17,954)	467,171		464,960
	<u>₩ 21,931,966</u>	<u>(50,001)</u>	<u>(777,397)</u>	<u>21,104,568</u>		<u>21,423,938</u>
Financial liabilities						
Borrowings	₩ 1,912,800	-	-	1,912,800		1,959,817
Debentures in won	9,115,780	(30,827)	-	9,084,953		9,303,594
Debentures in foreign currency	1,848,578	(10,100)	-	1,838,478		1,863,237
Other liabilities	2,705,463	(13,788)	-	2,691,675		2,694,360
	<u>₩ 15,582,621</u>	<u>(54,715)</u>	<u>-</u>	<u>15,527,906</u>		<u>15,821,008</u>
		2011				
		Carrying amount				
	Balance	Deferred loan origination costs and others	Allowance	Total		Fair value
Financial assets						
Cash	₩ 26	-	-	26		26
Deposits	758,405	-	-	758,405		758,408
Credit card assets	17,842,927	(42,386)	(674,952)	17,125,589		17,340,421
Loans	461,522	(27)	(703)	460,792		460,925
Installment assets	1,225,826	(15,861)	(10,794)	1,199,171		1,208,016
Lease assets	699,647	(1,960)	(2,411)	695,276		699,115
Other assets	775,020	(1,822)	(17,327)	755,871		755,832
	<u>₩ 21,763,373</u>	<u>(62,056)</u>	<u>(706,187)</u>	<u>20,995,130</u>		<u>21,222,743</u>
Financial liabilities						
Borrowings	₩ 2,459,800	-	-	2,459,800		2,482,425
Debentures in won	9,300,780	(6,935)	-	9,293,845		9,465,949
Debentures in foreign currency	2,149,095	(10,880)	-	2,138,215		2,123,073
Other liabilities	2,380,058	(17,035)	-	2,363,023		2,365,157
	<u>₩ 16,289,733</u>	<u>(34,850)</u>	<u>-</u>	<u>16,254,883</u>		<u>16,436,604</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

36. Fair value measurement of financial instruments, continued

(c) Fair value hierarchy

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

- Quoted market price (unadjusted) in an active market for an identical instrument(Level 1)
- Valuation techniques based on observable inputs, either directly or indirectly (Level 2)
- Valuation techniques using significant unobservable inputs(Level 3)

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

The fair value measurements classified by fair value hierarchy as of December 31, 2012 and 2011 are summarized as follows:

		2012			
		Level 1	Level 2	Level 3	Total
Financial assets					
Equity securities held for trading	₩	-	100,023	-	100,023
Derivative financial assets for hedge		-	875	2,108	2,983
Available-for-sale debt securities		-	-	3,869	3,869
Available-for-sale equity securities		-	-	482,671	482,671
	₩	-	100,898	488,648	589,546
Financial liabilities					
Derivative financial liabilities for hedge	₩	-	105,398	-	105,398
		2011			
		Level 1	Level 2	Level 3	Total
Financial assets					
Equity securities held for trading	₩	-	150,056	-	150,056
Derivative financial assets for hedge		-	123,493	2,637	126,130
Available-for-sale debt securities		-	-	5,805	5,805
Available-for-sale equity securities		6	-	451,891	451,897
	₩	6	273,549	460,333	733,888
Financial liabilities					
Derivative financial liabilities for hedge	₩	-	12,772	-	12,772

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

36. Fair value measurement of financial instruments, continued

(d) Changes in fair value measurements in level 3

There is no transfer between each level of fair value hierarchy for the years ended December 31, 2012 and 2011. For fair value measurements in level 3, changing one or more of the inputs to reasonably possible alternative assumptions would not change fair value significantly. Changes of fair value measurement in level 3 for the periods are as follows:

		Derivative financial assets	Available-for- sale debt securities	Available-for- sale equity securities	Total
Balance at January 1, 2011	₩	1,340	5,339	374,761	381,440
Net income related to derivatives		122	-	-	122
Reversal of impairment loss (impairment loss)		-	10,676	(21)	10,655
Accumulated other comprehensive income		1,175	-	171,913	173,088
Disposition		-	(10,210)	(94,762)	(104,972)
Balance at December 31, 2011		<u>2,637</u>	<u>5,805</u>	<u>451,891</u>	<u>460,333</u>
Balance at January 1, 2012		<u>2,637</u>	<u>5,805</u>	<u>451,891</u>	<u>460,333</u>
Net income related to derivatives		(548)	-	-	(548)
Reversal of impairment loss (impairment loss)		-	18,213	-	18,213
Accumulated other comprehensive income		19	-	137,116	137,135
Disposition		-	(20,149)	(106,336)	(126,485)
Balance at December 31, 2012	₩	<u>2,108</u>	<u>3,869</u>	<u>482,671</u>	<u>488,648</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

