



**SHINHAN CARD CO., LTD. AND SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2013 and 2012**

(With Independent Auditors' Report Thereon)

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**Independent Auditors' Report**

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated statements of financial position of Shinhan Card Co., Ltd. and its subsidiaries (collectively the "Group") as of December 31, 2013, 2012, and January 1, 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. 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, 2013, 2012, and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with Korean International Financial Reporting Standards.

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

As discussed in note 2 to the consolidated financial statements, the Group adopted the amendment to K-IFRS No. 1019, 'Employee Benefits' and recognized remeasurements in other comprehensive income. The Group applied this change in accounting policies retrospectively, and accordingly restated the comparative information of the consolidated financial statements for the year ended December 31, 2012, and the consolidated statement of financial position as of January 1, 2012.

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, 2014

This report is effective as of March 7, 2014, 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, 2013, 2012 and January 1, 2012

(In millions of won, except share data)

	<u>Note</u>	<u>December 31, 2013</u>	<u>December 31, 2012 (Restated)</u>	<u>January 1, 2012 (Restated)</u>
<b>Assets</b>				
Cash and due from banks	10,38 ₩	830,391	480,833	758,431
Trading financial assets	11	30,009	100,023	150,056
Derivative assets	12	2,377	2,983	126,130
Loans and receivables, net	13	19,303,111	20,156,564	19,480,828
Available-for-sale financial assets	14	608,840	486,540	457,702
Property and equipment	15	122,071	122,683	102,990
Intangible assets	16	72,564	82,013	61,318
Deferred tax assets	37	116,738	166,543	255,538
Other assets	18	563,133	681,736	963,892
<b>Total assets</b>	₩	<u>21,649,234</u>	<u>22,279,918</u>	<u>22,356,885</u>
<b>Liabilities</b>				
Derivative liabilities	12 ₩	105,675	105,398	12,772
Borrowings	19	1,782,800	1,912,800	2,459,800
Debentures, net	20	10,250,448	10,923,431	11,432,060
Liability for defined benefit obligations	21	2,480	15,182	37,385
Current tax liabilities	37	92,667	95,588	146,509
Provisions	22	371,287	375,200	395,919
Other liabilities	23,24	2,935,093	3,119,142	2,642,178
<b>Total liabilities</b>		<u>15,540,450</u>	<u>16,546,741</u>	<u>17,126,623</u>
<b>Equity</b>				
Common stock of ₩5,000 par value	25	626,847	626,847	626,847
Authorized - 2,000,000,000 shares				
Issued and outstanding - 125,369,403				
shares in 2013 and 2012				
Capital surplus	25	860,592	860,592	860,592
Capital adjustments	25	(175)	583	322
Accumulated other comprehensive income	25	409,228	290,884	229,992
Retained earnings	25,26	4,212,292	3,954,271	3,512,509
<b>Total equity</b>		<u>6,108,784</u>	<u>5,733,177</u>	<u>5,230,262</u>
<b>Total liabilities and equity</b>	₩	<u>21,649,234</u>	<u>22,279,918</u>	<u>22,356,885</u>

See accompanying notes to consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income  
For the years ended December 31, 2013 and 2012

<i>(In millions of won, except earnings per share)</i>	<b>Note</b>	<b>2013</b>	<b>2012 (Restated)</b>
Interest income		₩ 1,945,509	2,032,209
Interest expense		(550,084)	(622,016)
Net interest income	30	<u>1,395,425</u>	<u>1,410,193</u>
Fee and commission income		2,246,641	2,171,286
Fee and commission expense		(2,079,875)	(1,925,382)
Net fee and commission income	31	<u>166,766</u>	<u>245,904</u>
Dividend income	32	34,129	37,335
Net trading income	11	445	854
Net loss on derivatives	12	(37,579)	(154,821)
Net income on foreign currency transactions		54,458	168,072
Net gain on sale of available-for-sale financial Assets	14	128,744	112,646
Net impairment loss on financial assets	33	(348,689)	(293,133)
General administrative expenses	34	(710,949)	(623,402)
Other operating income, net	35	<u>174,630</u>	<u>52,483</u>
<b>Operating income</b>		<u>857,380</u>	<u>956,131</u>
Non-operating income (loss), net	36	(6,578)	316
Gain on sale of investments in associates	17	-	24
<b>Profit before income tax</b>		<u>850,802</u>	<u>956,471</u>
Income tax expense	37	(192,728)	(214,700)
<b>Profit for the year</b>		<u>658,074</u>	<u>741,771</u>
<b>Other comprehensive income:</b>			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of the net defined benefit obligations		3,255	7,993
Items that are or may be reclassified subsequently to profit or loss:			
Net change in unrealized fair value of available-for-sale financial assets		107,097	38,316
Net gain on cash flow hedges		7,992	14,583
<b>Other comprehensive income for the year, net of tax</b>		<u>118,344</u>	<u>60,892</u>
<b>Total comprehensive income for the year</b>		<u>₩ 776,418</u>	<u>802,663</u>
<b>Earnings per share</b>	28	<u>₩ 5,249</u>	<u>5,917</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, 2013 and 2012

		2012 (Restated)					
		Common	Capital	Capital	Accumulated	Retained	Total
		stock	surplus	adjustments	other	earnings	stockholder's
					comprehensive		equity
					income		
<i>(In millions of won)</i>							
<b>Balance at January 1, 2012</b>	₩	626,847	860,592	322	257,080	3,485,421	5,230,262
Changes in accounting policy		-	-	-	(27,088)	27,088	-
<b>Restated Balance</b>		626,847	860,592	322	229,992	3,512,509	5,230,262
Dividends		-	-	-	-	(300,009)	(300,009)
<b>Retained earnings after appropriation</b>		-	-	-	-	3,212,500	3,212,500
Profit for the year		-	-	-	-	741,771	741,771
Remeasurement of the net defined benefit obligations		-	-	-	7,993	-	7,993
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
<b>Balance at December 31, 2012</b>	₩	<u>626,847</u>	<u>860,592</u>	<u>583</u>	<u>290,884</u>	<u>3,954,271</u>	<u>5,733,177</u>

		2013					
		Common	Capital	Capital	Accumulated	Retained	Total
		stock	surplus	adjustments	other	earnings	stockholder's
					comprehensive		equity
					income		
<i>(In millions of won)</i>							
<b>Balance at January 1, 2013</b>	₩	626,847	860,592	583	309,979	3,935,176	5,733,177
Changes in accounting policy		-	-	-	(19,095)	19,095	-
<b>Restated Balance</b>		626,847	860,592	583	290,884	3,954,271	5,733,177
Dividends		-	-	-	-	(400,053)	(400,053)
<b>Retained earnings after appropriation</b>		-	-	-	-	3,554,218	3,554,218
Profit for the year		-	-	-	-	658,074	658,074
Remeasurement of the net defined benefit obligations		-	-	-	3,255	-	3,255
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	107,097	-	107,097
Net gain on cash flow hedges		-	-	-	7,992	-	7,992
Share-based payment transactions		-	-	(758)	-	-	(758)
<b>Balance at December 31, 2013</b>	₩	<u>626,847</u>	<u>860,592</u>	<u>(175)</u>	<u>409,228</u>	<u>4,212,292</u>	<u>6,108,784</u>

See accompanying notes to consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Cash Flows  
 For the years ended December 31, 2013 and 2012

<i>(In millions of won)</i>	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
<b>Cash flows from operating activities</b>		
Income before income tax	₩ 850,802	956,471
Adjustment for:		
Interest income	(1,945,509)	(2,032,209)
Interest expense	550,084	622,016
Dividend income	(34,129)	(37,335)
Fee and commission income	(226,685)	(175,398)
Fee and commission expense	185,281	196,265
Net gain on valuation of trading financial assets	(9)	(23)
Net loss on valuation and transaction of derivatives	37,580	154,821
Net foreign currency transaction gain	(37,306)	(148,231)
Net gain on sales of available-for-sale financial assets	(128,744)	(112,646)
Bad debt expenses	361,532	311,346
Reversal of allowance for unused loan commitments	(9,903)	(16,814)
Reversal of impairment loss on available-for-sale financial assets	(12,843)	(18,213)
General administrative expenses	78,046	68,475
Other, net	1,120	1,229
Gains on sale of investments in associates	-	(24)
	<u>(1,181,485)</u>	<u>(1,186,741)</u>
Changes in assets and liabilities:		
Trading financial assets	70,023	50,056
Loans and receivables, net	571,353	(904,664)
Other assets	103,256	320,307
Liability for defined benefit obligations	(27,372)	(31,692)
Provisions	(77,008)	(45,901)
Other liabilities	20,751	552,710
	<u>661,003</u>	<u>(59,184)</u>
Payment of income tax	(183,385)	(193,596)
Receipt of interest	1,771,431	1,791,164
Payment of interest	(512,594)	(554,555)
Receipt of dividend	34,129	37,335
<b>Net cash provided by operating activities</b>	<u>1,439,901</u>	<u>790,894</u>

See accompanying notes to consolidated financial statements.



SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Cash Flows (continued)  
 For the years ended December 31, 2013 and 2012

(In millions of won)

	<u>Note</u>	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
<b>Cash flows from investing activities</b>			
Increase in restricted due from banks	₩	(168,036)	(16,696)
Proceeds from disposal of available-for-sale financial assets		159,992	152,569
Proceeds from disposal of property and equipment		76	-
Acquisition of property and equipment		(34,969)	(45,550)
Proceeds from disposal of intangible assets		-	250
Acquisition of intangible assets		(12,342)	(40,027)
Proceeds from disposal of investments in associates		-	24
Decrease in guarantee deposits		10,980	54,475
Increase in guarantee deposits		(9,086)	(51,470)
<b>Net cash provided by (used in) investing activities</b>		<u>(53,385)</u>	<u>53,575</u>
<b>Cash flows from financing activities</b>			
Proceeds from call money		50,000	-
Proceeds from borrowings		100,000	720,000
Repayment of borrowings		(280,000)	(1,267,000)
Proceeds from debentures		2,615,681	2,670,836
Repayment of debentures		(3,264,468)	(3,042,782)
Cash inflows from cash flow hedges		-	89,120
Cash outflows from cash flow hedges		(26,154)	(8,928)
Dividends paid		(400,053)	(300,009)
<b>Net cash used in financing activities</b>		<u>(1,204,994)</u>	<u>(1,138,763)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		181,522	(294,294)
<b>Cash and cash equivalents at beginning of year</b>		<u>433,028</u>	<u>727,322</u>
<b>Cash and cash equivalents at end of year</b>	38 ₩	<u>614,550</u>	<u>433,028</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, 2013 and 2012**

(In millions of won)

### 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 Controlling Company was incorporated on December 17, 1985. The address of the Company's registered office is 1Ga Chungmu-Ro, Jung-Gu, Seoul. The Company provides credit card services, factoring, installment financing and lease financing under the Credit Specialized Financial Business Act.

As of December 31, 2013, the Company has 32 branch offices (Including the head office), approximately 1.51 million merchants in its network and 13.39 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, 2013 and 2012 consolidated subsidiaries are summarized below.

Subsidiaries	Location	Fiscal year-end	Operating activities	2013		2012	
				Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest
Shinhan Card 2010-1	Republic of Korea	December	ABS	0.5%	99.5%	0.5%	99.5%
Shinhan Card 2011-1	"	"	"	"	"	"	"
Shinhan Card 2011-2	"	"	"	"	"	"	"
Shinhan Card 2011-3	"	"	"	"	"	"	"
Shinhan Card 2012-1	"	"	"	"	"	"	"
Shinhan Card 2013-1	"	"	"	"	"	-	-
Specified money in trusts	"	"	Trust asset management	100.0%	-	100.0%	-

The above subsidiaries are structured entities since voting rights or similar rights are not major factors when determining control.

Although the Controlling Company's ownership percentage of shares for structured entities, except specified money in trusts, is less than the majority, structured entities are operated according to necessity for the Controlling Company's specific business and the Controlling Company holds a majority of the benefits in the structured entities' operations. For this reason, the Controlling Company is considered to have power to control the structured entities. The Group can transfer additional credit card assets if it is difficult to repay securitized debentures connected to the entities' underlying assets, except specified money in trust.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
**For the years ended December 31, 2013 and 2012**  
(In millions of won)

**1. Reporting entity, continued**

**(c) Change in subsidiaries**

- (i) Newly acquired subsidiaries for the year ended December 31, 2013.

Subsidiaries	Reason
Shinhan Card 2013-1	New Investment

- (ii) There are no subsidiaries that were excluded from consolidation for the year ended December 31, 2013.

