



SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2014 and 2013

(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 financial statements of Shinhan Card Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014 and 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

The accompanying consolidated statement of financial position of the Group as of December 31, 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by us in accordance with the previous auditing standards generally accepted in the Republic of Korea.

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.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 6, 2015

This report is effective as of March 6, 2015, 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, 2014 and 2013

(In millions of won, except share data)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Assets			
Cash and due from banks	10,37 ₩	413,098	830,391
Trading financial assets	11	230,027	30,009
Derivative assets	12	39,183	2,377
Loans and receivables, net	13	20,162,259	19,303,111
Available-for-sale financial assets	14	522,512	608,840
Property and equipment, net	15	101,091	122,071
Intangible assets	16	58,717	72,564
Deferred income tax assets	36	146,286	116,738
Other assets	17	586,341	563,133
Total assets	₩	22,259,514	21,649,234
Liabilities			
Derivative liabilities	12 ₩	56,331	105,675
Borrowings	18	1,190,000	1,782,800
Debentures, net	19	11,308,732	10,250,448
Liability for defined benefit obligations	20	10,411	2,480
Current tax liabilities	36	112,765	92,667
Provisions	21	366,161	371,287
Other liabilities	22,23	3,082,687	2,935,093
Total liabilities		16,127,087	15,540,450
Equity			
Common stock of ₩5,000 par value	24	626,847	626,847
Authorized - 2,000,000,000 shares			
Issued and outstanding - 125,369,403 shares			
in 2014 and 2013			
Capital surplus	24	860,592	860,592
Capital adjustments	24	(154)	(175)
Accumulated other comprehensive income	24	321,743	409,228
Retained earnings	24,25	4,323,399	4,212,292
Total equity		6,132,427	6,108,784
Total liabilities and equity	₩	22,259,514	21,649,234

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2014 and 2013

(In millions of won, except earnings per share)

	Note	2014	2013
Interest income		₩ 1,865,557	1,945,509
Interest expense		(492,592)	(550,084)
Net interest income	29	<u>1,372,965</u>	<u>1,395,425</u>
Fee and commission income		2,300,321	2,246,641
Fee and commission expense		(2,043,042)	(2,079,875)
Net fee and commission income	30	<u>257,279</u>	<u>166,766</u>
Dividend income	31	30,613	34,129
Net trading income	11	1,223	445
Net gain (loss) on derivatives	12	96,405	(37,579)
Net gain (loss) on foreign currency transactions		(74,342)	54,458
Net gain on sales of available-for-sale financial assets	14	157,326	128,744
Net impairment loss on financial assets	32	(407,010)	(348,689)
General administrative expenses	33	(708,220)	(710,949)
Other operating income, net	34	<u>97,962</u>	<u>174,630</u>
Operating income		<u>824,201</u>	<u>857,380</u>
Non-operating loss, net	35	<u>(2,164)</u>	<u>(6,578)</u>
Profit before income tax		<u>822,037</u>	<u>850,802</u>
Income tax expense	36	<u>(186,886)</u>	<u>(192,728)</u>
Profit for the year		<u>635,151</u>	<u>658,074</u>
Other comprehensive income (loss) :			
Items that will never be reclassified to profit or loss			
Remeasurement of the net defined benefit obligations	20, 24	(5,058)	3,255
Items that are or may be reclassified subsequently to profit or loss			
Net changes in unrealized fair value of available-for-sale financial assets	13, 24	(58,746)	107,097
Net changes in the unrealized fair value of cash flow hedges	11, 24	(23,677)	7,992
Foreign currency translation adjustments for foreign operations		(4)	-
Other comprehensive income (loss) for the year, net of tax		<u>(87,485)</u>	<u>118,344</u>
Total comprehensive income for the year		<u>₩ 547,666</u>	<u>776,418</u>
Earnings per share			
Basic and diluted earnings per share (in won)	27	<u>₩ 5,066</u>	<u>5,249</u>

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Change in Equity
For the years ended December 31, 2014 and 2013

	2013					
	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total equity
<i>(In millions of won)</i>						
Balance at January 1, 2013	₩ 626,847	860,592	583	290,884	3,954,271	5,733,177
Dividends	-	-	-	-	(400,053)	(400,053)
Retained earnings after appropriation	-	-	-	-	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 changes in the unrealized fair value of available-for-sale financial assets	-	-	-	107,097	-	107,097
Net changes in the unrealized fair value of cash flow hedges	-	-	-	7,992	-	7,992
Share-based payment transactions	-	-	(758)	-	-	(758)
Balance at December 31, 2013	₩ 626,847	860,592	(175)	409,228	4,212,292	6,108,784

	2014					
	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total equity
<i>(In millions of won)</i>						
Balance at January 1, 2014	₩ 626,847	860,592	(175)	409,228	4,212,292	6,108,784
Dividends	-	-	-	-	(524,044)	(524,044)
Retained earnings after appropriation	-	-	-	-	3,688,248	3,688,248
Profit for the year	-	-	-	-	635,151	635,151
Remeasurement of the net defined benefit obligations	-	-	-	(5,058)	-	(5,058)
Net changes in the unrealized fair value of available-for-sale financial assets	-	-	-	(58,746)	-	(58,746)
Net changes in the unrealized fair value of cash flow hedges	-	-	-	(23,677)	-	(23,677)
Foreign currency translation adjustments for foreign operations	-	-	-	(4)	-	(4)
Share-based payment transactions	-	-	21	-	-	21
Balance at December 31, 2014	₩ 626,847	860,592	(154)	321,743	4,323,399	6,132,427

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and 2013

(In millions of won)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Profit before income tax	₩ 822,037	850,802
Adjustment for:		
Interest income	(1,865,557)	(1,945,509)
Interest expense	492,592	550,084
Dividend income	(30,613)	(34,129)
Fee and commission income	(233,221)	(226,685)
Fee and commission expense	155,125	185,281
Net gain on valuation of trading financial assets	(27)	(9)
Net loss (gain) on valuation and transaction of derivatives	(96,405)	37,580
Net loss (gain) foreign currency transaction	95,937	(37,306)
Net gain on sales of available-for-sale financial assets	(157,326)	(128,744)
Bad debt expenses	420,305	361,532
Reversal of allowance for unused loan commitments	(2,406)	(9,903)
Reversal of impairment loss on available-for-sale financial assets	(13,295)	(12,843)
General administrative expenses	81,860	78,046
Non-operating expenses, net	3,393	1,120
	<u>(1,149,638)</u>	<u>(1,181,485)</u>
Changes in assets and liabilities:		
Trading financial assets	(199,991)	70,023
Loans and receivables, net	(1,233,498)	571,353
Other assets	(92,946)	103,256
Liability for defined benefit obligations	(16,273)	(27,372)
Provisions	(57,726)	(77,008)
Other liabilities	434,299	20,751
	<u>(1,166,135)</u>	<u>661,003</u>
Income taxes paid	(168,413)	(183,385)
Interest received	1,710,710	1,771,431
Interest paid	(476,488)	(512,594)
Dividend paid	30,613	34,129
Net cash provided by (used in) operating activities	<u>(397,314)</u>	<u>1,439,901</u>
Cash flows from investing activities		
Decrease in restricted due from banks	176,773	-
Increase in restricted due from banks	-	(168,036)
Proceeds from disposal of available-for-sale financial assets	179,447	159,992
Proceeds from disposal of property and equipment	89	76
Acquisition of property and equipment	(16,064)	(34,969)
Proceeds from disposal of intangible assets	2,509	-
Acquisition of intangible assets	(11,377)	(12,342)
Decrease in guarantee deposits	17,762	10,980
Increase in guarantee deposits	(4,781)	(9,086)
Net cash provided by (used in) investing activities	<u>₩ 344,358</u>	<u>(53,385)</u>

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
For the years ended December 31, 2014 and 2013

(In millions of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Cash flows from financing activities			
Proceeds from call money	₩	-	50,000
Repayment of call money		(50,000)	-
Proceeds from borrowings		-	100,000
Repayment of borrowings		(542,800)	(280,000)
Proceeds from debentures		3,293,981	2,615,681
Repayment of debentures		(2,343,715)	(3,264,468)
Cash outflows from cash flow hedges		(20,980)	(26,154)
Dividends paid		(524,044)	(400,053)
Net cash used in financing activities		<u>(187,558)</u>	<u>(1,204,994)</u>
Effect of exchange rate fluctuations on cash and cash equivalents held			
		(6)	-
Net increase (decrease) in cash and cash equivalents		<u>(240,520)</u>	<u>181,522</u>
Cash and cash equivalents at beginning of year		614,550	433,028
Cash and cash equivalents at end of year	37 ₩	<u>374,030</u>	<u>614,550</u>

See accompanying notes to the consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the year ended December 31, 2014 and 2013

1. Reporting Entity

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

(a) Controlling company

The Controlling Company was incorporated on December 17, 1985. The address of the Company's registered office is Sogong-Ro 70, Jung-Gu, Seoul (Post Tower Chungmu-Ro 1Ga). The Company provides credit card services, factoring, installment financing and lease financing under the Credit Specialized Financial Business Act.

As of December 31, 2014, the Company has approximately 22 million personal credit card holders, 1.56 million merchants in its network and 33 branch offices. 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.