37. Categories of financial instruments

(a) The carrying amounts of the categories of financial assets as of December 31, 2012 and 2011 are summarized as follows:

		2012				
		Financial assets at fair value through profit or loss	Loans and receivables	Available-for- sale financial assets	Derivative for hedge	Total
Cash and due from banks	₩	-	480,833	-	-	480,833
Trading financial assets		100,023	-	-	-	100,023
Derivative assets		-	-	-	2,983	2,983
Loans and receivables		-	20,156,564	-	-	20,156,564
Available-for-sale financial assets		-	-	486,540	-	486,540
Other assets		-	467,171	-	-	467,171
	₩	<u>100,023</u>	<u>21,104,568</u>	<u>486,540</u>	<u>2,983</u>	<u>21,694,114</u>

		2011				
		Financial assets at fair value through profit or loss	Loans and receivables	Available-for- sale financial assets	Derivative for hedge	Total
Cash and due from banks	₩	-	758,431	-	-	758,431
Trading financial assets		150,056	-	-	-	150,056
Derivative assets		-	-	-	126,130	126,130
Loans and receivables		-	19,480,828	-	-	19,480,828
Available-for-sale financial assets		-	-	457,702	-	457,702
Other assets		-	755,871	-	-	755,871
	₩	<u>150,056</u>	<u>20,995,130</u>	<u>457,702</u>	<u>126,130</u>	<u>21,729,018</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

37. Categories of financial instrument, continued

(b) The carrying amounts of the categories of financial liabilities as of December 31, 2012 and 2011 are summarized as follows:

	2012		
	Financial liabilities measured at amortized cost	Derivative for hedge	Total
Derivative liabilities	₩ -	105,398	105,398
Borrowings	1,912,800	-	1,912,800
Debentures	10,923,431	-	10,923,431
Other liabilities	2,691,675	-	2,691,675
	<u>₩ 15,527,906</u>	<u>105,398</u>	<u>15,633,304</u>

	2011		
	Financial liabilities measured at amortized cost	Derivative for hedge	Total
Derivative liabilities	₩ -	12,772	12,772
Borrowings	2,459,800	-	2,459,800
Debentures	11,432,060	-	11,432,060
Other liabilities	2,363,023	-	2,363,023
	<u>₩ 16,254,883</u>	<u>12,772</u>	<u>16,267,655</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

37. Categories of financial instrument, continued

(c) Net gains (losses) of categories of financial instruments for the years ended December 31, 2012 and 2011 are as follows:

		2012							
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Impairment loss	Other operating income, net	Net income	Other compre- hensive income
Financial assets:									
Financial assets at fair value through profit or loss	₩	-	-	-	-	-	854	854	-
Loans and receivables		2,032,209	-	2,088,176	(1,819,802)	(311,346)	15,153	2,004,390	-
Available-for-sale financial assets		-	-	-	-	18,213	112,646	130,859	38,316
Derivative for hedge		-	-	-	-	-	(29,924)	(29,924)	3,349
		<u>2,032,209</u>	<u>-</u>	<u>2,088,176</u>	<u>(1,819,802)</u>	<u>(293,133)</u>	<u>98,729</u>	<u>2,106,179</u>	<u>41,665</u>
Financial liabilities:									
Financial liabilities measured at amortized cost		-	(622,016)	-	-	-	152,919	(469,097)	-
Derivative for hedge		-	-	-	-	-	(124,897)	(124,897)	11,234
		<u>-</u>	<u>(622,016)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,022</u>	<u>(593,994)</u>	<u>11,234</u>
	₩	<u>2,032,209</u>	<u>(622,016)</u>	<u>2,088,176</u>	<u>(1,819,802)</u>	<u>(293,133)</u>	<u>126,751</u>	<u>1,512,185</u>	<u>52,899</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

37. Categories of financial instruments, continued

	2011							
	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Impairment loss	Other operating income, net	Net income	Other comprehensive income
Financial assets:								
Financial assets at fair value through profit or loss	₩	-	-	-	-	1,116	1,116	-
Loans and receivables	2,095,215	-	2,038,150	(1,696,379)	(175,327)	13,308	2,274,966	-
Available-for-sale financial assets	-	-	-	-	23,460	161,483	184,943	55,865
Derivative for hedge	-	-	-	-	-	40,888	40,888	2,749
	<u>2,095,215</u>	<u>-</u>	<u>2,038,150</u>	<u>(1,696,379)</u>	<u>(151,867)</u>	<u>216,795</u>	<u>2,501,913</u>	<u>58,614</u>
Financial liabilities:								
Financial liabilities measured at amortized cost	-	(735,480)	-	-	-	(42,724)	(778,204)	-
Derivative for hedge	-	-	-	-	-	2,110	2,110	1,552
	<u>-</u>	<u>(735,480)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,614)</u>	<u>(776,094)</u>	<u>1,552</u>
₩	<u>2,095,215</u>	<u>(735,480)</u>	<u>2,038,150</u>	<u>(1,696,379)</u>	<u>(151,867)</u>	<u>176,181</u>	<u>1,725,819</u>	<u>60,166</u>