**(d) Non-controlling interests**

As non-controlling interests for consolidated structured entities do not have the right to participate in residual income, they are measured at initial acquisition cost. Non-controlling interests of consolidated structured entities as of December 31, 2013 and 2012 are ₩40 million, respectively. Non-controlling interests for consolidated structured entities are presented in the Group's condensed consolidated statement of financial position as liabilities.

**(e) Condensed financial position for the Group's subsidiaries as of December 31, 2013 and 2012 are as follows:**

2013					
Subsidiaries	Total assets	Total liabilities	Total equities	Net income (loss)	Total comprehensive income (loss)
Shinhan Card 2010-1	413,211	417,845	(4,634)	2,860	2,595
Shinhan Card 2011-1	629,618	637,855	(8,237)	(742)	2,384
Shinhan Card 2011-2	473,522	478,936	(5,414)	1,837	3,272
Shinhan Card 2011-3	541,858	545,939	(4,081)	(711)	(1,454)
Shinhan Card 2012-1	797,326	804,892	(7,566)	(1,727)	(1,905)
Shinhan Card 2013-1	578,256	579,838	(1,582)	(4,262)	(1,582)
Specified money in trusts	513,084	-	513,084	84	-

2012					
Subsidiaries	Total assets	Total liabilities	Total equities	Net income (loss)	Total comprehensive income
Shinhan Card 2010-1	580,668	587,897	(7,229)	(1,938)	1,872
Shinhan Card 2011-1	577,927	588,548	(10,621)	(1,260)	5,202
Shinhan Card 2011-2	589,363	598,049	(8,686)	(1,825)	3,717
Shinhan Card 2011-3	557,758	560,384	(2,626)	(1,927)	1,699
Shinhan Card 2012-1	773,691	779,352	(5,661)	(6,651)	990
Specified money in trusts	302,447	-	302,447	447	-

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

(In millions of won)

### **2. Basis of preparation**

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*.

The consolidated financial statements were authorized for issue by the Board of Directors on February 10, 2014, which will be submitted for approval to the shareholder's meeting to be held on March 31, 2014.

#### **(a) Basis of measurement**

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

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

#### **(b) Functional and presentation currency**

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

#### **(c) 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, 2013 and 2012**

(In millions of won)

### 2. Basis of preparation, continued

#### (d) Changes in accounting policies

The accounting policies of the Group have been applied consistently to all periods presented in these consolidated financial statements except for the application of the standards that applied to the first from January 1, 2013, which is described below.

##### (i) K-IFRS No. 1001, *Presentation of Financial Statements*

The Group has applied the amendments to K-IFRS No. 1001, *Presentation of Financial Statements*, since January 1, 2013. The standard requires presenting items in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments did not have any impact on the Group's consolidated financial position, financial performance and cash flows.

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

The Group adopted K-IFRS No.1110, *Consolidated Financial Statements*, since January 1, 2013. As a result, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. The standard introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Group controls the investee on the basis of de facto circumstances. The adoption of the standard did not have any impact on the Group's consolidated financial statements.

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

The Group adopted K-IFRS No.1111, *Joint Arrangements*, since January 1, 2013. 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 IFRSs 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 adoption of the standard did not have any impact on the Group's consolidated financial statements.

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

The Group adopted K-IFRS No.1112, *Disclosure of Interests in Other Entities*, since January 1, 2013. 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 Group 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 impact of the standard to the Group's consolidated financial statements is disclosed in note 42.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
**For the years ended December 31, 2013 and 2012**  
(In millions of won)

**2. Basis of preparation, continued**

**(d) Changes in accounting policies, continued**

(v) K-IFRS No. 1019, *Employee Benefits*

The Group has applied the amendments to K-IFRS No. 1019, *Employee Benefits*, since January 1, 2013. 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 Group retrospectively applied the amendment to K-IFRS No. 1019, for which the impact is follows:

	December 31, 2012			January 1, 2012		
	As previously reported	Adjustment	As restated	As previously reported	Adjustment	As restated
<b>Financial Position</b>						
Accumulated other comprehensive income	₩ 309,979	(19,095)	290,884	257,080	(27,088)	229,992
Retained earnings	3,935,176	19,095	3,954,271	3,485,421	27,088	3,512,509

	2012		
	As previously reported	Adjustment	As restated
<b>Comprehensive Income</b>			
General administrative expenses	₩ (612,857)	(10,545)	(623,402)
Income tax expense	(217,252)	2,552	(214,700)
Net income	749,764	(7,993)	741,771

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
**For the years ended December 31, 2013 and 2012**  
(In millions of won)

**2. Basis of preparation, continued**

**(d) Changes in accounting policies, continued**

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

K-IFRS No. 1113, *Fair Value Measurement* defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard replaces other standards including K-IFRS No. 1107 *Financial Instruments: Disclosures* that required disclosures related to fair value measurement and requires additional disclosures, as the Group provides required disclosures in Note 6.

According to the traditional rule of K-IFRS No. 1113, the Group prospectively applied the new guidelines for measuring fair value and does not disclose comparative information associated with the new disclosure requirements.

(vii) K-IFRS No. 1107, *Financial Instruments: Disclosures*

The Group has applied the amendments to K-IFRS No. 1107, *Financial Instruments: Disclosures*, since January 1, 2013. The amendments to K-IFRS No. 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities. The Group is required to disclose each of the following amounts. The gross and net amounts of financial assets and financial liabilities, and the amounts subject to an enforceable master netting arrangement or similar agreement that do not meet the offsetting criteria in the statement of financial position separately showing amounts offset and not offset in the statement of financial position. The Group retrospectively applied the amendment to K-IFRS No. 1107, for which the impact is disclosed in note 8.

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

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### **3. Significant accounting policies**

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

#### **(a) Operating segment**

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

#### **(b) Basis of consolidation**

##### **(i) Subsidiaries**

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

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

##### **(ii) Structured entity**

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



# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

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### **3. Significant accounting policies, continued**

#### **(b) Basis of consolidation, continued**

##### (iii) Investments in associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The investment in an associate and a joint venture is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition.

##### (iv) Elimination of intra-group transactions

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

#### **(c) Cash and cash equivalents**

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

#### **(d) Non-derivative financial assets**

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
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**3. Significant accounting policies, continued**

**(d) Non-derivative financial assets, continued**

***Financial assets at fair value through profit or loss***

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

***Held-to-maturity investments***

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

***Loans and receivables***

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

***Available-for-sale financial assets***

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

***Derecognition of financial assets***

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

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.

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

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### **3. Significant accounting policies, continued**

#### **(e) Derivative financial assets**

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

##### **i) Hedge accounting**

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

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

##### ***Fair value hedge***

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

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

##### ***Cash flow hedges***

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

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.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
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**3. Significant accounting policies, continued**

**(e) Derivative financial assets, continued**

**ii) Embedded derivatives**

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

**iii) Other derivatives**

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

**(f) Fair value of financial instruments**

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

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

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

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, 2013 and 2012**

(In millions of won)

### **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.

#### **(i) Individually assessed loan impairment**

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, 2013 and 2012**

(In millions of won)

### **3. Significant accounting policies, continued**

#### **(g) Impairment of financial assets, continued**

##### (ii) Collectively assessed loan impairment

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

##### ***Financial assets carried at cost***

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

##### ***Available-for-sale financial assets***

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

##### ***Held-to-maturity financial assets***

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

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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### 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:

<b>Descriptions</b>	<b>Useful lives</b>	<b>Depreciation method</b>
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  
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**3. Significant accounting policies, continued**

**(i) Intangible assets**

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

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

Descriptions	Useful lives
Membership	Indefinite
Development cost	4 years
Software	4 years
Other	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.

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.



## SHINHAN CARD CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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#### **3. Significant accounting policies, continued**

##### **(j) Leases**

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

##### ***Finance lease***

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

##### ***Operating lease***

For an operating lease, revenue 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.

##### **(k) Impairment of non-financial assets**

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

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

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

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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### **3. Significant accounting policies, continued**

#### **(l) Non-derivative financial liabilities**

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

##### **Financial liabilities at fair value through profit or loss**

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

##### **Other financial liabilities**

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

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

#### **(m) Employee benefits**

##### **(i) Short-term employee benefits**

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

##### **(ii) Other long-term employee benefits**

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
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**3. Significant accounting policies, continued**

**(m) Employee benefits, continued**

(iii) Post-employment benefit plan

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

***Defined contribution plans***

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

***Defined benefit plans***

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

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

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

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
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**3. Significant accounting policies, continued**

**(m) Employee benefits, continued**

(iv) Termination benefits

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

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

**(n) Provisions**

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

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, 2013 and 2012**

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### **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 CARD CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

(In millions of won)

#### **3. Significant accounting policies, continued**

##### **(q) Share-based payment transactions, continued**

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

##### **(r) Interest and fee income recognition**

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

## SHINHAN CARD CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

(In millions of won)

#### **3. Significant accounting policies, continued**

##### **(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, 2013 and 2012**

(In millions of won)

### **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, 2013 and 2012**

(In millions of won)

#### **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, 2013, and the Group has not early adopted them.

(i) Amendments to K-IFRS No. 1032, 'Financial Instruments: Presentation'

The amendments clarified the application guidance related to 'offsetting a financial asset and a financial liability'. The amendment is mandatorily effective for periods beginning on or after January 1, 2014. Management is in the process of evaluating the impact of the amendments on the Group's consolidated financial statements as of December 31, 2013.

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

(In millions of won)

### 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 that separately from the Risk Management Council to conduct credit evaluations of corporate customers over a certain amount and other significant credit matters. The Credit Review Committee is led by the CRO and consists of heads of relevant divisions.

#### (ii) Risk management process

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

#### ***Risk limits***

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
**For the years ended December 31, 2013 and 2012**  
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**4. Financial risk management, continued**

**(a) General information of risk management, continued**

(ii) Risk management process, continued

***Risk tolerance***

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

(iii) Risk monitoring

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

***Risk dashboard***

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

***Risk measurement and monitoring report***

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

It is critical 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. The Group continuously develops a forecasting model which is more accurate and predictive.

(iv) Enterprise crisis management system

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

Internal and external crisis indicators for each of credit risk and liquidity risk are divided into core Indicators and leading Indicators. According to categories, the stage of risk is determined quantitatively. Risk management working-level meetings analyze processes based on qualitative information and meeting of heads of departments related to crisis management which decides whether to perform impact analysis.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
**For the years ended December 31, 2013 and 2012**  
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**4. Financial risk management, continued**

**(a) General information of risk management, continued**

(iv) Enterprise crisis management system, continued

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

Based on the assessment of crisis stage, appropriate action items for each crisis stage are set up and implement. 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 when the assessment of political crisis stage is above the Cautionary stage 2 for the second time in succession, 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 with crisis systemically.

(v) Evaluation process

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

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

The Group determines an optimized credit limit for new credit card holders according to their payment ability by 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 the changes in risk and prevent high-risk groups from being credit card holders by monitoring monthly indicators.

(vi) Credit Scoring System

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

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

(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 estimates credit risks of financial instruments using PD (Probability of Default), LGD (Loss Given Default), and EAD (Exposure at Default) utilizing the risk estimation methodology of Basel. The Group applies the Basel basis conservatively to reflect the credit card crisis of 2003 and the nature of the credit card business. Credit risks of derivatives, due from banks and securities are assessed using the modified standard methodology of Basel. Credit risks are divided into respective business segments and merchandise segments, and the Group sets limits for each segment, which are monitored by the risk control process. Contingency plans for when credit risks approach specified limits are prepared in advance.

#### (i) Exposure to credit risk

The carrying amount of financial instruments represents the Group's maximum exposure to credit risk. Exposure to credit risk of the Group as of December 31, 2013 and 2012 are as follows. Cash held by the Group is excluded.

	<u>2013</u>	<u>2012</u>
Due from banks and loans and receivables		
Bank	₩ 1,186,093	1,422,051
Household	17,761,541	17,909,017
Credit sales	9,839,308	10,254,324
Cash advances	2,221,865	2,569,433
Card loans	3,860,531	3,132,669
Installment finance and others	1,839,837	1,952,591
Government/Public institution/the Bank of Korea	137,703	132,319
Corporate	<u>1,048,165</u>	<u>1,173,961</u>
	<u>20,133,502</u>	<u>20,637,348</u>
Derivative assets	2,377	2,983
Available-for-sale financial assets		
Debt securities	2,068	3,869
Other assets		
Other financial assets	412,239	467,171
	<u>₩ 20,550,186</u>	<u>21,111,371</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(In millions of won)

4. Financial risk management, continued

(b) Credit risk, continued

(ii) Analysis of past due and impaired amounts

Set out below is an analysis of past due and impaired amounts of due from banks, loans and receivables by counterparties, and debt securities.