(b) Subsidiaries

As of December 31, 2014 and 2013 consolidated subsidiaries are summarized below.

Subsidiaries	Location	Fiscal year-end	Operating activities	2014		2013	
				Controlling interest	Non-controlling interest	Controlling interest	Non-controlling interest
Shinhan Card 2010-1	Republic of Korea	December 31	ABS	-	-	0.5%	99.5%
Shinhan Card 2011-1	"	"	"	-	-	"	"
Shinhan Card 2011-2	"	"	"	-	-	"	"
Shinhan Card 2011-3	"	"	"	0.5%	99.5%	"	"
Shinhan Card 2012-1	"	"	"	"	"	"	"
Shinhan Card 2013-1	"	"	"	"	"	"	"
Shinhan Card 2014-1	"	"	"	"	"	-	-
Shinhan Card 2014-2	"	"	"	"	"	-	-
MFO Shinhan Card	Kazakhstan	"	Installment, lease financing and credit loan	100%	-	-	-
Specified money in trusts	Republic of Korea	"	Trust asset management	100%	-	100%	-

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

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the year ended December 31, 2014 and 2013

1. Reporting Entity, Continued

(b) Subsidiaries, continued

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 Controlling Company can transfer additional credit card assets if it is difficult for subsidiaries to repay securitized debentures connected to the entities' underlying assets, except specified money in trust.

(c) Change in subsidiaries

(i) Newly acquired subsidiaries for the year ended December 31, 2014.

Subsidiaries	Reason
Shinhan Card 2014-1	New Investment
Shinhan Card 2014-2	New Investment
MFO Shinhan Card	New Investment

(ii) Subsidiaries that were excluded from consolidation during the year ended December 31, 2014.

Subsidiaries	Reason
Shinhan Card 2010-1	Liquidation
Shinhan Card 2011-1	Liquidation
Shinhan Card 2011-2	Liquidation

(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, 2014 and 2013 are ₩10 and ₩40 million, respectively. Non-controlling interests for consolidated structured entities are presented in the Group's consolidated statement of financial position as liabilities.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the year ended December 31, 2014 and 2013

1. Reporting Entity, Continued

(e) Condensed financial information for the Group's subsidiaries as of December 31, 2014 and 2013 are as follows:

2014					
Subsidiaries	Total assets	Total liabilities	Total equities	Net income (loss)	Total comprehensive income (loss)
Shinhan Card 2010-1	-	-	-	4,685	4,634
Shinhan Card 2011-1	-	-	-	7,784	8,237
Shinhan Card 2011-2	-	-	-	5,376	5,414
Shinhan Card 2011-3	534,894	541,958	(7,065)	(1,491)	(2,984)
Shinhan Card 2012-1	779,646	791,096	(11,450)	(1,531)	(3,884)
Shinhan Card 2013-1	585,192	592,968	(7,775)	(2,023)	(3,514)
Shinhan Card 2014-1	522,924	530,933	(8,010)	(4,302)	(8,010)
Shinhan Card 2014-2	895,257	906,645	(11,388)	(8,495)	(11,388)
MFO Shinhan Card	207	-	207	(4)	(7)
Specified money in trusts	363,020	-	363,020	20	20
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	84

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the year ended December 31, 2014 and 2013

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 4, 2015, which will be submitted for approval to the shareholder's meeting to be held on March 26, 2015.

(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 the Consolidated Financial Statements
For the year ended December 31, 2014 and 2013

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 following amendments to standards and new interpretation with a date of initial application of January 1, 2014. The nature of the changes are explained below.

(i) K-IFRS No. 1032, *Financial Instruments : Presentation*

The Group has applied the amendments to K-IFRS No. 1032, *Financial Instruments: Presentation* since January 1, 2014. The amendments require a financial asset and a financial liability shall be offset and net amount presented in the statement of financial position when, and only when, an entity currently has a legally enforceable right to set off the recognized amount and intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

A legally enforceable right means that the right to set-off should not be contingent on a future event and must be legally enforceable in the normal course of business, and in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties.

To meet the net settlement criterion, an entity should settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement. This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. There is no impact on the Group's consolidated financial statements upon adoption of the amendments.

(ii) K-IFRS No. 2121, *Levies*

The Group adopted K-IFRS No. 2121, *Levies* since January 1, 2014. The interpretation defines that the obligation event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by legislation. The liability to pay a levy is recognized progressively if the obligation event occurs over a period time and if an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognized when that minimum activity threshold is reached. The adoption of the interpretation had no material impact on the Group's consolidated financial statements.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the year ended December 31, 2014 and 2013

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

(iii) 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.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the year ended December 31, 2014 and 2013

3. Significant Accounting Policies, Continued

(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.

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.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the year ended December 31, 2014 and 2013

3. Significant Accounting Policies, Continued

(d) Non-derivative financial assets, continued

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

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

Offsetting

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

(e) Derivative financial 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.

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3. Significant Accounting Policies, Continued

(e) Derivative financial assets, continued

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.

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.

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3. Significant Accounting Policies, Continued

(f) Fair value of financial instruments, continued

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.

(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.

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3. Significant Accounting Policies, Continued

(g) Impairment of financial assets, continued

Loans and receivables

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.

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.

(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.

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3. Significant Accounting Policies, Continued

(g) Impairment of financial assets, continued

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.

(h) Property and equipment

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

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

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

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

The estimated useful lives and depreciation methods are as follows:

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

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

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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.

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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 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.

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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.

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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.

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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.

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3. Significant Accounting Policies, Continued

(o) Foreign currency

(i) 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. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. 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 is determined.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation (see iii) below), or in a qualifying cash flow hedge, which are recognized in other comprehensive income. 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.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(iii) Translation of the net investment in foreign operations

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

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3. Significant Accounting Policies, Continued

(p) Share capital

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

(q) Share-based payment transactions

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

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

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

(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.

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3. Significant Accounting Policies, Continued

(s) Customer loyalty programmes

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

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

(t) Finance income and finance costs

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

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

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

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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.

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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, 2014, and the Group has not early adopted them.

Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

(i) K-IFRS No. 1019, *Employee Benefits – Employee contributions*

Amendments to K-IFRS No. 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

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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 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. 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, which encompasses the Group's entire risk appetite.

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 product. If total risk exceeds 95% of its limit, 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 Group's holding company, it is adjustable by resolution of the Risk Management Committee within the range of total risk limits. In case of risk limits by product, after prepared countermeasures, it is adjustable by resolution of the Risk Management Council.

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4. Financial Risk Management, Continued

(a) General information of risk management, continued

(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 credit quality of members (credit ratings). 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 reporting

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 / 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 of such items 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 and the stage of crisis is determined quantitatively. Risk management working-level committee performs analysis of qualitative information and risk management council, consisting heads of departments decides whether to perform entity-wide impact analysis.

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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 implemented. For the purpose of efficient operation of the Enterprise Crisis Management System, detailed roles and responsibilities for each organization are predefined. Crisis management organizations consist of a Risk management working-level committee which performs daily monitoring, risk management council, consisting heads of departments which is convened when the crisis stage is assessed as above the Cautionary 2 two times in succession. In addition, the Group has Risk Management Council, Crisis Management Council headed by the CEO, and Group Crisis Management Council, headed by the CEO of the Shinhan Financial Group. These organizations and their detailed roles and responsibilities enable the Group to cope with crisis systematically.

(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. If the basic qualification standards are not met, credit card issuance is prohibited. When standards are met, 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 prevents 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 considering 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.

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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, and established an action plan in case that credit risks get close to, or exceed limits.

(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, 2014 and 2013 are as follows. Cash held by the Group is excluded.

	<u>2014</u>	<u>2013</u>
Due from banks and loans and receivables(*)		
Banks	₩ 779,337	1,186,093
Household		
Credit sales	10,228,767	9,839,308
Cash advances	2,072,606	2,221,865
Card loans	4,032,411	3,860,531
Installment finance and others	2,201,854	1,839,837
Government/Public institution/ the Bank of Korea	139,434	137,703
Corporate	1,120,948	1,048,165
	<u>20,575,357</u>	<u>20,133,502</u>
Available-for-sale financial assets		
Debt securities	1,879	2,068
	<u>20,577,236</u>	<u>20,135,570</u>
Derivative financial assets	39,183	2,377
Other assets(*)		
Other financial assets	379,732	412,239
	<u>₩ 20,996,151</u>	<u>20,550,186</u>

(*) The maximum exposure amounts for due from banks and loans and other financial assets are recorded as net of allowance for doubtful accounts and deferred loan origination costs.

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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.