(d) The amounts of foreign exchange differences recognized in profit or loss for each category of financial instruments for the years ended December 31, 2012 and 2011 are as follows:

		2012		2011	
		Gain on foreign currency transaction	Loss on foreign currency transaction	Gain on foreign currency transaction	Loss on foreign currency transaction
Loans and receivables	₩	16,795	1,642	15,684	2,375
Financial liabilities measured at amortized cost		153,783	864	17,437	60,162
	₩	<u>170,578</u>	<u>2,506</u>	<u>33,121</u>	<u>62,537</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

38. Contingent liabilities and commitments

(a) Contingent liabilities

The Group has 34 pending lawsuits as a defendant as of December 31, 2012. Total claim amount is ₩ 16,654 million, of which a legal provision of ₩ 7,935 million is included in allowance for litigation in the accompanying financial statements. Additional losses may be incurred from these legal actions, but the amount of loss is not expected to have a material adverse effect on the Group's financial position or results of operations.

(b) ABS commitments

In trust-type asset securitizations, SPCs can demand the parent 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 parent 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. Seller's interest and others are provided as collateral for asset-backed securities. As of December 31, 2012, the Group has no additional obligation for the asset-backed securities.

The parent 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.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

39. Asset Backed Securitization (ABS)

- (a) The initial transfer price of the bond sold by Asset-Backed Securitization Act as of December 31, 2012 and 2011 are as summarized as follows:

	<u>Initial transfer date</u>		<u>2012</u>	<u>2011</u>
Shinhan Card 2011-1	2011.02.11	₩	-	599,729
Shinhan Card 2011-2	2011.03.18		-	599,927
Shinhan Card 2011-3	2011.08.18		-	572,483
Shinhan Card 2012-1	2012.06.17		800,653	-
		₩	<u>800,653</u>	<u>1,772,139</u>

The amounts of financial liability book value about securities, which is transferred, for the years ended December 31, 2012 and 2011 are ₩1,703,686 million, ₩1,373,500 million, respectively.

- (b) The uncollected details among transfer securities, which is sold by act on ABS, as of December 31, 2012 and 2011 are summarized as follows:

	<u>List of disposal asset</u>	<u>Initial transfer date</u>	<u>2012</u>	<u>2011</u>
Shinhan Card 2010-1	Credit card assets	2010.11.12	580,183	536,178
Shinhan Card 2011-1	Credit card assets	2011.02.11	574,450	548,180
Shinhan Card 2011-2	Credit card assets	2011.03.18	587,272	547,271
Shinhan Card 2011-3	Credit card assets	2011.08.18	557,610	545,744
Shinhan Card 2012-1	Credit card assets	2012.06.17	773,806	-
			₩ <u>3,073,321</u>	<u>2,177,373</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

40. Related party transactions

(a) As of December 31, 2012, related parties of the Group are summarized as follows:

Name of company	Control relationship
Shinhan Financial Group	Parent company

(b) Significant transactions with related parties for the years ended December 31, 2012 and 2011 are as follows:

Related party / Account	2012		2011	
	Revenue	Expense	Revenue	Expense
Shinhan Financial Group Co., Ltd				
Interest expense	₩ -	30,744	-	43,886
Reversal of allowance for bad debts	1	-	-	-
Royalty expense	-	20,948	-	14,773
Shinhan Bank				
Interest income	3,491	-	5,102	-
Fee and commission income	1,569	-	1,522	-
Rental revenues	39	-	33	-
Interest expense	-	867	-	1,453
Fee and commission expense	-	167,205	-	158,319
Rental expenses	-	1,088	-	902
Bad debt expenses	-	77	-	-
Reversal of allowance for bad debts	-	-	126	-
Provision for asset retirement obligation	-	7	-	20
Gain on valuation of derivatives	-	-	2,880	-
Loss on valuation of derivatives	-	2,358	-	-
Gain on disposal of intangible assets	-	-	75	-
Shinhan Credit Information Co., Ltd.				
Fee and commission income	9	-	10	-
Fee and commission expense	-	17,956	-	19,785
Reversal of allowance for bad debts	1	-	-	-
Rental revenues	13	-	61	-
Shinhan Life Insurance Co., Ltd.				
Interest income	392	-	405	-
Fee and commission income	9,281	-	10,616	-
Fee and commission expense	-	110	-	-
Bad debt expenses	-	-	-	7
Reversal of allowance for bad debts	3	-	-	-
Selling and administrative expenses	-	271	-	5