		2013			
		Neither past due nor impaired	Past due but not impaired	Impaired	Total
Bank	₩	1,186,107	-	-	1,186,107
Household		17,447,472	517,629	447,967	18,413,068
Credit sales		9,733,677	252,109	87,551	10,073,337
Cash advances		2,212,896	96,479	63,635	2,373,010
Card loans		3,845,557	122,280	67,969	4,035,806
Installment finance and others		1,655,342	46,761	228,812	1,930,915
Government/Public institution/the Bank of Korea		117,639	21,608	1	139,248
Corporate		986,316	66,070	4,530	1,056,916
		<u>19,737,534</u>	<u>605,307</u>	<u>452,498</u>	<u>20,795,339</u>
Allowance for doubtful accounts		(327,105)	(79,665)	(252,999)	(659,769)
	₩	<u>19,410,429</u>	<u>525,642</u>	<u>199,499</u>	<u>20,135,570</u>
		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>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(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 classifies due from banks and loans and receivables within several risk segments. In case of individual members, the internal credit ratings that bad debt expense ratio have less than earning before bad debt expense ratio are determined to be "outstanding" and that of others is determined to be "normal". In case of corporate members, internal credit ratings that have AAA ~ BBB- level and unrated ratings of Government/Public institution/the Bank of Korea are determined to be "outstanding" and that of others is determined to be "normal". Information about the credit quality of due from banks, and loans and receivables that are neither past due nor impaired as of December 31, 2013 and 2012 are as follows:

		2013		
		Outstanding	Normal	Total
Bank	₩	1,185,392	702	1,186,094
Household		14,794,708	2,330,243	17,124,951
Credit sales		8,620,564	977,276	9,597,840
Cash advances		1,525,047	603,581	2,128,628
Card loans		3,125,265	622,859	3,748,124
Installment finance and others		1,523,832	126,527	1,650,359
Government/Public institution/ the Bank of Korea		115,049	1,998	117,047
Corporate		600,129	382,208	982,337
	₩	<u>16,695,278</u>	<u>2,715,151</u>	<u>19,410,429</u>

		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>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(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 judges accounts that are past due within 90 days as not impaired, unless other information can be demonstrated that this is not the case. Analysis of the aging of financial assets that are past due but not impaired as of December 31, 2013 and 2012 are as follows:

		<b>2013</b>			
		<b>In 30 days</b>	<b>After 30 days through 60 days</b>	<b>After 60 days through 90 days</b>	<b>Total</b>
Bank	₩	-	-	-	-
Household		405,267	26,021	8,735	440,023
Credit sales		206,410	11,354	3,629	221,393
Cash advances		68,498	5,319	1,950	75,767
Card loans		87,709	7,148	2,410	97,267
Installment finance and others		42,650	2,200	746	45,596
Government/Public institution/the Bank of Korea		15,719	4,267	669	20,655
Corporate		62,081	2,256	627	64,964
	₩	<u>483,067</u>	<u>32,544</u>	<u>10,031</u>	<u>525,642</u>
		<b>2012</b>			
		<b>In 30 days</b>	<b>After 30 days through 60 days</b>	<b>After 60 days through 90 days</b>	<b>Total</b>
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>



SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

(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 and collective determined to be impaired

The carrying amounts of available-for-sale financial assets were estimated based on their estimated recoverable amounts. Available-for-sale financial assets that are individually determined to be impaired and collective determined to be impaired as of December 31, 2013 and 2012 are as follows:

		<u>2013</u>	<u>2012</u>
Financial assets that are individually determined to be impaired	Debt securities	₩ 2,068	3,869
Financial assets that are collective determined to be impaired	Loans and receivables	197,431	208,276
		<u>₩ 199,499</u>	<u>212,145</u>

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
**For the years ended December 31, 2013 and 2012**  
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**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, 2013 and 2012 are as follows:

		<b>2013</b>								
		<b>Finance and insurance</b>	<b>Manufacturing</b>	<b>Retail and wholesale</b>	<b>Real estate and service</b>	<b>Construction</b>	<b>Hotel and leisure</b>	<b>Other</b>	<b>Retail customer</b>	<b>Total</b>
Bank	₩	1,186,093	-	-	-	-	-	-	-	1,186,093
Household		-	-	-	-	-	-	-	17,761,541	17,761,541
Credit sales		-	-	-	-	-	-	-	9,839,308	9,839,308
Cash advances		-	-	-	-	-	-	-	2,221,865	2,221,865
Card loans		-	-	-	-	-	-	-	3,860,531	3,860,531
Installment finance and others		-	-	-	-	-	-	-	1,839,837	1,839,837
Government/Public institution/the										
Bank of Korea		20,545	290	350	2,687	348	68	113,415	-	137,703
Corporate		35,867	202,995	172,783	32,669	68,353	6,201	531,365	-	1,050,233
	₩	<u>1,242,505</u>	<u>203,285</u>	<u>173,133</u>	<u>35,356</u>	<u>68,701</u>	<u>6,269</u>	<u>644,780</u>	<u>17,761,541</u>	<u>20,135,570</u>

		<b>2012</b>								
		<b>Finance and insurance</b>	<b>Manufacturing</b>	<b>Retail and wholesale</b>	<b>Real estate and service</b>	<b>Construction</b>	<b>Hotel and leisure</b>	<b>Other</b>	<b>Retail customer</b>	<b>Total</b>
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>

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

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### 4. Financial risk management, continued

#### (c) Liquidity risk

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

The Group sets the goal of "month-end liquidity" as the liquidity level in which the Group could pay its obligations in the 1 month and 3 months. Real liquidity gap ratio of maturity of financial assets and liabilities, liquidity buffer ratio, and ABS to borrowings ratio and credit spreads of credit card assets are major indices of liquidity risks monitored by the Group, defined as cautious, apprehensive, and risky. The Group has prepared contingency plans for various liquidity crises.

#### (i) Non-derivatives

A maturity analysis for non-derivative financial assets and liabilities as of December 31, 2013 and 2012 are as follows. Such undiscounted contractual cash flows differ from the discounted amount included in the condensed consolidated statement of financial position.

	2013						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Over 5 years	
<b>Assets:</b>							
Cash and due from banks	₩ 830,566	-	-	-	-	-	830,566
Loans	8,900,667	4,628,387	2,306,652	2,252,150	2,647,298	265,473	21,000,627
Trading financial assets	30,026	-	-	-	-	-	30,026
Available-for-sale financial assets	-	-	-	-	-	608,840	608,840
Other financial assets	276,223	80,262	-	-	-	72,109	428,594
	<u>10,037,482</u>	<u>4,708,649</u>	<u>2,306,652</u>	<u>2,252,150</u>	<u>2,647,298</u>	<u>946,422</u>	<u>22,898,653</u>
<b>Liabilities:</b>							
Borrowings	72,347	225,675	107,995	318,790	1,136,180	-	1,860,987
Debentures	239,585	925,063	506,339	1,024,099	8,498,501	-	11,193,587
Other financial liabilities	2,058,870	103,452	24,566	38,065	143,724	41,180	2,409,857
	<u>2,370,802</u>	<u>1,254,190</u>	<u>638,900</u>	<u>1,380,954</u>	<u>9,778,405</u>	<u>41,180</u>	<u>15,464,431</u>
₩	<u><u>7,666,680</u></u>	<u><u>3,454,459</u></u>	<u><u>1,667,752</u></u>	<u><u>871,196</u></u>	<u><u>(7,131,107)</u></u>	<u><u>905,242</u></u>	<u><u>7,434,222</u></u>

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**4. Financial risk management, continued**

**(c) Liquidity risk, continued**

(i) Non-derivatives, continued

	2012						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Over 5 years	
<b>Assets:</b>							
Cash and due from banks	₩ 480,904	-	-	-	-	-	480,904
Loans	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>
<b>Liabilities:</b>							
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>

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**4. Financial risk management, continued**

**(c) Liquidity risk, continued**

(ii) Derivatives

A maturity analysis for derivative financial assets and liabilities as of December 31, 2013 and 2012 that shows remaining contractual maturities are as follows:

		<b>2013</b>					
		<b>Less than 1 month</b>	<b>1~3 months</b>	<b>3~6 months</b>	<b>6 months ~ 1 year</b>	<b>1~5 years</b>	<b>Total</b>
Net settlement							
cash inflow							
(outflow)	₩	(384)	(519)	(903)	(1,386)	1,462	(1,730)
Gross settlement							
cash inflow		159,693	266,195	108,690	6,616	1,077,549	1,618,743
Gross settlement							
cash outflow		(172,083)	(286,666)	(119,042)	(14,442)	(1,164,001)	(1,756,234)
	₩	(12,774)	(20,990)	(11,255)	(9,212)	(84,990)	(139,221)

		<b>2012</b>					
		<b>Less than 1 month</b>	<b>1~3 months</b>	<b>3~6 months</b>	<b>6 months ~ 1 year</b>	<b>1~5 years</b>	<b>Total</b>
Net settlement							
cash inflow							
(outflow)	₩	32	(305)	(457)	(1,303)	(1,865)	(3,898)
Gross settlement							
cash inflow		1,774	47,739	96,311	438,053	1,309,010	1,892,887
Gross settlement							
cash outflow		(5,139)	(53,558)	(112,084)	(474,752)	(1,401,323)	(2,046,856)
	₩	(3,333)	(6,124)	(16,230)	(38,002)	(94,178)	(157,867)

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**4. Financial risk management, continued**

**(d) Market risk**

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

(i) Market risk management from trading positions

The Group assessed market risk from trading positions using the standard methodology of Financial Supervisory Service. The following represents the Group's assessment of its potential loss in trading financial assets that are exposed to the respective risks, as of December 31, 2013 and 2012:

		<b>2013</b>			
		<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>	<b>At December 31</b>
Interest rate risk	₩	233	750	150	150

  

		<b>2012</b>			
		<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>	<b>At December 31</b>
Interest rate risk	₩	358	900	250	500

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**4. Financial risk management, continued**

**(d) Market risk, continued**

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

***Interest rate risk from non-trading positions***

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

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

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

Interest rate VaR and EaR of non-trading positions as of December 31, 2013 and 2012 are as follows:

		<b>2013</b>	<b>2012</b>
Interest rate VaR	₩	285,352	338,930
Interest rate EaR		17,040	29,318

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**4. Financial risk management, continued**

**(d) Market risk, continued**

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

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

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

Equity price risk and foreign exchange rate risk of non-trading positions as of December 31, 2013 and 2012 are as follows:

		<b>2013</b>			
		<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>	<b>At December 31</b>
Equity price risk	₩	30,540	36,777	19,622	36,777
Foreign exchange rate risk		14,143	16,787	10,792	16,787
Variance effect		(807)	(1,058)	(565)	(1,058)
Total VaR	₩	<u>43,876</u>	<u>52,506</u>	<u>29,849</u>	<u>52,506</u>
		<b>2012</b>			
		<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>	<b>At December 31</b>
Equity price risk	₩	37,650	52,761	24,990	27,543
Foreign exchange rate risk		19,186	24,671	12,794	14,166
Variance effect		(1,629)	(2,420)	(767)	(846)
Total VaR	₩	<u>55,207</u>	<u>75,012</u>	<u>37,017</u>	<u>40,863</u>



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**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, 2013 and 2012 are as follows:

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

		<b>2013</b>		
		<b>Foreign currency</b>		<b>Won equivalent</b>
		<b>U.S. dollar</b>	<b>Singapore dollar</b>	
Cash	USD		- SGD	- ₩
Available-for-sale financial assets		552,894	-	583,469
Debentures		(1,500,000)	-	(1,582,950)
On-balance exposure		(947,106)	-	(999,481)
Off-balance derivative exposure		1,500,000	-	1,582,950
Net position	USD	<u>552,894</u>	SGD <u>-</u>	₩ <u>583,469</u>

		<b>2012</b>		
		<b>Foreign currency</b>		<b>Won equivalent</b>
		<b>U.S. dollar</b>	<b>Singapore dollar</b>	
Cash	USD		45 SGD	- ₩
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	<u>430,734</u>	SGD <u>-</u>	₩ <u>461,360</u>

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

(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's objective is to control its financial risks, enhance its safety and soundness, stabilize the financial system, and advance the Group's credit standing.

The Group operates the credit card business under the Specialized Credit Financial Business Act. Accordingly, the Group should obey the Regulation on Supervision of Credit Specialized Financial Business. The regulations require more than 8% of adjusted equity capital ratio. Adjusted total assets and adjusted equity capital for the ratio are based on the condensed consolidated interim statements of financial position and adjusted by the regulation that considered standards of the Bank for International Settlements and the nature of credit card business. The Group observes ratios of adjusted equity capital requirements regulated by the Specialized Credit Financial Business and as of December 31, 2013, the Group met the regulatory adjusted equity capital ratio.