		2014			
		Neither past due nor impaired	Past due but not impaired	Impaired	Total
Banks	₩	777,784	1,587	-	779,371
Household					
Credit sales		10,158,716	224,229	100,021	10,482,966
Cash advances		2,079,471	78,458	67,531	2,225,460
Card loans		4,042,967	108,714	85,106	4,236,787
Installment finance and others		2,025,115	48,349	244,740	2,318,204
		<u>18,306,269</u>	<u>459,750</u>	<u>497,398</u>	<u>19,263,417</u>
Government/Public institution/ the Bank of Korea		114,349	26,300	33	140,682
Corporate		1,063,045	62,622	5,297	1,130,964
		<u>20,261,447</u>	<u>550,259</u>	<u>502,728</u>	<u>21,314,434</u>
Allowance for doubtful accounts		(346,795)	(74,026)	(316,377)	(737,198)
	₩	<u>19,914,652</u>	<u>476,233</u>	<u>186,351</u>	<u>20,577,236</u>
		2013			
		Neither past due nor impaired	Past due but not impaired	Impaired	Total
Banks	₩	1,186,107	-	-	1,186,107
Household					
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
		<u>17,447,472</u>	<u>517,629</u>	<u>447,967</u>	<u>18,413,068</u>
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>

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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 categories. In case of individual customers, on the basis of internal credit rating, when the bad debt expense ratio is less than earnings before bad debt expense ratio, the loans and receivables are determined to be "outstanding" category and the others are determined to be "normal" category. In case of corporate customers, 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, 2014 and 2013 are as follows:

		2014		
		Outstanding	Normal	Total(*)
Banks	₩	777,082	693	777,775
Household				
Credit sales		9,122,505	891,889	10,014,394
Cash advances		1,458,244	539,609	1,997,853
Card loans		3,309,833	623,336	3,933,169
Installment finance and others		1,861,206	157,669	2,018,875
		<u>15,751,788</u>	<u>2,212,503</u>	<u>17,964,291</u>
Government/Public institution/ the Bank of Korea		107,117	6,644	113,761
Corporate		525,123	533,702	1,058,825
	₩	<u>17,161,110</u>	<u>2,753,542</u>	<u>19,914,652</u>

(*) The amounts are recorded as net of allowance for doubtful accounts and deferred loan origination costs.

		2013		
		Outstanding	Normal	Total(*)
Banks	₩	1,185,392	702	1,186,094
Household				
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
		<u>14,794,708</u>	<u>2,330,243</u>	<u>17,124,951</u>
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>

(*) The amounts are recorded as net of allowance for doubtful accounts and deferred loan origination costs.

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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 demonstrate that this is not the case. Analysis of the aging of financial assets that are past due but not impaired as of December 31, 2014 and 2013 are as follows:

		2014			
		In 30 days	After 30 days through 60 days	After 60 days through 90 days	Total(*)
Banks	₩	1,562	-	-	1,562
Household					
Credit sales		184,716	8,472	2,830	196,018
Cash advances		55,733	3,739	1,433	60,905
Card loans		76,341	5,434	2,114	83,889
Installment finance and others		44,239	2,060	681	46,980
		<u>361,029</u>	<u>19,705</u>	<u>7,058</u>	<u>387,792</u>
Government/Public institution/ the Bank of Korea		23,745	1,694	226	25,665
Corporate		58,385	2,063	766	61,214
	₩	<u>444,721</u>	<u>23,462</u>	<u>8,050</u>	<u>476,233</u>

(*) The amounts are recorded as net of allowance for doubtful accounts and deferred loan origination costs.

		2013			
		In 30 days	After 30 days through 60 days	After 60 days through 90 days	Total(*)
Banks	₩	-	-	-	-
Household					
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
		<u>405,267</u>	<u>26,021</u>	<u>8,735</u>	<u>440,023</u>
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>

(*) The amounts are recorded as net of allowance for doubtful accounts and deferred loan origination costs.

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4. Financial Risk Management, Continued

(b) Credit risk, continued

(v) Analysis of financial assets that are individually and collectively 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 and collectively determined to be impaired as of December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
Financial assets that are individually determined to be impaired	Debt securities ₩	1,879	2,068
Financial assets that are collectively determined to be impaired	Loans and receivables	184,472	197,431
	₩	<u>186,351</u>	<u>199,499</u>

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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, 2014 and 2013 are as follows:

		2014								
		Finance and insurance	Manufacturing	Retail and wholesale	Real estate and service	Construction	Hotel and leisure	Other	Retail customer	Total
Bank	₩	779,337	-	-	-	-	-	-	-	779,337
Household		-	-	-	-	-	-	-	18,535,638	18,535,638
Credit sales		-	-	-	-	-	-	-	10,228,767	10,228,767
Cash advances		-	-	-	-	-	-	-	2,072,606	2,072,606
Card loans		-	-	-	-	-	-	-	4,032,411	4,032,411
Installment finance and others		-	-	-	-	-	-	-	2,201,854	2,201,854
Government/Public institution/the Bank of Korea		17,037	408	418	2,662	329	41	118,539	-	139,434
Corporate		33,858	227,885	180,965	38,894	97,849	7,356	536,020	-	1,122,827
	₩	<u>830,232</u>	<u>228,293</u>	<u>181,383</u>	<u>41,556</u>	<u>98,178</u>	<u>7,397</u>	<u>654,559</u>	<u>18,535,638</u>	<u>20,577,236</u>

		2013								
		Finance and insurance	Manufacturing	Retail and wholesale	Real estate and service	Construction	Hotel and leisure	Other	Retail customer	Total
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>

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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 at which the Group could pay its obligations in the next 3 months. Real liquidity gap ratio of maturity of financial assets and liabilities, liquidity buffer ratio and ABS to borrowings ratio 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, 2014 and 2013 are as follows. Such undiscounted contractual cash flows differ from the discounted amount included in the consolidated statement of financial position.

		2014						
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Over 5 years	Total
Assets:								
Cash and due from banks	₩	411,760	1,000	-	338	-	-	413,098
Loans		8,953,239	4,826,364	2,431,540	2,423,174	3,062,686	281,388	21,978,391
Trading financial assets		230,200	-	-	-	-	-	230,200
Available-for-sale financial assets		-	-	-	-	-	522,512	522,512
Other financial assets		337,990	-	-	-	-	59,129	397,119
		<u>9,933,189</u>	<u>4,827,364</u>	<u>2,431,540</u>	<u>2,423,512</u>	<u>3,062,686</u>	<u>863,029</u>	<u>23,541,320</u>
Liabilities:								
Borrowings		51,232	63,675	6,903	187,990	926,385	-	1,236,185
Debentures		50,295	267,469	1,272,582	2,074,918	8,422,431	102,164	12,189,859
Other financial liabilities		2,271,572	14,749	22,617	36,429	158,698	41,792	2,545,857
		<u>2,373,099</u>	<u>345,893</u>	<u>1,302,102</u>	<u>2,299,337</u>	<u>9,507,514</u>	<u>143,956</u>	<u>15,971,901</u>
	₩	<u>7,560,090</u>	<u>4,481,471</u>	<u>1,129,438</u>	<u>124,175</u>	<u>(6,444,828)</u>	<u>719,073</u>	<u>7,569,419</u>

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4. Financial Risk Management, Continued

(c) Liquidity risk, continued

(i) Non-derivatives, continued

	2013						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Over 5 years	
Assets:							
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>
Liabilities:							
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>7,666,680</u>	<u>3,454,459</u>	<u>1,667,752</u>	<u>871,196</u>	<u>(7,131,107)</u>	<u>905,242</u>	<u>7,434,222</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, 2014 and 2013 that shows remaining contractual maturities are as follows:

		2014					
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Total
Net settlement							
cash outflow	₩	(847)	(869)	(1,916)	(3,720)	(7,536)	(14,888)
Gross settlement							
cash inflow		1,309	3,116	59,838	505,653	1,465,933	2,035,849
Gross settlement							
cash outflow		(3,689)	(7,687)	(65,561)	(526,911)	(1,446,003)	(2,049,851)
	₩	<u>(3,227)</u>	<u>(5,440)</u>	<u>(7,639)</u>	<u>(24,978)</u>	<u>12,394</u>	<u>(28,890)</u>
		2013					
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	Total
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)
	₩	<u>(12,774)</u>	<u>(20,990)</u>	<u>(11,255)</u>	<u>(9,212)</u>	<u>(84,990)</u>	<u>(139,221)</u>

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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 and available-for-sale financial assets that are exposed to the respective risks, as of December 31, 2014 and 2013:

		2014			
		Average	Maximum	Minimum	At December 31
Interest rate	₩	754	1,300	400	1,150
		2013			
		Average	Maximum	Minimum	At December 31
Interest rate	₩	233	750	150	150

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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 actual 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, 2014 and 2013 are as follows:

		2014	2013
Interest rate VaR	₩	299,816	285,352
Interest rate EaR		23,458	17,040

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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. Variance effect is calculated based on the difference between the total VaR and the sum of price risk and foreign exchange rate risk.