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

Related party / Account	2012		2011	
	Revenue	Expense	Revenue	Expense
Shinhan Data System Co., Ltd.				
Fee and commission income	₩ 1	-	1	-
Fee and commission expense	-	9,112	-	7,456
Reversal of allowance for bad debts	1	-	-	-
Shinhan Investment Corp.				
Interest income	1,544	-	614	-
Interest expenses	-	136	-	60
Bad debt expenses	-	-	-	1
Reversal of allowance for bad debts	1	-	-	-
Fee and commission expense	-	58	-	55
Rental expenses	-	467	-	521
Provision for asset retirement obligation	-	1	-	-
Loss on sale of Available for sale financial	-	31	-	-
Jeju Bank				
Interest income	1	-	1	-
Fee and commission income	365	-	312	-
Fee and commission expense	-	11	-	17
BNP Paribas Cardif Life Insurance				
Fee and commission income	271	-	577	-
SHC Management Co., Ltd.				
Fee and commission income	55	-	55	-
Shinhan Saving Bank				
Fee and commission income	11	-	-	-
Bad debt expenses	-	1	-	-
Shinhan Aitas Co., Ltd.				
Bad debt expenses	-	-	-	1
Reversal of allowance for bad debts	1	-	-	-
Shinhan Capital Co., Ltd.				
Reversal of allowance for bad debts	1	-	-	-
Shinhan Private Equity Investment Management				
Reversal of allowance for bad debts	1	-	-	-
Shinhan BNP Paribas ITMC Co., Ltd.				
Fee and commission income	1	-	-	-

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

40. Related party transactions, continued

(c) Significant balances with the related parties as of December 31, 2012 and 2011 are summarized as follows:

<u>Related party / Account</u>	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Shinhan Financial Group Co., Ltd.				
Credit card assets	₩ 256	-	298	-
Borrowings	-	700,000	-	550,000
Allowance for doubtful accounts	-	1	-	2
Accrued expenses	-	8,331	-	3,418
Accounts payable	-	-	-	1,191
Consolidated Tax Accounts payable	-	95,588	-	146,509
Shinhan Bank				
Cash and due from bank	23,309	-	232,378	-
Accrued income	-	-	38	-
Credit card assets	9,368	-	15,807	-
Guarantee deposits	30,760	-	30,650	-
Prepaid expenses	215	-	230	-
Derivative assets	443	-	44,261	-
Deposit for severance benefit Insurance	80,356	-	51,144	-
Derivative liabilities	-	4,213	-	959
Allowance for doubtful accounts	-	171	-	94
Accrued expenses	-	1,409	-	1,863
Accounts payable	-	25	-	31
Allowance for asset retirement obligation	-	1,015	-	949
Shinhan Credit Information Co., Ltd.				
Credit card assets	66	-	127	-
Accounts payable	-	1,428	-	1,405
Allowance for doubtful accounts	-	1	-	1
Shinhan Life Insurance Co., Ltd.				
Deposit for severance benefit Insurance	9,385	-	9,101	-
Credit card assets	2,356	-	2,694	-
Accounts payable	-	270	-	150
Allowance for doubtful accounts	-	13	-	16
Shinhan Data System Co., Ltd.				
Credit card assets	94	-	98	-
Accrued expenses	-	187	-	154
Allowance for doubtful accounts	-	1	-	1
Shinhan Investment Corp.				
Cash and due from bank	224	-	150,164	-
Accrued income	-	-	29	-
Guarantee deposits	976	-	3,850	-
Credit card assets	1,261	-	1,362	-

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the years ended December 31, 2012 and 2011

(In millions of won)

40. Related party transactions, continued

<u>Related party / Account</u>	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Prepaid expenses	₩ 52	-	124	-
Deposit for severance benefit insurance	11,610	-	10,294	-
Debentures	-	-	-	22,320
Allowance for doubtful accounts	-	8	-	9
Accrued expenses	-	-	-	232
Restoration costs	-	29	-	248
Jeju Bank				
Cash and due from bank	238	-	274	-
Accounts payable	-	17	-	24
Cardif Life Insurance Co., Ltd.				
Credit card assets	94	-	83	-
Shinhan Saving Bank				
Credit card assets	36	-	4	-
Allowance for doubtful accounts	-	1	-	-
Shinhan Aitas Co., Ltd.				
Credit card assets	84	-	99	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Capital Co., Ltd.				
Credit card assets	70	-	838	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Private Equity Investment Management, Inc.				
Credit card assets	27	-	28	-
Allowance for doubtful accounts	-	1	-	-
Shinhan BNP Paribas ITMC Co., Ltd.				
Credit card assets	110	-	74	-

(d) Key management personnel compensation for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Salaries and wages	₩ 4,007	4,221
Post-employment benefits	16	57
Share-based payments	490	501
	<u>₩ 4,513</u>	<u>4,779</u>