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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### **5. Significant estimates and judgments**

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

#### **(a) Valuation of financial instruments**

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

#### **(b) Allowance for doubtful accounts**

##### **(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.

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**5. Significant estimates and judgments, continued**

**(d) Liability for defined benefit obligations**

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

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

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

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

**(f) Income taxes**

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

**6. Fair value measurement of financial instruments**

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

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

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

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

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

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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### 6. Fair value measurement of financial instruments, continued

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

#### (a) Financial instruments measured at fair value

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

	<u>Fair value measurement methods</u>
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.

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**6. Fair value measurement of financial instruments, continued**

(a) Financial instruments measured at fair value, continued

(ii) The fair value measurements classified by fair value hierarchy as of December 31, 2013 and 2012 are summarized as follows:

		<b>2013</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>					
Equity securities held for trading	₩	-	30,009	-	30,009
Derivative financial assets for hedge		-	1,417	960	2,377
Available-for-sale debt securities		-	-	2,068	2,068
Available-for-sale equity securities		583,469	-	23,303	606,772
	₩	<u>583,469</u>	<u>31,426</u>	<u>26,331</u>	<u>641,226</u>
<b>Financial liabilities</b>					
Derivative financial liabilities for hedge	₩	-	105,675	-	105,675
		<b>2012</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>					
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
	₩	<u>-</u>	<u>100,898</u>	<u>488,648</u>	<u>589,546</u>
<b>Financial liabilities</b>					
Derivative financial liabilities for hedge	₩	-	105,398	-	105,398

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**6. Fair value measurement of financial instruments, continued**

(a) Financial instruments measured at fair value, continued

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

Available-for-sale financial assets which are restricted to voting rights were transferred from level 3 to level 1 for the year ended December 31, 2013. For fair value measurements in level 3, changing one or more of the inputs to reasonably possible alternative assumptions would not change the fair value significantly. Changes of fair value measurement in level 3 for the years ended December 31, 2013 and 2012 are as follows:

		<b>Derivative financial assets</b>	<b>Available-for- sale debt securities</b>	<b>Available-for- sale equity securities</b>	<b>Total</b>
<b>Balance at January 1, 2013</b>	₩	2,108	3,869	482,671	488,648
Reversal of impairment loss		-	12,843	-	12,843
Accumulated other comprehensive income		(1,148)	-	1,944	(796)
Disposition		-	(14,644)	(1)	(14,645)
Transference between each level of fair value hierarchy		-	-	(461,311)	(461,311)
<b>Balance at December 31, 2013</b>	₩	<u>960</u>	<u>2,068</u>	<u>23,303</u>	<u>26,331</u>
<b>Balance at January 1, 2012</b>	₩	2,637	5,805	451,891	460,333
Net income related to derivatives		(548)	-	-	(548)
Reversal of impairment loss		-	18,213	-	18,213
Accumulated other comprehensive income		19	-	137,116	137,135
Disposition		-	(20,149)	(106,336)	(126,485)
<b>Balance at December 31, 2012</b>	₩	<u>2,108</u>	<u>3,869</u>	<u>482,671</u>	<u>488,648</u>

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**6. Fair value measurement of financial instruments, continued**

(a) Financial instruments measured at fair value, continued

(iv) Inputs unobservable in markets

Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of December 31, 2013 is as follows:

		<b>2013</b>		
<b>Valuation techniques</b>	<b>Type of financial instruments</b>	<b>Book value</b>	<b>Significant unobservable inputs</b>	<b>Range of estimates for unobservable inputs</b>
<b>Derivative assets:</b>				
Option model (Hull & White model)	Interest rates related	960	The volatility of the underlying asset, Correlations	57.73%~60.10% 0.86%~0.99% (17.75)%~(1.01)%
<b>Available-for-sale financial assets:</b>				
Discounted cash flow	Equity securities	21,840	Discount rate Growth rate	5.81%~20.77% 0.00%
Cost method	Equity securities	1,463	Acquisition cost	-
Net asset value	Debt securities	2,068	Discount rate Growth rate	0.00%
		<u>25,371</u>		
		₩ <u>26,331</u>		

(v) Sensitivity to changes in unobservable inputs

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

<b>Type of financial instrument</b>	<b>2013</b>	
	<b>Favorable change</b>	<b>Unfavorable change</b>
Derivative assets(*1)	₩ 6	(23)
Available-for-sale financial assets(*2)	1,968	(861)
	₩ <u>1,974</u>	<u>(884)</u>

(\*1) Based on 10% of increase or decrease in volatility of underlying assets or correlation

(\*2) Based on changes in growth rate ( 0%~1%) and discount rate ( -1%~1%)



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**6. Fair value measurement of financial instruments, continued**

(b) financial instruments measured at amortized cost

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

	<b>Fair value measurement methods</b>
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.

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6. Fair value measurement of financial instruments, continued

(ii) The carrying amount and the fair value of financial instruments measured at amortized cost as of December 31, 2013 and 2012 are as follows:

		2013				
		Carrying amount				
	Balance	Deferred loan origination costs and others	Allowance	Total		Fair value
<b>Financial assets</b>						
Cash	₩ -	-	-	-		-
Deposits	830,391	-	-	830,391		830,392
Credit card assets	17,582,862	(33,323)	(646,592)	16,902,947		17,144,788
Loans	562,653	1,338	(680)	563,311		562,107
Installment assets	1,212,637	9,493	(10,560)	1,211,570		1,218,207
Lease assets	627,549	(329)	(1,937)	625,283		626,993
Other assets	428,594	(2,701)	(13,654)	412,239		413,199
	₩ 21,244,686	(25,522)	(673,423)	20,545,741		20,795,686
<b>Financial liabilities</b>						
Borrowings	₩ 1,782,800	-	-	1,782,800		1,814,842
Debentures in won	8,700,780	(25,414)	-	8,675,366		8,790,062
Debentures in foreign currency	1,582,950	(7,868)	-	1,575,082		1,592,175
Other liabilities	2,409,857	(11,144)	-	2,398,713		2,399,703
	₩ 14,476,387	(44,426)	-	14,431,961		14,596,782
		2012				
		Carrying amount				
	Balance	Deferred loan origination costs and others	Allowance	Total		Fair value
<b>Financial assets</b>						
Cash	₩ 49	-	-	49		49
Deposits	480,784	-	-	480,784		480,788
Credit card assets	17,814,476	(40,399)	(743,441)	17,030,636		17,337,337
Loans	1,227,076	2,019	(592)	1,228,503		1,226,565
Installment assets	1,242,354	(8,966)	(12,956)	1,220,432		1,232,746
Lease assets	680,373	(926)	(2,454)	676,993		681,493
Other assets	486,854	(1,729)	(17,954)	467,171		464,960
	₩ 21,931,966	(50,001)	(777,397)	21,104,568		21,423,938
<b>Financial liabilities</b>						
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
	₩ 15,582,621	(54,715)	-	15,527,906		15,821,008

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**6. Fair value measurement of financial instruments, continued**

(iii) The fair value hierarchy of financial instruments which are measured at amortized cost in the consolidated statement of financial position as of December 31, 2013 and 2012 are as follows:

		<b>2013</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>					
Deposits	₩	830,392	-	-	830,392
Credit card Assets		-	-	17,144,788	17,144,788
Loans		-	-	562,107	562,107
Installment assets		-	-	1,218,207	1,218,207
Lease assets		-	-	626,993	626,993
Other assets		-	-	413,199	413,199
	₩	<u>830,392</u>	<u>-</u>	<u>19,965,294</u>	<u>20,795,686</u>
<b>Financial liabilities:</b>					
			-		
Borrowings	₩	-	-	1,814,842	1,814,842
Debentures in won		-	-	8,790,062	8,790,062
Debentures in foreign currency		-	-	1,592,175	1,592,175
Other liabilities		-	-	2,399,703	2,399,703
	₩	<u>-</u>	<u>-</u>	<u>14,596,782</u>	<u>14,596,782</u>
		<b>2012</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>					
Cash	₩	49	-	-	49
Deposits		480,788	-	-	480,788
Credit card Assets		-	-	17,337,337	17,337,337
Loans		-	-	1,226,565	1,226,565
Installment assets		-	-	1,232,746	1,232,746
Lease assets		-	-	681,493	681,493
Other assets		-	-	464,960	464,960
	₩	<u>480,837</u>	<u>-</u>	<u>20,943,101</u>	<u>21,423,938</u>
<b>Financial liabilities:</b>					
Borrowings	₩	-	-	1,959,817	1,959,817
Debentures in won		-	-	9,303,594	9,303,594
Debentures in foreign currency		-	-	1,863,237	1,863,237
Other liabilities		-	-	2,694,360	2,694,360
	₩	<u>-</u>	<u>-</u>	<u>15,821,008</u>	<u>15,821,008</u>

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**7. Categories of financial instruments**

(a) The carrying amounts of the categories of financial assets as of December 31, 2013 and 2012 are summarized as follows:

<b>2013</b>					
	<b>Financial assets at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Derivative for hedge</b>	<b>Total</b>
Cash and due from banks	₩ -	830,391	-	-	830,391
Trading financial assets	30,009	-	-	-	30,009
Derivative assets	-	-	-	2,377	2,377
Loans and receivables	-	19,303,111	-	-	19,303,111
Available-for-sale financial assets	-	-	608,840	-	608,840
Other assets	-	412,239	-	-	412,239
	₩ 30,009	20,545,741	608,840	2,377	21,186,967

<b>2012</b>					
	<b>Financial assets at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Derivative for hedge</b>	<b>Total</b>
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
	₩ 100,023	21,104,568	486,540	2,983	21,694,114

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**7. Categories of financial instrument, continued**

(b) The carrying amounts of the categories of financial liabilities as of December 31, 2013 and 2012 are summarized as follows:

<b>2013</b>			
	<b>Financial liabilities measured at amortized cost</b>	<b>Derivative for hedge</b>	<b>Total</b>
Derivative liabilities	₩ -	105,675	105,675
Borrowings	1,782,800	-	1,782,800
Debentures	10,250,448	-	10,250,448
Other liabilities	2,398,713	-	2,398,713
	₩ <u>14,431,961</u>	<u>105,675</u>	<u>14,537,636</u>
<b>2012</b>			
	<b>Financial liabilities measured at amortized cost</b>	<b>Derivative for hedge</b>	<b>Total</b>
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>

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**7. Categories of financial instrument, continued**

(c) Net gains (losses) of categories of financial instruments for the years ended December 31, 2013 and 2012 are as follows:

	2013							
	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Impairment loss	Other operating income, net	Net income	Other comprehensive income
<b>Financial assets:</b>								
Financial assets at fair value through profit or loss	₩ -	-	-	-	-	445	445	-
Loans and receivables	1,945,509	-	2,299,075	(1,823,606)	(361,532)	17,152	2,076,598	-
Available-for-sale financial assets	-	-	-	-	12,843	128,744	141,587	107,097
Derivative for hedge	-	-	-	-	-	(802)	(802)	20
	<u>1,945,509</u>	<u>-</u>	<u>2,299,075</u>	<u>(1,823,606)</u>	<u>(348,689)</u>	<u>145,539</u>	<u>2,217,828</u>	<u>107,117</u>
<b>Financial liabilities:</b>								
Financial liabilities measured at amortized cost	-	(550,084)	-	-	-	37,306	(512,778)	-
Derivative for hedge	-	-	-	-	-	(36,777)	(36,777)	7,972
	<u>-</u>	<u>(550,084)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>529</u>	<u>(549,555)</u>	<u>7,972</u>
	<u>₩ 1,945,509</u>	<u>(550,084)</u>	<u>2,299,075</u>	<u>(1,823,606)</u>	<u>(348,689)</u>	<u>146,068</u>	<u>1,668,273</u>	<u>115,089</u>

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**7. Categories of financial instruments, continued**

		2012							
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Impairment loss	Other operating income, net	Net income	Other comprehensive income
<b>Financial assets:</b>									
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>
<b>Financial liabilities:</b>									
Financial liabilities measured at amortized cost									
		-	(622,016)	-	-	-	152,919	(469,097)	-
Derivative for hedge									
		-	-	-	-	-	(124,897)	(124,897)	11,234
		-	(622,016)	-	-	-	28,022	(593,994)	11,234
	₩	<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>

(d) The amounts of foreign exchange differences recognized in profit or loss for each category of financial instruments for the years ended December 31, 2013 and 2012 are as follows:

		2013		2012	
		Gain on foreign currency transaction	Loss on foreign currency transaction	Gain on foreign currency transaction	Loss on foreign currency transaction
Loans and receivables	₩	19,854	2,702	16,795	1,642
Financial liabilities measured at amortized cost		43,013	5,707	153,783	864
	₩	<u>62,867</u>	<u>8,409</u>	<u>170,578</u>	<u>2,506</u>