Equity price risk and foreign exchange rate risk of non-trading positions as of December 31, 2014 and 2013 are as follows:

		2014			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>At December 31</u>
Equity price risk	₩	42,333	48,580	35,419	41,118
Foreign exchange rate risk		14,828	16,847	12,510	14,741
Variance effect		(1,246)	(1,398)	(1,048)	(1,216)
Total VaR	₩	<u>55,915</u>	<u>64,029</u>	<u>46,881</u>	<u>54,643</u>
		2013			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>At December 31</u>
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>

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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, 2014 and 2013 are as follows:

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

	2014			
	Foreign currency		Won equivalent	
	U.S. dollar	Kazakhstan Tenge		
Deposit	USD	185 KZT	710 ₩	207
Available-for-sale financial assets		453,163	-	498,116
Debentures		(1,800,000)	-	(1,978,560)
On-balance exposure		(1,346,652)	710	(1,480,237)
Off-balance derivative exposure		1,800,000	-	1,978,560
Net position	USD	<u>453,348</u> KZT	<u>710</u> ₩	<u>498,323</u>

	2013		
	Foreign currency		Won equivalent
	U.S. dollar		
Available-for-sale financial assets	USD	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> ₩	<u>583,469</u>

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4. Financial Risk Management, Continued

(e) Capital risk management

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 Credit Specialized Financial Business Act. Accordingly, the Group should obey the Regulations on Supervision of Credit Specialized Financial Business. The regulations require the Group to maintain an adjusted equity capital ratio of more than 8%. Adjusted total assets and adjusted equity capital for the ratio are based on the separate statements of financial position and calculated pursuant to supervisory authorities stipulated that considered the nature of credit card business. The Group observes ratios of adjusted equity capital requirements regulated by the Credit Specialized Financial Business and as of December 31, 2014, the Group met the regulatory requirement for the adjusted equity capital ratio.

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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 is 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)

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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:

	Fair value measurement methods
Trading financial assets	In case that the market of a financial instrument is active, fair value is established at the close quoted price as of the last day for the reporting period. The fair value of investments in money market funds is determined by the sum of acquisition cost and accrued interest.
Derivative assets Derivative liabilities	In case that the market of a financial instrument is active, fair value is established at the close quoted price as of the last day for the reporting period. If the market is not active, fair value is determined at the amount which is present value of the future cash flow reasonably estimated considering the counterparty's credit risk and discounted by the appropriate rate such as a risk free rate. 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, 2014 and 2013 are summarized as follows:

		2014			
		Level 1	Level 2	Level 3	Total
Financial assets					
Equity securities held for trading	₩	-	230,027	-	230,027
Derivative financial assets for hedge		-	39,021	162	39,183
Available-for-sale debt securities		-	-	1,879	1,879
Available-for-sale equity securities		498,115	-	22,518	520,633
	₩	<u>498,115</u>	<u>269,048</u>	<u>24,559</u>	<u>791,722</u>
Financial liabilities					
Derivative financial liabilities for hedge	₩	-	56,331	-	56,331
		2013			
		Level 1	Level 2	Level 3	Total
Financial assets					
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>
Financial liabilities					
Derivative financial liabilities for hedge	₩	-	105,675	-	105,675

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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. Changes of fair value measurement in level 3 for the years ended December 31, 2014 and 2013 are as follows:

		Derivative financial assets	Available-for- sale debt securities	Available-for- sale equity securities	Total
Balance at January 1, 2014	₩	960	2,068	23,303	26,331
Reversal of impairment loss		-	13,295	-	13,295
Other comprehensive loss		(798)	-	(785)	(1,583)
Disposition		-	(13,484)	-	(13,484)
Balance at December 31, 2014	₩	<u>162</u>	<u>1,879</u>	<u>22,518</u>	<u>24,559</u>
Balance at January 1, 2013	₩	2,108	3,869	482,671	488,648
Reversal of impairment loss		-	12,843	-	12,843
Other comprehensive income (loss)		(1,148)	-	1,944	(796)
Disposition		-	(14,644)	(1)	(14,645)
Transfer between each level of fair value hierarchy		-	-	(461,311)	(461,311)
Balance at December 31, 2013	₩	<u>960</u>	<u>2,068</u>	<u>23,303</u>	<u>26,331</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, 2014 and 2013 are as follows:

		2014		
Valuation techniques	Type of financial instruments	Book value	Significant unobservable inputs	Range of estimates for unobservable inputs
Derivative assets:				
Option model (Hull & White model)	Interest rates related	₩ 162	Regression coefficient, The volatility of the underlying asset	0.43%~2.05%
Available-for-sale financial assets:				
Net asset value	Debt securities	1,879	Discount rate Growth rate	0.00%
Discounted cash flow	Equity securities	21,055	Discount rate Growth rate	6.03%~23.25% 0.00%
Cost method	Equity securities	1,463	Acquisition cost	-
		<u>24,397</u>		
		<u>₩ 24,559</u>		

		2013		
Valuation techniques	Type of financial instruments	Book value	Significant unobservable inputs	Range of estimates for unobservable inputs
Derivative assets:				
Option model (Hull & White model)	Interest rates related	₩ 960	Regression coefficient, The volatility of the underlying asset	0.86%~0.99%
Available-for-sale financial assets:				
Net asset value	Debt securities	2,068	Discount rate Growth rate	0.00%
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	-
		<u>25,371</u>		
		<u>₩ 26,331</u>		

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6. Fair Value Measurement of Financial Instruments, Continued

(a) Financial instruments measured at fair value, continued

(v) Sensitivity to changes in unobservable inputs

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

Type of financial instrument		2014	
		Favorable change	Unfavorable change
Derivative assets(*1)	₩	1	(2)
Available-for-sale financial assets(*2)		1,102	(920)
	₩	1,103	(922)

(*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:

	Fair value measurement methods
Cash and due from banks	Carrying amount of cash is the same as fair value. Carrying amount (matured within three months at acquisition date) is used as approximation of fair value for cash equivalents. Fair value of other due from banks is present value of expected cash flows discounted by the rate considering market interest rate and spread.
Loans and receivables	Fair value of loans and receivables is the 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 the 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 the present value of expected cash flows discounted by the rate considering market interest rate and the Group's credit ratings.
Debentures	Where 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 the 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 the 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 for 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, 2014 and 2013 are as follows:

		2014				Fair value
		Carrying amount			Total	
		Balance	Deferred loan origination costs and others	Allowance for doubtful accounts		
Financial assets						
Deposits	₩	413,098	-	-	413,098	413,101
Credit card assets		18,070,836	(39,372)	(720,403)	17,311,061	17,585,845
Loans		529,921	948	(411)	530,458	529,724
Installment assets		1,598,956	23,478	(14,056)	1,608,378	1,623,591
Lease assets		714,816	(126)	(2,328)	712,362	717,492
Other assets		397,119	(1,596)	(15,791)	379,732	380,122
	₩	<u>21,724,746</u>	<u>(16,668)</u>	<u>(752,989)</u>	<u>20,955,089</u>	<u>21,249,875</u>
Financial liabilities						
Borrowings	₩	1,190,000	-	-	1,190,000	1,215,632
Debentures in won		9,360,000	(19,997)	-	9,340,003	9,530,768
Debentures in foreign currency		1,978,560	(9,831)	-	1,968,729	1,982,756
Other liabilities		2,545,857	(12,118)	-	2,533,739	2,494,625
	₩	<u>15,074,417</u>	<u>(41,946)</u>	<u>-</u>	<u>15,032,471</u>	<u>15,223,781</u>
		2013				
		Carrying amount			Total	Fair value
		Balance	Deferred loan origination costs and others	Allowance for doubtful accounts		
Financial assets						
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
	₩	<u>21,244,686</u>	<u>(25,522)</u>	<u>(673,423)</u>	<u>20,545,741</u>	<u>20,795,686</u>
Financial liabilities						
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
	₩	<u>14,476,387</u>	<u>(44,426)</u>	<u>-</u>	<u>14,431,961</u>	<u>14,596,782</u>

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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, 2014 and 2013 are as follows:

		2014			
		Level 1	Level 2	Level 3	Total
Financial assets					
Deposits	₩	413,101	-	-	413,101
Credit card Assets		-	-	17,585,845	17,585,845
Loans		-	-	529,724	529,724
Installment assets		-	-	1,623,591	1,623,591
Lease assets		-	-	717,492	717,492
Other assets		-	-	380,122	380,122
	₩	<u>413,101</u>	<u>-</u>	<u>20,836,774</u>	<u>21,249,875</u>
Financial liabilities:					
			-		
Borrowings	₩	-	-	1,215,632	1,215,632
Debentures in won		-	-	9,530,768	9,530,768
Debentures in foreign currency		-	-	1,982,756	1,982,756
Other liabilities		-	-	2,494,625	2,494,625
	₩	<u>-</u>	<u>-</u>	<u>15,223,781</u>	<u>15,223,781</u>
		2013			
		Level 1	Level 2	Level 3	Total
Financial assets					
Deposits	₩	829,054	1,338	-	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>829,054</u>	<u>1,338</u>	<u>19,965,294</u>	<u>20,795,686</u>
Financial liabilities:					
			-		
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>

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7. Categories of Financial Instruments

(a) The carrying amounts of the categories of financial assets as of December 31, 2014 and 2013 are summarized as follows:

2014					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Derivative for hedge	Total
Cash and due from banks	₩ -	413,098	-	-	413,098
Trading financial assets	230,027	-	-	-	230,027
Derivative assets	-	-	-	39,183	39,183
Loans and receivables	-	20,162,259	-	-	20,162,259
Available-for-sale financial assets	-	-	522,512	-	522,512
Other assets	-	379,732	-	-	379,732
	₩ 230,027	20,955,089	522,512	39,183	21,746,811

2013					
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Derivative for hedge	Total
Cash and due from banks	₩ -	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

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7. Categories of Financial Instrument, Continued

(b) The carrying amounts of the categories of financial liabilities as of December 31, 2014 and 2013 are summarized as follows:

	2014		
	Financial liabilities measured at amortized cost	Derivative for hedge	Total
Derivative liabilities	₩ -	56,331	56,331
Borrowings	1,190,000	-	1,190,000
Debentures	11,308,732	-	11,308,732
Other liabilities	2,533,739	-	2,533,739
	₩ <u>15,032,471</u>	<u>56,331</u>	<u>15,088,802</u>

	2013		
	Financial liabilities measured at amortized cost	Derivative for hedge	Total
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>

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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, 2014 and 2013 are as follows:

		2014							
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Impairment loss	Other operating income, net	Net income	Other comprehensive income (loss)
Financial assets:									
Financial assets at fair value through profit or loss									
₩	-	-	-	-	-	-	1,223	1,223	-
Loans and receivables									
	1,865,557	-	2,300,321	(2,043,042)	(420,305)	21,593	1,724,124	-	-
Available-for-sale financial assets									
	-	-	-	-	13,295	157,326	170,621	(58,746)	-
Derivative for hedge									
	-	-	-	-	-	60,390	60,390	(6,445)	-
	<u>1,865,557</u>	<u>-</u>	<u>2,300,321</u>	<u>(2,043,042)</u>	<u>(407,010)</u>	<u>240,532</u>	<u>1,956,358</u>	<u>(65,191)</u>	
Financial liabilities:									
Financial liabilities measured at amortized cost									
	-	(492,592)	-	-	-	(95,935)	(588,527)	-	-
Derivative for hedge									
	-	-	-	-	-	36,015	36,015	(17,232)	-
	<u>-</u>	<u>(492,592)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(59,920)</u>	<u>(552,512)</u>	<u>(17,232)</u>	
₩	<u>1,865,557</u>	<u>(492,592)</u>	<u>2,300,321</u>	<u>(2,043,042)</u>	<u>(407,010)</u>	<u>180,612</u>	<u>1,403,846</u>	<u>(82,423)</u>	
		2013							
		Interest income	Interest expense	Fee and commission income	Fee and commission expense	Impairment loss	Other operating income, net	Net income	Other comprehensive income
Financial assets:									
Financial assets at fair value through profit or loss									
₩	-	-	-	-	-	-	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>	
Financial liabilities:									
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 Instrument, Continued

(d) The amounts of foreign exchange differences recognized in profit or loss for each category of financial instruments for the years ended December 31, 2014 and 2013 are as follows:

		2014		2013	
		Gain on foreign currency transaction	Loss on foreign currency transaction	Gain on foreign currency transaction	Loss on foreign currency transaction
Loans and receivables	₩	24,781	(3,188)	19,854	(2,702)
Financial liabilities measured at amortized cost		2,860	(98,795)	43,013	(5,707)
	₩	27,641	(101,983)	62,867	(8,409)

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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, 2014 and 2013 are as follows:

		2014					
		Gross amounts recognized	Gross amounts recognized for offsetting	Net amounts of financial instruments	Amounts related to not offsetting		Net amount
					Financial instruments	Cash collateral received	
Financial assets:							
Derivatives	₩	39,183	-	39,183	29,521	-	9,662
Repurchase agreements(*)		363,000	-	363,000	363,000	-	-
Financial liabilities:							
Derivatives		56,331	-	56,331	29,521	-	26,810
		2013					
		Gross amounts recognized	Gross amounts recognized for offsetting	Net amounts of financial instruments	Amounts related to not offsetting		Net amount
					Financial instruments	Cash collateral received	
Financial assets:							
Derivatives	₩	2,377	-	2,377	1,363	-	1,014
Repurchase agreements(*)		353,000	-	353,000	353,000	-	-
Financial liabilities:							
Derivatives		105,675	-	105,675	1,363	-	104,312

(*) 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 by financial service type for the years ended December 31, 2014 and 2013 are as follows:

		2014				
		Credit card	Installment financing	Leasing	Others	Total
Interest income	₩	1,719,093	84,180	36,615	25,669	1,865,557
Fee and commission income		2,240,777	3,668	3,932	51,944	2,300,321
Other operating income		24,222	355	213	406,090	430,880
	₩	<u>3,984,092</u>	<u>88,203</u>	<u>40,760</u>	<u>483,703</u>	<u>4,596,758</u>

		2013				
		Credit card	Installment financing	Leasing	Others	Total
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) Revenues from external customers for the years ended December 31, 2014 and 2013 are attributed to the Republic of Korea, the Group's country of domicile.
- (c) There is no single external customer with whom revenues amount to 10 percent or more of the Group's revenues for the years ended December 31, 2014 and 2013.

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10. Cash and Due from Banks

(a) Details of cash and due from banks as of December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
Deposits in won:			
Deposits on demand	₩	368,473	264,491
Current deposits		4,450	19,159
Foreign currency deposits		207	-
Deposits on demand of SPC		38,593	215,366
Time deposits		1,338	1,338
Deposit for checking accounts		37	37
Others		-	330,000
	₩	<u>413,098</u>	<u>830,391</u>

(b) Restricted due from banks as of December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</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
		38,593	215,366	Deposits on demand of SPC
		<u>38,630</u>	<u>215,403</u>	
	₩	<u>39,068</u>	<u>215,841</u>	

11. Trading Financial Assets

(a) Details of trading financial assets as of December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
MMF (Money Market Fund) and others	₩	230,027	30,009

(b) Net income on trading financial assets for the years ended December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
Gain on valuation of trading financial assets	₩	27	9
Gain on sale of trading financial assets		1,196	436
	₩	<u>1,223</u>	<u>445</u>

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12. Derivatives and Hedge Accounting

(a) Derivative assets and liabilities

The notional amounts and fair values of derivative assets and liabilities as of December 31, 2014 and 2013 are as follows:

	2014			2013		
	Notional amounts	Fair value		Notional amounts	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency rate swap	₩ 1,978,560	38,964	42,510	1,582,950	-	102,228
Interest rate swap	1,100,000	219	13,821	1,220,000	2,377	3,447
	₩ 3,078,560	39,183	56,331	2,802,950	2,377	105,675

(b) Gain (loss) on derivatives

Gain (loss) on derivatives for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Gain on valuation of derivatives	₩ 85,660	-
Gain on transaction of derivatives	16,075	5,433
	101,735	5,433
Loss on valuation of derivatives	-	(36,720)
Loss on transaction of derivatives	(5,330)	(6,292)
	(5,330)	(43,012)
	₩ 96,405	(37,579)

(c) Cash flow hedge activity

For cash flow hedges, the amount that was recognized in other comprehensive income and the amount that was reclassified from equity to profit or loss for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Recognized in other comprehensive income	₩ 65,170	(27,036)
Reclassified from equity to profit or loss	(96,405)	37,580
Deferred tax effect	7,558	(2,552)
Changes in accumulated other comprehensive income, net	₩ (23,677)	7,992

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13. Loans and Receivables

(a) Details of loans and receivables as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Credit card assets:		
Lump-sum purchases	₩ 4,844,102	4,662,211
Installment purchases	5,164,403	4,896,377
Cash advances	1,979,049	2,088,576
Revolving cash advances	241,729	278,417
Revolving purchases	1,186,744	1,205,838
Card loans	4,236,787	4,035,806
Restructured loans	236,582	224,780
Purchasing card	181,440	190,857
Less : Allowance for doubtful accounts	(720,403)	(646,592)
Present value discount account	(19,136)	(13,267)
Deferred loan origination costs	(20,236)	(20,056)
	<u>17,311,061</u>	<u>16,902,947</u>
Loans:		
General loans	9,899	7,730
Bonds purchased under resale agreements	363,000	353,000
Loans to employee stock ownership association	3	501
Factoring receivables	153,727	194,753
Other	3,292	6,669
Less : Allowance for doubtful accounts	(411)	(680)
Deferred loan origination fees	948	1,338
	<u>530,458</u>	<u>563,311</u>
Installment financing assets:		
Installment for cars	1,598,184	1,211,896
Installment for houses	381	619
Installment for others	391	122
Less : Allowance for doubtful accounts	(14,056)	(10,560)
Deferred loan origination fees	23,478	9,493
	<u>1,608,378</u>	<u>1,211,570</u>
Lease assets:		
Financing lease receivables	714,696	627,430
Cancelled financing lease receivables	120	119
Less : Allowance for doubtful accounts	(2,328)	(1,937)
Deferred loan origination costs	(126)	(329)
	<u>712,362</u>	<u>625,283</u>
	<u>₩ 20,162,259</u>	<u>19,303,111</u>

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13. Loans and Receivables, Continued

- (b) Changes in the allowance for loans and receivables for the years ended December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
Beginning balance	₩	659,769	759,443
Provision for allowance		395,293	339,816
Write-offs		(506,067)	(619,230)
Unwinding effect		(350)	(1,232)
Allowance related to disposal of loans		(2,255)	(45,984)
Recoveries		185,968	222,024
Others		4,840	4,932
Ending balance	₩	<u>737,198</u>	<u>659,769</u>