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**8. Offsetting financial assets and financial liabilities**

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2013 and 2012 are as follows:

2013						
	Gross amounts recognized	Gross amounts recognized for offset	Net amounts of financial instruments	Amounts related to not offsetting		Net amount
				Financial instruments	Cash collateral received	
<b>Financial assets:</b>						
Derivatives	₩ 2,377	-	2,377	1,363	-	1,014
Repurchase agreements(*)	353,000	-	353,000	353,000	-	-
<b>Financial liabilities:</b>						
Derivatives	105,675	-	105,675	1,363	-	104,312

2012						
	Gross amounts recognized	Gross amounts recognized for offset	Net amounts of financial instruments	Amounts related to not offsetting		Net amount
				Financial instruments	Cash collateral received	
<b>Financial assets:</b>						
Derivatives	₩ 2,983	-	2,983	443	-	2,540
Repurchase agreements(*)	931,000	-	931,000	931,000	-	-
<b>Financial liabilities:</b>						
Derivatives	105,398	-	105,398	443	-	104,955

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



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**9. 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 years ended December 31, 2013 and 2012 are as follows:

		<b>2013</b>				
		<b>Credit card</b>	<b>Installment financing</b>	<b>Leasing</b>	<b>Others</b>	<b>Total</b>
Interest income	₩	1,780,815	88,239	42,490	33,965	1,945,509
Fee and commission income		2,163,343	3,963	4,099	75,236	2,246,641
Other operating income		89,824	486	53	332,050	422,413
	₩	<u>4,033,982</u>	<u>92,688</u>	<u>46,642</u>	<u>441,251</u>	<u>4,614,563</u>

		<b>2012</b>				
		<b>Credit card</b>	<b>Installment financing</b>	<b>Leasing</b>	<b>Others</b>	<b>Total</b>
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>

- (b) Revenues from external customers for the years ended December 31, 2013 and 2012 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, 2013 and 2012.

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**10. Cash and due from banks**

(a) Details of cash and due from banks as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Cash	₩ -	49
Deposits in won:		
Time deposits	1,338	1,338
Others	829,053	479,446
	<u>830,391</u>	<u>480,784</u>
	₩ <u>830,391</u>	<u>480,833</u>

(b) Restricted due from banks as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>	<u>Restrictions</u>
Time deposits			
Jeonbuk Bank	₩ 100	100	Pledged as collateral for cash advances
Korea Post	338	338	Pledged as collateral for a lease
	<u>438</u>	<u>438</u>	
Other deposits			
Woori Bank and others	37	37	Deposit for checking accounts
	<u>215,366</u>	<u>47,330</u>	Cash of SPC
	<u>215,403</u>	<u>47,367</u>	
	₩ <u>215,841</u>	<u>47,805</u>	

**11. Trading financial assets**

(a) Details of trading financial assets as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
MMF (Money market fund) and other	₩ 30,009	100,023

(b) Net income on trading financial assets for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Gain on valuation of trading financial assets	₩ 9	23
Gain on sale of trading financial assets	436	831
	₩ <u>445</u>	<u>854</u>

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**12. Derivatives**

(a) Derivative assets and liabilities

The notional amounts and fair values of derivative assets and liabilities as of December 31, 2013 and 2012 are as follows:

	2013			2012		
	Notional amounts	Fair value		Notional amounts	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency rate swap	₩ 1,582,950	-	102,228	1,848,578	1,157	100,156
Interest rate swap	1,220,000	2,377	3,447	780,000	1,826	5,242
	₩ 2,802,950	2,377	105,675	2,628,578	2,983	105,398

(b) Gain (loss) on derivatives

Gain (loss) on derivatives for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Gain on valuation of derivatives	₩ -	-
Loss on valuation of derivatives	(36,720)	(151,335)
Gain on transaction of derivatives	5,433	2,240
Loss on transaction of derivatives	(6,292)	(5,726)
	₩ (37,579)	(154,821)

(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, 2013 and 2012 are as follows:

	2013	2012
Recognized in other comprehensive income	₩ (27,036)	(135,582)
Reclassified from equity to profit or loss	37,580	154,821
Deferred tax effect	(2,552)	(4,656)
Changes in other comprehensive income, net	₩ 7,992	14,583

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**13. Loans and receivables**

(a) Details of loans and receivables as of December 31, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Credit card assets:		
Lump-sum purchases	₩ 4,662,211	4,387,066
Installment purchases	4,896,377	5,608,052
Cash advances	2,088,576	2,394,250
Revolving cash advances	278,417	372,527
Revolving purchases	1,205,838	1,224,047
Card loans	4,035,806	3,286,449
Restructured loans	224,780	208,040
Purchasing card	190,857	334,045
Less : Allowance for doubtful accounts	(646,592)	(743,441)
Present value discount account	(13,267)	(22,868)
Deferred loan origination costs	(20,056)	(17,531)
	<u>16,902,947</u>	<u>17,030,636</u>
Loans:		
General loans	7,730	1,602
Bonds purchased under resale agreements	353,000	931,000
Loans to employee stock ownership association	501	576
Factoring receivables	194,753	287,089
Other	6,669	6,809
Less : Allowance for doubtful accounts	(680)	(592)
Present value discount account	-	(1)
Deferred loan origination costs	1,338	2,020
	<u>563,311</u>	<u>1,228,503</u>
Installment financing assets:		
Installment for cars	1,211,896	1,241,210
Installment for houses	619	979
Installment for others	122	165
Less : Allowance for doubtful accounts	(10,560)	(12,956)
Deferred loan origination costs	9,493	(8,966)
	<u>1,211,570</u>	<u>1,220,432</u>
Lease assets:		
Financing lease receivables	627,430	680,085
Cancelled financing lease receivables	119	288
Less : Allowance for doubtful accounts	(1,937)	(2,454)
Deferred loan origination costs	(329)	(926)
	<u>625,283</u>	<u>676,993</u>
	<u>₩ 19,303,111</u>	<u>20,156,564</u>

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**13. Loans and receivables, continued**

(b) Changes in allowance for doubtful accounts for the years ended December 31, 2013 and 2012 are as follows:

	<b>2013</b>		
	<b>Loans and receivables</b>	<b>Other assets</b>	<b>Total</b>
Beginning balance	₩ 759,443	17,954	777,397
Provision for allowance	339,816	21,716	361,532
Write-offs	(619,230)	(28,314)	(647,544)
Unwinding effect	(1,232)	-	(1,232)
Allowance related to disposal of loans	(45,984)	-	(45,984)
Recoveries	222,024	2,298	224,322
Others	4,932	-	4,932
Ending balance	₩ <u>659,769</u>	<u>13,654</u>	<u>673,423</u>
	<b>2012</b>		
	<b>Loans and receivables</b>	<b>Other assets</b>	<b>Total</b>
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>

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**13. Loans and receivables, continued**

(c) Financing lease assets

Total investments in financing lease and present value of minimum lease payments as of December 31, 2013 and 2012 are as follows:

	<b>2013</b>		
	<b>Total investment</b>	<b>Unrealized interest income</b>	<b>Present value of minimum lease payment</b>
Less than one year	₩ 317,222	30,224	286,998
One year to five years	358,005	17,454	340,551
	<b>₩ 675,227</b>	<b>47,678</b>	<b>627,549</b>
	<b>2012</b>		
	<b>Total investment</b>	<b>Unrealized interest income</b>	<b>Present value of minimum lease payment</b>
Less than one year	₩ 330,115	29,604	300,511
One year to five years	402,336	22,474	379,862
	<b>₩ 732,451</b>	<b>52,078</b>	<b>680,373</b>

(d) Changes in deferred loan origination fees

Changes in deferred loan origination fees for the years ended December 31, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Beginning balance	₩ (25,403)	(32,733)
Increase	(35,696)	(61,213)
Decrease	51,545	68,543
Ending balance	<b>₩ (9,554)</b>	<b>(25,403)</b>

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**14. Available-for-sale financial assets**

(a) Details of available-for-sale financial assets as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Debt securities		
Corporate bonds	₩ 2,068	3,869
Equity securities(*)		
Stock	606,770	482,668
Equity investments	2	2
Beneficiary certificates	-	1
	<u>606,772</u>	<u>482,671</u>
	₩ <u>608,840</u>	<u>486,540</u>

(\*) As of December 31, 2013, 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 ₩1,463 million as of December 31, 2013 and 2012, respectively.

(b) Changes in available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>			<u>2012</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	₩ 482,671	3,869	486,540	451,897	5,805	457,702
Disposal	(137,187)	(14,644)	(151,831)	(106,342)	(20,149)	(126,491)
Changes in unrealized fair value of available for sale financial assets	269,686	-	269,686	122,558	-	122,558
Foreign exchange differences	(8,398)	-	(8,398)	14,558	-	14,558
Reversal of impairment loss	-	12,843	12,843	-	18,213	18,213
Ending balance	₩ <u>606,772</u>	<u>2,068</u>	<u>608,840</u>	<u>482,671</u>	<u>3,869</u>	<u>486,540</u>

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**14. Available-for-sale financial assets, continued**

(c) Gain on sale of available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

		<u>2013</u>	<u>2012</u>
Gain on sale of available-for-sale financial assets	₩	128,744	112,646

The Group disposed 739,000 shares and 880,000 shares of visa card inc for the years ended December 31, 2013 and 2012, respectively, and recognized a gain on the sale of available-for-sale financial assets of ₩123,205 million and ₩98,974 million in the consolidated statement of comprehensive income during 2013 and 2012, respectively.

**15. Property and equipment**

(a) Details of Property and equipment as of December 31, 2013 and 2012 are as follows:

		<b>2013</b>			
		<u>Land</u>	<u>Buildings</u>	<u>Other</u>	<u>Total</u>
Acquisition cost	₩	31,176	7,280	343,212	381,668
Accumulated depreciation		-	(1,009)	(258,588)	(259,597)
	₩	<u>31,176</u>	<u>6,271</u>	<u>84,624</u>	<u>122,071</u>
		<b>2012</b>			
		<u>Land</u>	<u>Buildings</u>	<u>Other</u>	<u>Total</u>
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>



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**15. Property and equipment, continued**

(b) Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows:

		<b>2013</b>			
		<b>Land</b>	<b>Buildings</b>	<b>Other</b>	<b>Total</b>
Beginning balance	₩	31,176	6,523	84,984	122,683
Acquisition		-	-	34,969	34,969
Disposal		-	-	(111)	(111)
Depreciation		-	(252)	(35,759)	(36,011)
Others		-	-	541	541
Ending balance	₩	31,176	6,271	84,624	122,071

		<b>2012</b>			
		<b>Land</b>	<b>Buildings</b>	<b>Other</b>	<b>Total</b>
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	₩	31,176	6,523	84,984	122,683

(c) Insured Assets

Insured assets as of December 31, 2013 is summarized as follows:

<b>Type of insurance</b>	<b>Assets covered</b>	<b>Insurance company</b>	<b>Amount covered</b>
Property all risks policy	Buildings, etc.	Samsung Fire & Marine Insurance, Ltd.	₩ 55,797

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

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**16. Intangible assets**

(a) Details of Intangible assets as of December 31, 2013 and 2012 are as follows:

		<b>2013</b>			
		<b>Club memberships</b>	<b>Development cost</b>	<b>Other</b>	<b>Total</b>
Acquisition cost	₩	15,830	83,692	7,559	107,081
Accumulated amortization		-	(28,279)	(2,904)	(31,183)
Impairment losses		(3,334)	-	-	(3,334)
	₩	<u>12,496</u>	<u>55,413</u>	<u>4,655</u>	<u>72,564</u>
		<b>2012</b>			
		<b>Club memberships</b>	<b>Development cost</b>	<b>Other</b>	<b>Total</b>
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>

(b) Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

		<b>2013</b>			
		<b>Club memberships</b>	<b>Development cost</b>	<b>Other</b>	<b>Total</b>
Beginning balance	₩	12,291	66,601	3,121	82,013
Acquisition		617	9,735	1,990	12,342
Substitution		-	(1,358)	947	(411)
Disposal		-	-	-	-
Amortization		-	(19,565)	(1,403)	(20,968)
Impairment		(412)	-	-	(412)
Impairment reversal		-	-	-	-
Ending balance	₩	<u>12,496</u>	<u>55,413</u>	<u>4,655</u>	<u>72,564</u>
		<b>2012</b>			
		<b>Club memberships</b>	<b>Development cost</b>	<b>Other</b>	<b>Total</b>
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>

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**17. Investments in associates**

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 financial statements of comprehensive income.