- (c) Finance lease assets

As of December 31, 2014 and 2013, total investments in financing leases and the present value of minimum lease payments for each of the following years are as follows:

		<u>2014</u>		
		<u>Total investment</u>	<u>Unrealized interest income</u>	<u>Present value of minimum lease payment</u>
Less than one year	₩	322,829	36,687	286,142
One year to five years		446,965	18,291	428,674
	₩	<u>769,794</u>	<u>54,978</u>	<u>714,816</u>
		<u>2013</u>		
		<u>Total investment</u>	<u>Unrealized interest income</u>	<u>Present value of minimum lease payment</u>
Less than one year	₩	317,222	30,224	286,998
One year to five years		358,005	17,454	340,551
	₩	<u>675,227</u>	<u>47,678</u>	<u>627,549</u>

- (d) Changes in deferred loan origination fees (costs)

Changes in deferred loan origination fees (costs) for the years ended December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
Beginning balance	₩	(9,554)	(25,403)
Increase		(24,258)	(35,696)
Decrease		37,876	51,545
Ending balance	₩	<u>4,064</u>	<u>(9,554)</u>

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14. Available-for-Sale Financial Assets

(a) Details of available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
Debt securities			
Corporate bonds	₩	1,879	2,068
Equity securities(*)			
Stock		520,630	606,769
Equity investments		2	2
Beneficiary certificates		1	1
		<u>520,633</u>	<u>606,772</u>
	₩	<u>522,512</u>	<u>608,840</u>

(*) Equity security investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. The carrying amount of the entities, on the cost basis of accounting, is ₩1,463 million as of December 31, 2014 and 2013.

(b) Changes in available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

		<u>2014</u>			<u>2013</u>		
		<u>Debt securities</u>	<u>Equity securities</u>	<u>Total</u>	<u>Debt securities</u>	<u>Equity securities</u>	<u>Total</u>
Beginning balance	₩	2,068	606,772	608,840	3,869	482,671	486,540
Disposal		(13,484)	(153,577)	(167,061)	(14,644)	(137,187)	(151,831)
Changes in fair value of available-for-sale financial assets		-	48,665	48,665	-	269,686	269,686
Exchange differences		-	18,773	18,773	-	(8,398)	(8,398)
Reversal of impairment loss		13,295	-	13,295	12,843	-	12,843
Ending balance	₩	<u>1,879</u>	<u>520,633</u>	<u>522,512</u>	<u>2,068</u>	<u>606,772</u>	<u>608,840</u>

(c) Gain on sale of available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
Gain on sale of available-for-sale financial assets	₩	157,326	128,744

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15. Property and Equipment

(a) Details of Property and equipment as of December 31, 2014 and 2013 are as follows:

2014				
	Land	Buildings	Other	Total
Acquisition cost	₩ 31,176	7,280	354,156	392,612
Accumulated depreciation	-	(1,261)	(290,260)	(291,521)
Ending balance	₩ 31,176	6,019	63,896	101,091

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

(b) Changes in property and equipment for the years ended December 31, 2014 and 2013 are as follows:

2014				
	Land	Buildings	Other	Total
Beginning balance	₩ 31,176	6,271	84,624	122,071
Acquisition	-	-	16,064	16,064
Disposal	-	-	(78)	(78)
Depreciation	-	(252)	(37,099)	(37,351)
Others	-	-	385	385
Ending balance	₩ 31,176	6,019	63,896	101,091

2013				
	Land	Buildings	Other	Total
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

(c) Insured Assets

Insured assets as of December 31, 2014 is summarized as follows:

Type of insurance	Assets covered	Insurance company	Amount covered
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, 2014 and 2013 are as follows:

		2014			
		Club memberships	Development cost	Other	Total
Acquisition cost	₩	17,499	89,613	7,679	114,791
Accumulated amortization		-	(49,057)	(4,716)	(53,773)
Impairment losses		(2,301)	-	-	(2,301)
Ending balance	₩	<u>15,198</u>	<u>40,556</u>	<u>2,963</u>	<u>58,717</u>
		2013			
		Club memberships	Development cost	Other	Total
Acquisition cost	₩	15,830	83,692	7,559	107,081
Accumulated amortization		-	(28,279)	(2,904)	(31,183)
Impairment losses		(3,334)	-	-	(3,334)
Ending balance	₩	<u>12,496</u>	<u>55,413</u>	<u>4,655</u>	<u>72,564</u>

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16. Intangible Assets, Continued

(b) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows:

		2014			
		Club memberships	Development cost	Other	Total
Beginning balance	₩	12,496	55,413	4,655	72,564
Acquisition		5,265	6,073	39	11,377
Substitution		-	(152)	81	(71)
Disposal		(1,974)	-	-	(1,974)
Amortization		-	(20,778)	(1,812)	(22,590)
Impairment loss		(619)	-	-	(619)
Impairment reversal		30	-	-	30
Ending balance	₩	<u>15,198</u>	<u>40,556</u>	<u>2,963</u>	<u>58,717</u>

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

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17. Other Assets

(a) Other assets as of December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Guarantee deposits	₩ 59,128	72,109
Present value discount account	(1,596)	(2,701)
Accounts receivable	243,455	262,816
Allowance for doubtful accounts	(5,167)	(3,619)
Accrued income	91,632	91,157
Allowance for doubtful accounts	(10,624)	(10,035)
Advance payments	187,887	110,907
Prepaid expenses	18,294	40,690
Others	3,332	1,809
	₩ <u>586,341</u>	<u>563,133</u>

(b) Changes in allowance for other assets for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	₩ 13,654	17,954
Provision for allowance	25,012	21,716
Write-offs	(26,710)	(28,314)
Recoveries	3,835	2,298
Ending balance	₩ <u>15,791</u>	<u>13,654</u>

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18. Borrowings

Borrowings as of December 31, 2014 and 2013 are summarized as follows:

	<u>Interest rate (%)</u>	<u>2014</u>	<u>2013</u>
Call money	2.75	₩ -	50,000
Borrowings:			
Commercial paper	2.38~3.83	440,000	1,012,800
Borrowings from Shinhan Financial Group	4.12~4.91	700,000	700,000
Overdrawn account	3.31	50,000	20,000
		<u>1,190,000</u>	<u>1,732,800</u>
		₩ <u>1,190,000</u>	<u>1,782,800</u>

19. Debentures

Debentures as of December 31, 2014 and 2013 are summarized as follows:

	<u>Maturity</u>	<u>Interest rate (%)</u>	<u>2014</u>	<u>2013</u>
Debentures in won	2015.02.07~ 2020.12.05	2.33~5.65	₩ 9,360,000	8,700,780
Less: discount			(19,997)	(25,414)
			<u>9,340,003</u>	<u>8,675,366</u>
Debentures in foreign currency	2015.11.26~ 2018.01.26	2.31~3.26	1,978,560	1,582,950
Less: discount			(9,831)	(7,868)
			<u>1,968,729</u>	<u>1,575,082</u>
			₩ <u>11,308,732</u>	<u>10,250,448</u>

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20. Employee Benefits

(a) Defined benefit plan assets and liabilities as of December 31, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
Present value of defined benefit obligations	₩	184,147	160,346
Fair value of plan assets		(173,736)	(157,866)
Recognized liabilities for defined benefit obligations	₩	<u>10,411</u>	<u>2,480</u>

(b) Changes in the present value of defined benefit obligations and plan assets for the years ended December 31, 2014 and 2013 are as follows:

		<u>2014</u>		
		<u>Defined benefit obligation</u>	<u>Plan assets</u>	<u>Defined benefit liability</u>
Beginning balance	₩	160,346	(157,866)	2,480
Recognized in profit or loss as incurred:				
Current service cost		17,411	-	17,411
Interest expense (income)		7,252	(7,134)	118
		<u>24,663</u>	<u>(7,134)</u>	<u>17,529</u>
Recognized in other comprehensive income:				
Remeasurement loss (gain)				
- Actuarial losses (gain)				
Demographic assumptions		(1,047)	-	(1,047)
Financial assumptions		4,348	-	4,348
Experience adjustments		199	-	199
- Return on plan assets		-	3,173	3,173
		<u>3,500</u>	<u>3,173</u>	<u>6,673</u>
Others:				
Contributions paid into the plan		-	(19,000)	(19,000)
Benefits paid by the plan		(5,095)	7,091	1,996
Others(*)		733	-	733
		<u>(4,362)</u>	<u>(11,909)</u>	<u>(16,271)</u>
Ending balance	₩	<u>184,147</u>	<u>(173,736)</u>	<u>10,411</u>

(*) Transfer from related parties

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20. Employee Benefits, Continued

		2013		
		Defined benefit obligation	Plan assets	Defined benefit liability
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:				
Remeasurement loss (gain)				
- Actuarial losses (gain)				
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

(c) Details of the amounts included in the fair value of plan assets for each category of financial instruments as of December 31, 2014 and 2013 are as follows:

		2014		2013	
		Amounts	Ratio	Amounts	Ratio
Cash and due from banks	₩	121,958	70.2%	118,496	75.1%
Securities		50,834	29.3%	34,998	22.2%
Others		944	0.5%	4,372	2.7%
Fair value of plan assets	₩	<u>173,736</u>	<u>100.0%</u>	<u>157,866</u>	<u>100.0%</u>

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20. Employee Benefits, Continued

(d) Actuarial assumptions as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Discount rate (AA0)	4.01%	4.54%
Future salary increasing rate	2.54%	2.54%
Average expected remaining years of service	+ upgrade rate 15.88 years	+ upgrade rate 10.88 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)	₩	34,172
Discount rate (1% increase)		(27,963)
Future salary increasing rate (1% decrease)		(28,579)
Future salary increasing rate (1% increase)		34,347

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 ₩1,634 million and ₩1,577 million for the years ended December 31, 2014 and 2013, respectively.