**18. Other assets**

Other assets as of December 31, 2013 and 2012 are summarized as follows:

		<u>2013</u>	<u>2012</u>
Guarantee deposits	₩	72,109	74,002
Present value discount account		(2,701)	(1,729)
Accounts receivable		262,816	303,704
Allowance for doubtful accounts		(3,619)	(4,138)
Accrued income		91,157	105,958
Allowance for doubtful accounts		(10,035)	(13,816)
Advance payments		110,907	142,606
Prepaid expenses		40,690	72,709
Others		1,809	2,440
	₩	<u>563,133</u>	<u>681,736</u>

**19. Borrowings**

Borrowings as of December 31, 2013 and 2012 are summarized as follows:

	<u>Interest rate (%)</u>		<u>2013</u>	<u>2012</u>
Call money	2.75	₩	50,000	-
Borrowings:				
Commercial paper	2.90~4.19		1,012,800	1,042,800
General borrowings	4.17		-	100,000
Borrowings from Shinhan Financial Group	4.12~4.91		700,000	700,000
Overdrawn account	0.80~3.85		20,000	70,000
			<u>1,732,800</u>	<u>1,912,800</u>
		₩	<u>1,782,800</u>	<u>1,912,800</u>

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**20. Debentures**

Debentures as of December 31, 2013, and 2012 are summarized as follows:

	<u>Maturity</u>	<u>Interest rate (%)</u>		<u>2013</u>	<u>2012</u>
Debentures in won	2014.01.18~ 2018.11.22	2.73~6.09	₩	8,700,780	9,115,780
Less: discount				(25,414)	(30,827)
				<u>8,675,366</u>	<u>9,084,953</u>
Debentures in foreign currency	2014.02.26~ 2016.11.28	2.23~4.02		1,582,950	1,848,578
Less: discount				(7,868)	(10,100)
				<u>1,575,082</u>	<u>1,838,478</u>
			₩	<u>10,250,448</u>	<u>10,923,431</u>

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**21. Employee benefits**

(a) Defined benefit plan assets and liabilities as of December 31, 2013 and 2012 are as follows:

		<u>2013</u>	<u>2012</u>
Present value of defined benefit obligations	₩	160,346	149,114
Fair value of plan assets		(157,866)	(133,932)
Recognized liabilities for defined benefit obligations	₩	<u>2,480</u>	<u>15,182</u>

(b) Changes in the present value of defined benefit obligations and plan assets for the years ended December 31, 2013 and 2012 are as follows:

		<u>2013</u>		
		<u>Defined benefit obligation</u>	<u>Plan assets</u>	<u>Defined benefit liability</u>
Beginning balance	₩	149,114	(133,932)	15,182
Recognized in profit or loss as incurred:				
Current service cost		18,323	-	18,323
Interest expense (income)		6,258	(5,617)	641
		<u>24,581</u>	<u>(5,617)</u>	<u>18,964</u>
Recognized in other comprehensive income:				
- Actuarial (gain) losses				
Demographic assumptions		1	-	1
Financial assumptions		14,731	-	14,731
Experience adjustments.		(20,253)	-	(20,253)
- Return on plan assets		-	1,227	1,227
		<u>(5,521)</u>	<u>1,227</u>	<u>(4,294)</u>
Others:				
Contributions paid into the plan		-	(24,600)	(24,600)
Benefits paid by the plan		(8,186)	5,056	(3,130)
Others(*)		358	-	358
		<u>(7,828)</u>	<u>(19,544)</u>	<u>(27,372)</u>
Ending balance	₩	<u>160,346</u>	<u>(157,866)</u>	<u>2,480</u>

(\*) Transfer from related parties

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**21. Employee benefits, continued**

		2012		
		Defined benefit obligation	Plan assets	Defined benefit liability
Beginning balance	₩	140,555	(103,170)	37,385
Recognized in profit or loss as incurred:				
Current service cost		18,352	-	18,352
Interest expense (income)		7,105	(5,423)	1,682
		<u>25,457</u>	<u>(5,423)</u>	<u>20,034</u>
Recognized in other comprehensive income:				
- Actuarial (gain) losses				
Demographic assumptions		14,203	-	14,203
Financial assumptions		2,339	-	2,339
Experience adjustments.		(28,194)	-	(28,194)
- Return on plan assets		-	1,107	1,107
		<u>(11,652)</u>	<u>1,107</u>	<u>(10,545)</u>
Others:				
Contributions paid into the plan		-	(30,000)	(30,000)
Benefits paid by the plan		(5,708)	3,554	(2,154)
Others(*)		462	-	462
		<u>(5,246)</u>	<u>(26,446)</u>	<u>(31,692)</u>
Ending balance	₩	<u>149,114</u>	<u>(133,932)</u>	<u>15,182</u>

(\*) Transfer from related parties

(c) Details of the amounts included in the fair value of plan assets for each category of financial instruments as of December 31, 2013 and 2012 are as follows:

		2013		2012	
		Amounts	Ratio	Amounts	Ratio
Cash and due from banks	₩	118,496	75.1%	102,615	76.6%
Securities		34,998	22.2%	28,681	21.4%
Others		4,372	2.8%	2,636	2.0%
Fair value of plan assets	₩	<u>157,866</u>	<u>100.0%</u>	<u>133,932</u>	<u>100.0%</u>

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**21. Employee benefits, continued**

(d) Actuarial assumptions as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Discount rate (AA0)	4.54%	4.22%
Future salary increasing rate	2.54%	2.8%
	+ upgrade rate	+ upgrade rate
Average expected remaining years of service	10.88 years	11.58 years

(e) Sensitivity analysis

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

	<u>Changes in the amount of defined benefit obligations</u>	
Discount rate (1% decrease)	₩	19,039
Discount rate (1% increase)		(16,620)
Future salary increasing rate (1% decrease)		(17,087)
Future salary increasing rate (1% increase)		19,259

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

(f) The amounts recognized as an expense for defined contribution plans are ₩1,577 million and ₩1,325 million for the years ended December 31, 2013 and 2012.

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**22. Provisions**

Changes in provisions for the years ended December 31, 2013 and 2012 are as follows:

		<b>2013</b>					
		<b>Allowance for litigation</b>	<b>Provision for membership reward program</b>	<b>Allowance for unused credit commitments</b>	<b>Asset retirement</b>	<b>Other</b>	<b>Total</b>
Beginning balance	₩	7,935	24,873	328,474	9,353	4,565	375,200
Provision (recoveries)		674	60,847	(9,903)	38	21,895	73,551
Payment		(2,480)	(56,617)	-	-	(18,497)	(77,594)
Others		-	-	-	130	-	130
Ending balance	₩	<u>6,129</u>	<u>29,103</u>	<u>318,571</u>	<u>9,521</u>	<u>7,963</u>	<u>371,287</u>

		<b>2012</b>					
		<b>Allowance for litigation</b>	<b>Provision for membership reward program</b>	<b>Allowance for unused credit commitments</b>	<b>Asset retirement</b>	<b>Other</b>	<b>Total</b>
Beginning balance	₩	12,185	24,439	345,288	9,115	4,892	395,919
Provision (recoveries)		432	39,143	(16,814)	46	2,184	24,991
Payment		(4,682)	(38,709)	-	-	(2,511)	(45,902)
Others		-	-	-	192	-	192
Ending balance	₩	<u>7,935</u>	<u>24,873</u>	<u>328,474</u>	<u>9,353</u>	<u>4,565</u>	<u>375,200</u>

**23. Other liabilities**

Details of other liabilities as of December 31, 2013 and 2012 are as follows:

		<b>2013</b>	<b>2012</b>
Accounts payable	₩	1,734,045	2,023,492
Accrued expenses		323,706	301,351
Advances from customers		54,608	66,963
Unearned revenue (Note 24)		222,608	230,546
Withholdings		349,760	224,490
Guarantee deposits, net		219,568	243,144
Advances of gift card and others, net		28,702	28,064
Others		2,096	1,092
	₩	<u>2,935,093</u>	<u>3,119,142</u>



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**24. Deferred revenue of customer loyalty programmes**

Changes in deferred revenue of customer loyalty programmes for the years ended 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Beginning balance	₩ 158,010	149,580
Revenue deferment	207,947	183,828
Revenue realization	(226,685)	(175,398)
Ending balance	<u>₩ 139,272</u>	<u>158,010</u>

**25. Equity**

(a) Equity as of December 31, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</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	(175)	583
Accumulated other comprehensive income		
Unrealized gain on valuation of available-for-sale securities	421,560	314,463
Effective portion of valuation loss on cash flow hedges	3,508	(4,484)
Remeasurements of defined benefit obligations	(15,840)	(19,095)
	<u>409,228</u>	<u>290,884</u>
Retained earnings		
Legal reserve	313,424	313,424
Reserve for credit losses (Note 26)	515,106	269,024
Revaluation surplus of property and equipment	10,216	10,216
Retained earnings(*)	3,373,546	3,361,607
	<u>4,212,292</u>	<u>3,954,271</u>
	<u>₩ 6,108,784</u>	<u>5,733,177</u>

(\*) ₩40,342 million of reserve for credit losses, plans to reversal in retained earnings as of December 31, 2013. ₩246,082 million of retained earnings as of December 31, 2012, had been disposed of as reserve for credit losses in the shareholder's meeting of March 27, 2013.

(b) Capital stock and capital surplus

As of December 31, 2013 and 2012, 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.

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**25. Equity, continued**

(c) Changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

		<b>Valuation of available-for- sale securities</b>	<b>Valuation of cash flow hedges</b>	<b>Remeasurements of defined benefit obligations</b>	<b>Total</b>
<b>Balance at January 1, 2012</b>	₩	276,147	(19,067)	(27,088)	229,992
Change in fair value of available- for-sale securities		122,558	-	10,545	133,103
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)	(2,552)	(19,441)
<b>Balance at December 31, 2012</b>		<u>314,463</u>	<u>(4,484)</u>	<u>(19,095)</u>	<u>290,884</u>
<b>Balance at January 1, 2013</b>		314,463	(4,484)	(19,095)	290,884
Change in fair value of available- for-sale securities		269,686	-	4,294	273,980
Foreign exchange differences		(8,398)	-	-	(8,398)
Effective portion of changes in fair value of cash flow hedges		-	(27,036)	-	(27,036)
Reclassification adjustment		(119,999)	37,580	-	(82,419)
Deferred tax effect		(34,192)	(2,552)	(1,039)	(37,783)
<b>Balance at December 31, 2013</b>	₩	<u>421,560</u>	<u>3,508</u>	<u>(15,840)</u>	<u>409,228</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.

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**25. Equity, continued**

(f) Statements of appropriation of retained earnings for the years ended December 31, 2013 and 2012 based on separate financial statements are as follows:

Date of Appropriation for 2013: March 31, 2014

Date of Appropriation for 2012: March 27, 2013

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

	<b>2013</b>	<b>2012</b>
<b>Unappropriated retained earnings</b>		
Balance at beginning of year	₩ 2,696,377	2,592,748
Changes of in accounting policies	19,095	27,088
Net income	658,074	741,771
	<u>3,373,546</u>	<u>3,361,607</u>
<b>Reversal of Reserve for credit losses</b>	40,342	-
<b>Balance at end of year before appropriation</b>	<u>3,413,888</u>	<u>3,361,607</u>
<b>Appropriation of retained earnings</b>		
Reserve for credit losses	-	246,082
Cash dividends	524,044	400,053
Dividends per share (dividend as a percentage of par value):		
₩ 4,180 (83.60%) for 2013		
₩ 3,191 (63.82%) for 2012		
	<u>524,044</u>	<u>646,135</u>
<b>Unappropriated retained earnings to be carried over to subsequent year</b>	₩ <u>2,889,844</u>	<u>2,715,472</u>

(\*) These statements of appropriation of retained earnings were based on the separate financial statements of the controlling company and the Group retrospectively applied the amendment for the changes in accounting policies.

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**26. 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, 2013 and 2012 are summarized as follows:

		<u>2013</u>	<u>2012</u>
Accumulated reserve for credit losses	₩	515,106	269,024
Accumulated reserve for credit losses, scheduled		<u>(40,342)</u>	<u>246,082</u>
Ending balance of reserve for credit losses	₩	<u>474,764</u>	<u>515,106</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, 2013 and 2012 are as follows:

		<u>2013</u>	<u>2012</u>
Net income	₩	658,074	741,771
Provision for reserve for credit losses		(40,342)	246,082
Profits after adjusting for reserve for credit losses		698,416	495,682
Earnings per share after reserve for credit losses in won		5,571	3,954

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**27. Operating revenue**

Operating revenues for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<b>Operating revenue:</b>		
Interest income	₩ 1,945,509	2,032,209
Fee and commission income	2,246,641	2,171,286
Dividend income	34,129	37,335
Gain on valuation and disposition of trading financial assets	445	854
Gains related to derivatives	5,433	2,240
Gains on foreign currency transaction	62,867	170,578
Gains on sale of available-for-sale financial assets	128,744	112,646
Reversal of financial assets' impairment losses	12,843	18,213
Other operating income	177,952	53,559
	<u>₩ 4,614,563</u>	<u>4,598,920</u>

**28. Earnings per share**

Earnings per share for the years ended December 31, 2013 and 2012 are as follows:

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

	<u>2013</u>	<u>2012</u>
Net income available for common stock	₩ 658,074	741,771
Weighted average number of common stocks outstanding	125,369,403	125,369,403
Earnings per share in won	<u>₩ 5,249</u>	<u>5,917</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, 2013 and 2012.