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21. Provisions

Details of provisions as of December 31, 2014 and 2013 are as follows:

2014						
	Allowance for litigation	Provision for membership reward program	Allowance for unused credit commitments	Asset retirement	Other	Total
Beginning balance	₩ 6,129	29,103	318,571	9,521	7,963	371,287
Provision (reversals)	2,397	42,095	(2,406)	(835)	959	42,210
Payment	(3,042)	(48,928)	-	(760)	(5,750)	(58,480)
Others	-	10,842	-	313	-	11,155
Ending balance	₩ <u>5,484</u>	<u>33,112</u>	<u>316,165</u>	<u>8,239</u>	<u>3,172</u>	<u>366,172</u>

2013						
	Allowance for litigation	Provision for membership reward program	Allowance for unused credit commitments	Asset retirement	Other	Total
Beginning balance	₩ 7,935	24,873	328,474	9,353	4,565	375,200
Provision (reversals)	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>

22. Other Liabilities

Details of other liabilities as of December 31, 2014 and 2013 are as follows:

	2014	2013
Accounts payable	₩ 1,829,531	1,734,045
Accrued expenses	322,840	323,706
Advances from customers	42,068	54,608
Unearned revenue (Note 23)	258,784	222,608
Withholdings	358,109	349,760
Guarantee deposits, net	238,901	219,568
Advances of gift card and others	29,697	28,702
Others	2,757	2,096
	₩ <u>3,082,687</u>	<u>2,935,093</u>

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23. Deferred Revenue of Customer Loyalty Programmes

Changes in deferred revenue of customer loyalty programmes for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	₩ 139,272	158,010
Revenue deferment	262,173	207,947
Revenue realization	(233,521)	(226,685)
Ending balance	₩ <u>167,924</u>	<u>139,272</u>

24. Equity

(a) Equity as of December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</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	(105)	(175)
Others	(49)	-
	<u>(154)</u>	<u>(175)</u>
Accumulated other comprehensive income		
Unrealized gain on valuation of available-for-sale securities	362,814	421,560
Effective portion of valuation loss on cash flow hedges	(20,169)	3,508
Remeasurements of defined benefit obligations	(20,898)	(15,840)
Foreign currency translation adjustments for foreign operations	(4)	-
	<u>321,743</u>	<u>409,228</u>
Retained earnings		
Legal reserve	313,424	313,424
Reserve for credit losses (Note 26)	474,764	515,106
Revaluation surplus of property and equipment	10,216	10,216
Retained earnings(*)	3,524,995	3,373,546
	<u>4,323,399</u>	<u>4,212,292</u>
	₩ <u>6,132,427</u>	<u>6,108,784</u>

(*) ₩41,116 million of reserve for credit losses plans to reverse in 2015 and ₩40,342 million of reserve for credit losses was reversed to retained earnings in 2014.

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24. Equity, Continued

(b) Capital stock and capital surplus

As of December 31, 2014 and 2013, 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.

(c) Changes in accumulated other comprehensive income for the years ended December 31, 2014 and 2013 are as follows:

	Valuation of available- for-sale financial assets	Valuation of cash flow hedges	Remeasurements of defined benefit obligations	Foreign currency translation adjustments for foreign operations	Total
Balance at January 1, 2013	₩ 314,463	(4,484)	(19,095)	-	290,884
Changes in fair value of available-for-sale financial assets	269,686	-	4,294	-	273,980
Exchange differences	(8,398)	-	-	-	(8,398)
Effective portion of changes in fair value of cash flow hedges	-	(27,036)	-	-	(27,036)
Reclassification	(119,999)	37,580	-	-	(82,419)
Deferred tax effect	(34,192)	(2,552)	(1,039)	-	(37,783)
Balance at December 31, 2013	<u>421,560</u>	<u>3,508</u>	<u>(15,840)</u>	<u>-</u>	<u>409,228</u>
Balance at January 1, 2014	421,560	3,508	(15,840)	-	409,228
Changes in fair value of available-for-sale financial assets	48,665	-	(6,673)	-	41,992
Exchange differences	18,773	-	-	(4)	18,769
Effective portion of changes in fair value of cash flow hedges	-	65,170	-	-	65,170
Reclassification	(144,939)	(96,405)	-	-	(241,344)
Deferred tax effect	18,755	7,558	1,615	-	27,928
Balance at December 31, 2014	<u>₩ 362,814</u>	<u>(20,169)</u>	<u>(20,898)</u>	<u>(4)</u>	<u>321,743</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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24. Equity, Continued

- (f) Statements of appropriation of retained earnings for the years ended December 31, 2014 and 2013 based on separate financial statements are as follows:

Date of Appropriation for 2014: March 26, 2015

Date of Appropriation for 2013: March 31, 2014

(In millions of won, except dividends per share)

	<u>2014</u>	<u>2013</u>
Unappropriated retained earnings		
Balance at beginning of year	₩ 2,889,844	2,696,377
Changes of in accounting policies	-	19,095
Profit for the year	635,155	658,074
	<u>3,524,999</u>	<u>3,373,546</u>
Reversal of Reserve for credit losses	41,116	40,342
Balance at end of year before appropriation	<u>3,566,115</u>	<u>3,413,888</u>
Appropriation of retained earnings		
Cash dividends	550,121	524,044
Dividends per share (dividend as a percentage of par value):		
₩ 4,388 (87.76%) for 2014		
₩ 4,180 (83.60%) for 2013		
	<u>550,121</u>	<u>524,044</u>
Unappropriated retained earnings to be carried over to subsequent year	<u>₩ 3,015,994</u>	<u>2,889,844</u>

(*) These statements of appropriation of retained earnings were based on the separate financial statements of the Controlling Company.

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25. Reserve for Credit Losses

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by K-IFRS and Regulations for the Supervision of Financial Institutions in the account of reserve for legal reserve for credit losses. Reserve for credit losses is included in retained earnings, and does not affect profit for the year but by limiting dividends amounts, prevents credit quality being compromised.

(a) Reserve for credit losses as of December 31, 2014 and 2013 are summarized as follows:

		<u>2014</u>	<u>2013</u>
Accumulated reserve for credit losses	₩	474,764	515,106
Accumulated reversal of credit losses, scheduled		(41,116)	(40,342)
Ending balance of reserve for credit losses	₩	<u>433,648</u>	<u>474,764</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, 2014 and 2013 are as follows:

		<u>2014</u>	<u>2013</u>
Profit for the year	₩	635,151	658,074
Reversal of reserve for credit losses		41,116	40,342
Profit after adjusting for reserve for credit losses	₩	<u>676,267</u>	<u>698,416</u>
Earnings per share after reserve for credit losses (in won)	₩	<u>5,394</u>	<u>5,571</u>

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26. Operating Revenue

Operating revenues for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Interest income	₩ 1,865,557	1,945,509
Fee and commission income	2,300,321	2,246,641
Dividend income	30,613	34,129
Gain on valuation and disposition of trading financial assets	1,223	445
Gains related to derivatives	101,735	5,433
Gains on foreign currency transaction	27,641	62,867
Gains on disposition of available-for-sale financial assets	157,326	128,744
Reversal of impairment losses from financial assets	13,295	12,843
Other operating income	99,047	177,952
	<u>₩ 4,596,758</u>	<u>4,614,563</u>

27. Earnings Per Share

Earnings per share for the years ended December 31, 2014 and 2013 are as follows:

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

	<u>2014</u>	<u>2013</u>
Profit for the year available for common shares	₩ 635,151	658,074
Weighted average number of common shares outstanding	125,369,403	125,369,403
Earnings per share in won	<u>₩ 5,066</u>	<u>5,249</u>

The Group had no dilutive potential ordinary shares in the calculation of diluted earnings per share for the reporting periods. Accordingly, diluted earnings per share equals basic earnings per share for the years ended December 31, 2014 and 2013.