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**29. Share-based payment**

Share-based payment as of December 31, 2013 is summarized as follows:

(a) Stock options

	<b>5th grant</b>	<b>6th grant</b>	<b>7th grant</b>
Method of settlement	Cash-settlement	Cash-settlement	Cash-settlement
Valuation technique	Fair value	Fair value	Fair value
Grant date	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩38,829	₩54,560	₩49,053
Shares granted	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
Changes in number of shares granted:			
Outstanding at January 1, 2013	120,372	74,632	110,707
Changes	(120,372)	-	-
Outstanding at December 31, 2013	-	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
Risk-free interest period	-	2.64%	2.64%
Expected exercise period	-	2 months	8 months
Expected stock price volatility	-	16.91%	19.76%
Expected dividend yield ratio	-	1.80%	1.80%
Fair value of stock option in won	-	₩5	₩2,228

The equity instruments granted are wholly vested as of December 31, 2013. The weighted average share price for 185,339 stock options outstanding at December 31, 2013 is ₩51,271.

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**29. Share-based payment, continued**

(b) Share-based payment arrangements with performance conditions

(i) Performance share granted as of December 31, 2013 was as follows:

	<b>Granted as of 2010</b>	<b>Granted as of 2011</b>	<b>Granted as of 2012</b>	<b>Granted as of 2013</b>
Type	Equity-settled type	Equity-settled type	Equity-settled type	Equity-settled type
Vesting period	2010 ~ 2011	2011 ~ 2013	2012 ~ 2014	2013 ~ 2015
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 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%)	Based on 4 year management index (66.6%)
Estimated number of shares granted	94,429 shares	6,576 shares	19,963 shares	29,038 shares

(ii) Granted shares and the fair value of grant date as of December 31, 2013 were as follows:

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

<b>Grant date</b>	<b>Grant shares</b>	<b>Fair value(*)</b>	<b>Estimated shares(**)</b>
April 1, 2010	129,700	₩ 45,150	94,429
January 11, 2011	6,900	52,900	6,576
February 28, 2012	28,200	46,650	15,820
August 24, 2012	9,300	36,150	4,143
January 1, 2013	89,800	40,050	22,755
February 22, 2013	10,100	42,350	2,886
May 27, 2013	10,100	40,250	847
August 27, 2013	24,000	39,700	2,550
	<u>308,100</u>		<u>150,006</u>

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

(\*\*) Granted 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.

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**29. Share-based payment, continued**

(c) Stock compensation costs calculated for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Stock options	₩ 253	(788)
Share-based payment arrangements with performance conditions	1,663	1,658
	<u>₩ 1,916</u>	<u>870</u>

(d) Details of accrued expenses and the intrinsic value as of December 31, 2013 are as follows:

	<u>Accrued expense related to compensation costs</u>	<u>Intrinsic values(*)</u>
Stock options	₩ 247	-
Share-based payment arrangements with performance conditions(**)	6,977	6,977
	<u>₩ 7,224</u>	<u>6,977</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, 2013, and have been recognized as liabilities directly deducted from the capital.



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**30. Net interest income**

Details of net interest incomes for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<b>Interest income</b>		
Cash and due from banks	₩ 8,530	13,645
Credit card assets	1,780,815	1,849,160
Loans	21,796	17,084
Installment loans	88,239	101,487
Financing leases	42,490	47,735
Others	3,639	3,098
	<u>1,945,509</u>	<u>2,032,209</u>
<b>Interest expense</b>		
Call money	(3,145)	(3,230)
Borrowings	(76,572)	(91,293)
Debentures	(399,647)	(463,626)
Securitized debentures	(62,389)	(53,605)
Others	(8,331)	(10,262)
	<u>(550,084)</u>	<u>(622,016)</u>
<b>Net interest income</b>	₩ <u>1,395,425</u>	<u>1,410,193</u>

Interest income on impaired financial assets for the years ended December 31, 2013 and 2012 are ₩19,359 million and ₩19,864 million, respectively.

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**31. Net fee and commission income**

Details of net fee and commission incomes for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<b>Fee and commission income</b>		
Credit card assets	₩ 2,110,823	2,080,218
Loans	75,150	8
Installment loans	3,963	3,866
Financing leases	4,099	4,084
Others(*)	52,606	83,110
	<u>2,246,641</u>	<u>2,171,286</u>
<b>Fee and commission expense</b>		
Credit card assets	(1,888,169)	(1,819,802)
Others(*)	(191,706)	(105,580)
	<u>(2,079,875)</u>	<u>(1,925,382)</u>
<b>Net fee and commission income</b>	₩ <u>166,766</u>	<u>245,904</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, 2013 and 2012, the amount of income related to debt cancelation and debt suspension are ₩52,520 million, ₩55,277 million, respectively, and the amount of expense are ₩16,689 million, ₩20,493 million, respectively.

**32. Dividend income**

Details of dividend income for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Available-for-sale financial assets in won	₩ 30,502	32,953
Available-for-sale financial assets in foreign currency	3,627	4,382
	<u>₩ 34,129</u>	<u>37,335</u>

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**33. Impairment and reversal on financial assets impairment losses**

Details of impairment and reversal on financial assets for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<b>Impairment</b>		
Loans and receivables	₩ 361,532	311,346
<b>Reversal</b>		
Available-for-sale financial assets	(12,843)	(18,213)
<b>Net impairment loss on financial assets</b>	<u>₩ 348,689</u>	<u>293,133</u>

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**34. General administrative expenses**

General administrative expenses for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<b>Relate to employees</b>		
Salaries and wages	₩ 163,956	157,289
Bonus	43,654	40,389
Management incentives	19,684	22,680
Share-based compensation expense	1,916	870
Employee benefits	79,187	65,255
Travel	5,874	5,783
Defined benefit	18,964	20,034
Honorary retirement allowance	20,113	-
Defined contribution	1,577	1,325
	<u>354,925</u>	<u>313,625</u>
<b>Depreciation and amortization</b>		
Depreciation	36,011	31,152
Amortization of intangible assets	20,968	13,182
Others	149	94
	<u>57,128</u>	<u>44,428</u>
<b>Other general administrative expenses</b>		
Communication	54,777	56,704
Utility	19,122	19,138
Vehicles maintenance	3,768	3,711
Supplies	27,448	24,460
Rent	24,910	24,627
Insurance	806	628
Repairs	251	184
Entertainment	1,371	1,160
Advertising	30,364	29,616
Sales promotion	97,029	68,597
Training	2,653	3,065
Publication	181	162
Freight	809	646
Provision for asset retirement obligation	38	46
Taxes and dues	35,369	32,605
	<u>298,896</u>	<u>265,349</u>
	₩ <u>710,949</u>	<u>623,402</u>

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**35. Other operating incomes and expenses**

Other operating incomes and expenses for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<b>Other operating incomes</b>		
Gains on recovery of bad debt	₩ 24,834	15,070
Reversal of allowance for unused loan commitments	9,903	16,814
Gains on sale of loans	119,019	8,091
Others	24,196	13,584
	<u>177,952</u>	<u>53,559</u>
<b>Other operating expenses</b>		
Losses on sale of loans	(2,231)	-
Losses on repayment of lease	(1,091)	(1,076)
	<u>(3,322)</u>	<u>(1,076)</u>
	₩ <u>174,630</u>	<u>52,483</u>

**36. Non operating incomes and expenses**

Other operating revenues and expenses for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<b>Non operating incomes</b>		
Gains on assets contributed	₩ -	4,966
Gains on disposition of property and equipment	16	-
Reversal of impairment loss on intangible asset	-	12
Others	2,799	5,625
	<u>2,815</u>	<u>10,603</u>
<b>Non operating expenses</b>		
Donations	(7,965)	(8,531)
Legal provision	(674)	(432)
Losses on disposition of property and equipment	(50)	(5)
Losses on disposition of intangible assets	-	(5)
Impairment loss of intangible asset	(412)	(799)
Others	(292)	(515)
	<u>(9,393)</u>	<u>(10,287)</u>
	₩ <u>(6,578)</u>	<u>316</u>

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**37. Income taxes**

(a) The components of income taxes expenses for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Income tax payable	₩ 194,779	161,071
Adjustments to the tax expense for prior period	-	(2,981)
Changes in deferred tax due to temporary differences	49,805	88,995
Income tax expense associated with article not recognized as profit for the year	(37,536)	(19,523)
Others	(14,320)	(12,862)
Income taxes	<u>₩ 192,728</u>	<u>214,700</u>

(b) The relationship between tax expense and income before income taxes expenses for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Income before income taxes (A)	₩ 850,802	956,471
Income taxes at applicable tax rate	205,894	231,466
Adjustments:		
Non-taxable income	(881)	(957)
Non-deductible expense	2,622	1,231
Tax deductions	(598)	(725)
Consolidated tax return effect	(14,309)	(16,315)
	<u>(13,166)</u>	<u>(16,766)</u>
Income taxes (B)	<u>₩ 192,728</u>	<u>214,700</u>
Effective tax rate (B/A)	<u>22.65%</u>	<u>22.45%</u>

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**37. Income taxes, continued**

(c) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2013 and 2012 are as follows:

		<b>2013</b>				
		<b>Beginning deferred tax assets (liabilities)</b>	<b>Change in profit or loss</b>	<b>Change in other comprehensive income</b>	<b>Change in capital adjustments</b>	<b>Ending deferred tax assets (liabilities)</b>
Accounts receivable	₩	70	-	-	-	70
Available-for-sale securities		86,718	(3,022)	-	-	83,696
Deferred loan origination costs		(6,793)	629	-	-	(6,163)
Valuation on property and equipment and depreciation		(677)	(127)	-	-	(804)
Derivative assets( liabilities)		1,214	217	(2,551)	-	(1,120)
Accrued expenses		9,321	1,629	-	-	10,950
Liability for defined benefit obligations		26,661	3,663	-	-	30,324
Deposit for defined benefit obligations		(24,276)	(4,828)	-	-	(29,104)
Other allowances		159,978	(6,858)	-	-	153,121
Net change in fair value of available-for- sale financial assets		(100,396)	-	(34,192)	-	(134,588)
Allowance for bad debts		-	-	-	-	-
Share-based payment		(431)	195	-	247	11
Others		15,154	(4,807)	-	-	10,345
	₩	166,543	(13,309)	(36,743)	247	116,738

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**37. Income taxes, continued**

		2012				
		Beginning deferred tax assets (liabilities)	Change in profit or loss	Change in other comprehensive 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
	₩	255,538	(72,023)	(16,889)	(83)	166,543



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**37. Income taxes, continued**

(d) Deferred income tax expense associated with article, which is not recognized as profit (loss) for the years ended December 31, 2013 and 2012 are as follows.

	<b>2013</b>				
	<b>December 31, 2013</b>		<b>January 1, 2013</b>		<b>Change in tax effect</b>
	<b>Amount</b>	<b>Tax effect</b>	<b>Amount</b>	<b>Tax effect</b>	
Changes in fair value of available-for-sale securities	₩ 421,560	(134,588)	314,463	(100,396)	(34,192)
Effective portion of valuation gain or loss on cash flow hedges	3,508	(1,120)	(4,484)	1,432	(2,552)
Share-based payment	(175)	61	583	(186)	247
Remeasurements of defined benefit obligations	(15,840)	5,057	(19,095)	6,096	(1,039)
	₩ 409,053	(130,590)	291,467	(93,054)	(37,536)
	<b>2012</b>				
	<b>December 31, 2012</b>		<b>January 1, 2012</b>		<b>Change in tax effect</b>
	<b>Amount</b>	<b>Tax effect</b>	<b>Amount</b>	<b>Tax effect</b>	
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)
Remeasurements of defined benefit obligations	(19,095)	6,096	(27,088)	8,648	(2,552)
	₩ 291,467	(93,054)	230,314	(73,531)	(19,523)

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**37. 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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Deferred tax assets	₩ 292,353	302,562
Deferred tax liabilities	(175,615)	(136,019)
	<u>₩ 116,738</u>	<u>166,543</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, 2013 and 2012 current tax liabilities are ₩92,667 million and ₩95,588 million, respectively. For consolidated tax return, the amount is paid to the taxation authorities through the controlling company of the Group.

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**38. Statements of cash flows**

(a) Details of cash and due from banks as of December 31, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Cash	₩ -	49
Available deposits from banks		
Current deposits	19,159	1,793
Deposits on demand	264,491	300,286
Time deposits	900	900
Other	330,000	130,000
	<u>614,550</u>	<u>432,979</u>
Cash and cash equivalents	₩ <u>614,550</u>	<u>433,028</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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents in the statements of financial position	₩ 830,391	480,833
Adjustment:		
Restricted due from banks	<u>(215,841)</u>	<u>(47,805)</u>
Cash and cash equivalents in the statements of cash flows	₩ <u>614,550</u>	<u>433,028</u>

(d) The Group presents statements of cash flows using the indirect method and significant non-cash transactions for the years ended December 31, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Valuation of available-for-sale securities	₩ 261,288	137,116
Valuation of derivatives	10,635	8,233

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#### **39. Contingent liabilities and commitments**

(a) Contingent liabilities

The Group has 30 pending lawsuits as a defendant as of December 31, 2013 for a total claim amount of ₩34,184 million. A legal provision of ₩6,129 million is included in the allowance for litigation in the accompanying consolidated 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 consolidated 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, 2013, 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.

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**40. Asset Backed Securitization (ABS)**

- (a) The initial transfer price of the bond sold by Asset-Backed Securitization Act as of December 31, 2013 and 2012 are as summarized as follows:

	<b>Initial transfer date</b>		<b>2013</b>	<b>2012</b>
Shinhan Card 2012-1	2012.06.17	₩	-	800,653
Shinhan Card 2013-1	2013.08.02		599,970	-
		₩	<u>599,970</u>	<u>800,653</u>

The amounts of financial liability book value about securities, which is transferred, for the years ended December 31, 2013 and 2012 are ₩1,575,082million, ₩1,703,686million, respectively.

- (b) The uncollected details among transfer securities, which is sold by act on ABS, as of December 31, 2013 and 2012 are summarized as follows:

	<b>List of disposal asset</b>	<b>Initial transfer date</b>		<b>2013</b>	<b>2012</b>
Shinhan Card 2010-1	Credit card assets	2010.11.12	₩	356,699	580,183
Shinhan Card 2011-1	Credit card assets	2011.02.11		572,564	574,450
Shinhan Card 2011-2	Credit card assets	2011.03.18		415,416	587,272
Shinhan Card 2011-3	Credit card assets	2011.08.18		542,066	557,610
Shinhan Card 2012-1	Credit card assets	2012.06.17		797,744	773,806
Shinhan Card 2013-1	Credit card assets	2013.08.02		578,178	-
			₩	<u>3,262,667</u>	<u>3,073,321</u>

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**41. Related party transactions**

(a) As of December 31, 2013, related parties of the Group are summarized as follows:

Name of company	Control relationship
Shinhan Financial Group	Parent company
Shinhan Bank	Other related parties
Shinhan Credit Information Co., Ltd.	Other related parties
Shinhan Life Insurance Co., Ltd.	Other related parties
Shinhan Data System Co., Ltd.	Other related parties
Shinhan Investment Corp.	Other related parties
Jeju Bank	Other related parties
BNP Paribas Cardif Life Insurance	Other related parties
Shinhan Saving Bank	Other related parties
Shinhan Aitas Co., Ltd.	Other related parties
Shinhan Capital Co., Ltd.	Other related parties
Shinhan Private Equity Investment Management	Other related parties
Shinhan BNP Paribas ITMC Co., Ltd.	Other related parties
SHC Management Co., Ltd.	Other related parties

(b) Significant transactions with related parties for the years ended December 31, 2013 and 2012 are as follows:

Related party / Account	2013		2012	
	Revenue	Expense	Revenue	Expense
Shinhan Financial Group Co., Ltd				
Interest expense	₩ -	31,980	-	30,744
Fee and commission expense	-	21,518	-	20,948
Bad debt expenses	-	1	-	-
Reversal of allowance for bad debts	-	-	1	-
Shinhan Bank				
Interest income	530	-	1,335	-
Interest expense	-	533	-	867
Fee and commission income	513	-	1,569	-
Fee and commission expense	-	168,947	-	167,205
Loss on valuation of derivatives	-	-	-	2,358
Bad debt expenses	-	-	-	77
Reversal of allowance for bad debts	161	-	-	-
Interest income on plan assets	2,600	-	2,155	-
Other general and administrative	-	746	-	1,095
Other operating income	40	-	39	-

SHINHAN CARD CO., LTD. AND SUBSIDIARIES  
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**For the years ended December 31, 2013 and 2012**  
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**41. Related party transactions, continued**

Related party / Account	2013		2012	
	Revenue	Expense	Revenue	Expense
Shinhan Credit Information Co., Ltd.				
Fee and commission income	₩ 4	-	9	-
Fee and commission expense	-	14,922	-	17,956
Bad debt expenses	-	1	-	-
Reversal of allowance for bad debts	-	-	1	-
Other operating income	-	-	13	-
Shinhan Life Insurance Co., Ltd.				
Fee and commission income	8,278	-	9,281	-
Fee and commission expense	-	40	-	75
Reversal of allowance for bad debts	-	-	3	-
Employee benefits	-	26	-	271
Interest income on plan assets	323	-	392	-
Other general and administrative	-	18	-	35
Shinhan Data System Co., Ltd.				
Fee and commission income	-	-	1	-
Fee and commission expense	-	14,045	-	9,111
Bad debt expenses	-	1	-	-
Reversal of allowance for bad debts	-	-	1	-
Depreciation Expenses	-	574	-	416
Other general and administrative	-	2	-	1
Shinhan Investment Corp.				
Interest income	73	-	1,107	-
Interest expenses	-	10	-	136
Fee and commission income	87	-	-	-
Fee and commission expense	-	37	-	27
Reversal of allowance for bad debts	1	-	1	-
Interest income on plan assets	410	-	437	-
Other general and administrative	-	91	-	468
Jeju Bank				
Interest income	1	-	1	-
Fee and commission income	116	-	365	-
Fee and commission expense	-	8	-	11
BNP Paribas Cardif Life Insurance				
Fee and commission income	168	-	271	-
Shinhan Saving Bank				
Fee and commission income	-	-	11	-
Bad debt expenses	-	-	-	1
Reversal of allowance for bad debts	1	-	-	-

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

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**41. Related party transactions, continued**

Related party / Account	2013		2012	
	Revenue	Expense	Revenue	Expense
Shinhan Aitas Co., Ltd.				
Reversal of allowance for bad debts	₩ 1	-	1	-
Shinhan Capital Co., Ltd.				
Bad debt expenses	-	1	-	-
Reversal of allowance for bad debts	-	-	1	-
Shinhan Private Equity Investment Management				
Bad debt expenses	-	1	-	-
Reversal of allowance for bad debts	-	-	1	-
Shinhan BNP Paribas ITMC Co., Ltd.				
Fee and commission income	2	-	1	-
SHC Management Co., Ltd.				
Other operating income	55	-	55	-



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**41. Related party transactions, continued**

(c) Significant balances with the related parties as of December 31, 2013 and 2012 are summarized as follows:

Related party / Account	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Shinhan Financial Group Co., Ltd.				
Credit card assets	₩ 368	-	256	-
Borrowings	-	700,000	-	700,000
Consolidated tax accounts payable	-	92,667	-	95,588
Accrued expenses	-	10,286	-	8,331
Allowance for doubtful accounts	-	2	-	1
Shinhan Bank				
Cash and due from bank	21,081	-	23,309	-
Derivative assets	1,363	-	443	-
Credit card assets	1,988	-	9,368	-
Prepaid expenses	297	-	215	-
Guarantee deposits	30,512	-	30,760	-
Plan assets	95,584	-	80,356	-
Derivative liabilities	-	2,844	-	4,213
Allowance for asset retirement obligation	-	936	-	1,015
Accounts payable	-	3	-	25
Accrued expenses	-	1,572	-	1,409
Allowance for doubtful accounts	-	10	-	171
Shinhan Credit Information Co., Ltd.				
Credit card assets	82	-	66	-
Accounts payable	-	1,152	-	1,428
Allowance for doubtful accounts	-	1	-	1
Shinhan Life Insurance Co., Ltd.				
Credit card assets	2,570	-	2,356	-
Plan assets	10,708	-	9,385	-
Accounts payable	-	388	-	270
Allowance for doubtful accounts	-	13	-	13
Shinhan Data System Co., Ltd.				
Credit card assets	203	-	94	-
Accrued expenses	-	-	-	187
Allowance for doubtful accounts	-	1	-	1

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

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41. Related party transactions, continued

Related party / Account	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Shinhan Investment Corp.				
Cash and due from bank	₩ 267	-	224	-
Credit card assets	1,198	-	1,261	-
Prepaid expenses	11	-	52	-
Guarantee deposits	976	-	976	-
Plan assets	15,020	-	11,610	-
Allowance for asset retirement obligation	-	60	-	29
Allowance for doubtful accounts	-	7	-	8
Jeju Bank				
Cash and due from bank	154	-	238	-
Accounts payable	-	14	-	17
Cardif Life Insurance Co., Ltd.				
Credit card assets	103	-	94	-
Shinhan Saving Bank				
Credit card assets	33	-	36	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Aitas Co., Ltd.				
Credit card assets	59	-	84	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Capital Co., Ltd.				
Credit card assets	83	-	70	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Private Equity Investment Management, Inc.				
Credit card assets	49	-	27	-
Allowance for doubtful accounts	-	1	-	1
Shinhan BNP Paribas ITMC Co., Ltd.				
Credit card assets	174	-	110	-

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Notes to Consolidated Financial Statements

**For the years ended December 31, 2013 and 2012**

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**41. Related party transactions, continued**

(d) Borrowings from the related parties as of December 31, 2013 and 2012 are summarized as follows:

<b>Lender</b>	<b>Date of Borrowing</b>	<b>Date of maturity</b>	<b>Interest rate (%)</b>		<b>2013</b>	<b>2012</b>
Shinhan Financial Group	2010.10.29	2015.10.29	4.37%	₩	100,000	100,000
	2011.01.28	2016.01.28	4.91%		100,000	100,000
	2011.05.17	2016.05.17	4.47%		100,000	100,000
	2011.02.24	2016.02.24	4.82%		250,000	250,000
	2012.03.14	2017.03.14	4.12%		150,000	150,000
				₩	<u>700,000</u>	<u>700,000</u>

(e) Key management personnel compensation for the years ended December 31, 2013 and 2012 are as follows:

		<b>2013</b>	<b>2012</b>
Salaries and wages	₩	3,654	4,007
Post-employment benefits		80	16
Share-based payments		1,402	490
	₩	<u>5,136</u>	<u>4,513</u>

# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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### 42. Interests in Unconsolidated Structured Entities

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

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

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

- (i) The size of unconsolidated structured entities as of December 31, 2013 is as follows:

	<b>Assets-backed securitization</b>	<b>Beneficiary certificates</b>	<b>Total</b>
Total assets	₩ 2,616,270	126,280	2,742,550

- (ii) Revenues and expenses recognized relating to the Group's interests in unconsolidated structured entities for the year ended December 31, 2013 are as follows:

	<b>Assets-backed securitization</b>	<b>Beneficiary certificates</b>	<b>Total</b>
Revenues			
Fee and commission income	₩ 5,092	-	5,092
Dividend income	30,083	-	30,083
Other operating income	63,333	1	63,334
	₩ 98,508	1	98,509
Expenses	₩ (1,801)	-	(1,801)

- (iii) The carrying amounts of the assets transferred to unconsolidated structured entities as of December 31, 2013 are as follows:

	<b>Assets-backed securitization</b>	<b>Beneficiary certificates</b>	<b>Total</b>
Loans	₩ 2,715,397	-	2,715,397

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Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

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**42. Interests in Unconsolidated Structured Entities, continued**

(b) Nature of risks

(i) The carrying amounts of the assets and liabilities recognized relating to the Group's interests in unconsolidated structured entities as of December 31, 2013 are as follows:

	<u>Assets-backed securitization</u>	<u>Beneficiary certificates</u>	<u>Total</u>
Assets:			
Available-for-sale financial assets	₩ 2,070	1	2,071
Other assets	580	-	580
	<u>₩ 2,650</u>	<u>1</u>	<u>2,651</u>

(ii) Maximum exposure to risk relating to the Group's interests in unconsolidated structured entities as of December 31, 2013 are as follows:

	<u>Assets-backed securitization</u>	<u>Beneficiary certificates</u>	<u>Total</u>
Assets held	₩ 2,650	1	2,651