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28. Share-Based Payment

Share-based payment as of December 31, 2014 is summarized as follows:

(a) Stock options

	6th grant	7th grant
Method of settlement	Cash-settlement	Cash-settlement
Valuation technique	Fair value	Fair value
Grant date	March 20, 2007	March 19, 2008
Exercise price in won	₩ 54,560	₩ 49,053
Shares granted	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
Changes in number of shares granted:		
Outstanding at January 1, 2014	74,632	110,707
Changes during the year	(74,632)	(36,779)
Outstanding at December 31, 2014	-	73,928
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
Risk-free interest period	2.64%	2.05%
Expected exercise period	2 months	2 months
Expected stock price volatility	16.91%	16.90%
Expected dividend yield ratio	1.8%	1.58%
Fair value of stock option in won	₩5	₩39

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28. Share-Based Payment, Continued

(b) Share-based payment arrangements with performance conditions

(i) Performance share granted as of December 31, 2014 are as follows:

	Granted as of 2010	Granted as of 2011	Granted as of 2012	Granted as of 2013	Granted as of 2014
Type	Equity-settled type	Equity-settled type	Equity-settled type	Equity-settled type	Equity-settled type
Vesting period	2010 ~ 2012	2011 ~ 2013	2012 ~ 2014	2013 ~ 2015	2014 ~ 2016
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 relative stock price (20.0%)
	Based on 4year 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%)	Based on 4 year management index (80.0%)
Estimated number of shares granted	9,024 shares	6,708 shares	23,898 shares	44,033 shares	34,858 shares

(ii) Granted shares and the fair value of grant date as of December 31, 2014 are as follows:

Grant date	Grant shares	Exercise	Fair value(*)	Estimated shares(**)
April 1, 2010	129,700	84,267	₩ 45,150	9,024
January 11, 2011	6,900	-	52,900	6,708
February 28, 2012	28,200	-	46,650	17,698
August 24, 2012	9,300	-	36,150	6,200
January 1, 2013	89,800	-	40,050	26,301
February 22, 2013	10,100	-	42,350	6,174
May 27, 2013	10,100	-	40,250	839
August 27, 2013	24,000	-	39,700	10,719
January 1, 2014	23,600	-	47,300	21,712
February 10, 2014	9,400	-	42,800	7,696
March 31, 2014	4,700	-	47,000	3,268
July 24, 2014	1,600	-	46,550	639
August 22, 2014	4,700	-	51,800	1,543
	<u>352,100</u>	<u>84,267</u>		<u>118,521</u>

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

(**) Grant shares at grant date were adjusted pursuant to increase rate of stock price and achievement of target ROE 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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28. Share-Based Payment, Continued

(c) Stock compensation costs calculated for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Stock options	₩ (156)	253
Share-based payment arrangements with performance conditions	2,232	1,663
	<u>₩ 2,076</u>	<u>1,916</u>

(d) Details of accrued expenses and the intrinsic value as of December 31, 2014 are as follows:

	Accrued expense related to compensation expenses associated with share based payments	Intrinsic values(*)
Stock options	₩ 3	-
Share-based payment arrangements with performance conditions(**)	5,312	5,312
	<u>₩ 5,315</u>	<u>5,312</u>

(*) The intrinsic value of share-based payments is based on the quoted market price of ₩44,450 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, 2014, and have been recognized as liabilities directly deducted from the capital.

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29. Net Interest Income

Net interest incomes for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Interest income		
Cash and due from banks	₩ 7,453	8,530
Credit card assets	1,719,093	1,780,815
Loans	15,238	21,796
Installment loans	84,180	88,239
Financing leases	36,615	42,490
Others	2,978	3,639
	<u>1,865,557</u>	<u>1,945,509</u>
Interest expense		
Call money	(6,313)	(3,145)
Borrowings	(60,430)	(76,572)
Debentures	(376,370)	(399,647)
Securitized debentures	(42,204)	(62,389)
Others	(7,275)	(8,331)
	<u>(492,592)</u>	<u>(550,084)</u>
Net interest income	<u>₩ 1,372,965</u>	<u>1,395,425</u>

Interest income on impaired financial assets for the years ended December 31, 2014 and 2013 are ₩18,181 million and ₩19,359 million, respectively.

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30. Net Fee and commission Income

Details of net fee and commission incomes for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Fee and commission income		
Credit card assets	₩ 2,191,551	2,110,823
Loans	51,902	75,150
Installment loans	3,668	3,963
Financing leases	3,932	4,099
Others(*)	49,268	52,606
	<u>2,300,321</u>	<u>2,246,641</u>
Fee and commission expense		
Credit card assets	(1,893,057)	(1,888,169)
Others(*)	(149,985)	(191,706)
	<u>(2,043,042)</u>	<u>(2,079,875)</u>
Net fee and commission income	₩ <u>257,279</u>	<u>166,766</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, 2014 and 2013, the amount of income related to debt cancelation and debt suspension are ₩49,226 million, ₩52,520 million, respectively, and the amount of expense are ₩13,661 million, ₩16,689 million, respectively.

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31. Dividend Income

Dividend income for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Available-for-sale financial assets in won	₩ 26,894	30,502
Available-for-sale financial assets in foreign currency	3,719	3,627
	<u>₩ 30,613</u>	<u>34,129</u>

32. Impairment Loss and Reversal on Financial Assets

Details impairment loss and reversal on financial assets for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Impairment loss		
Loans and receivables	₩ 420,305	361,532
Reversal		
Available-for-sale financial assets	13,295	12,843
Net impairment loss on financial assets	<u>₩ 407,010</u>	<u>348,689</u>

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33. General Administrative Expenses

General administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Relate to employees		
Salaries and wages	₩ 166,271	163,956
Bonus	52,250	43,654
Management incentives	19,461	19,684
Share-based compensation expense	2,076	1,916
Employee benefits	70,569	79,187
Travel	5,794	5,874
Defined benefit	17,529	18,964
Honorary retirement allowance	-	20,113
Defined contribution	1,634	1,577
	<u>335,584</u>	<u>354,925</u>
Depreciation and amortization		
Depreciation	37,351	36,011
Amortization of intangible assets	22,590	20,968
Others	172	149
	<u>60,113</u>	<u>57,128</u>
Other general administrative expenses		
Communication	52,795	54,777
Utility	20,058	19,122
Vehicles maintenance	3,867	3,768
Supplies	15,358	27,448
Rent	24,993	24,910
Insurance	802	806
Repairs	165	251
Entertainment	1,660	1,371
Advertising	19,366	30,364
Sales promotion	116,594	97,029
Training	2,981	2,653
Publication	260	181
Freight	747	809
Provision (recoveries) for asset retirement obligation	(835)	38
Taxes and dues	53,712	35,369
	<u>312,523</u>	<u>298,896</u>
	₩ <u>708,220</u>	<u>710,949</u>

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34. Other Operating Incomes and Expenses

Other operating incomes and expenses for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Other operating incomes		
Gains on recovery of bad debt	₩ 29,894	24,834
Reversal of allowance for unused loan commitments	2,406	9,903
Gains on sale of loans	44,014	119,019
Others	22,733	24,196
	<u>99,047</u>	<u>177,952</u>
Other operating expenses		
Losses on sale of loans	-	(2,231)
Losses on repayment of lease	(1,085)	(1,091)
	<u>(1,085)</u>	<u>(3,322)</u>
	₩ <u>97,962</u>	<u>174,630</u>

35. Non-Operating Income and Expenses

Non-operating incomes and expenses for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Non operating incomes		
Gains on disposition of property and equipment	₩ 42	16
Gains on disposition of intangible asset	535	-
Reversal of impairment loss on intangible asset	30	-
Others	4,690	2,799
	<u>5,297</u>	<u>2,815</u>
Non operating expenses		
Donations	(3,754)	(7,965)
Provision for litigation	(2,397)	(674)
Losses on disposition of property and equipment	(31)	(50)
Impairment loss of intangible asset	(619)	(412)
Others	(660)	(292)
	<u>(7,461)</u>	<u>(9,393)</u>
	₩ <u>(2,164)</u>	<u>(6,578)</u>

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36. Income Taxes

- (a) The components of income tax expense for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Income tax payable	₩ 199,432	194,779
Adjustments to the income tax expense for prior period	3,781	-
Changes in deferred tax due to temporary differences	(29,548)	49,805
Income tax expense associated with items not recognized as loss (profit) for the year	27,918	(37,536)
Income taxes	<u>(14,697)</u>	<u>(14,320)</u>
	<u>₩ 186,886</u>	<u>192,728</u>

- (b) The relationship between income tax expense and income before income taxes expenses for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Income before income taxes (A)	₩ 822,037	850,802
Income taxes at applicable tax rate	198,933	205,894
Adjustments:		
Non-taxable income	(1,638)	(881)
Non-deductible expense	949	2,622
Tax deductions	(639)	(598)
Consolidated tax return effect	(10,719)	(14,309)
	<u>(12,047)</u>	<u>(13,166)</u>
Income taxes (B)	<u>₩ 186,886</u>	<u>192,728</u>
Effective tax rate (B/A)	<u>22.73%</u>	<u>22.65%</u>

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36. Income Taxes, Continued

(b) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2014 and 2013 are as follows:

		2014			
	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 financial assets	83,696	(2,152)	-	-	81,544
Valuation on available-for-sale	(134,588)	-	18,755	-	(115,833)
Valuation on property and equipment	(804)	(1,101)	-	-	(1,905)
Deferred loan origination costs	(6,164)	(998)	-	-	(7,162)
Derivative assets (liabilities)	(1,120)	-	7,559	-	6,439
Accrued expenses	10,950	(1,115)	-	-	9,835
Liability for defined benefit obligations	30,324	5,097	-	-	35,421
Deposit for defined benefit obligations	(29,104)	(3,635)	-	-	(32,739)
Other allowances	153,120	704	-	-	153,824
Share-based payment	11	1	-	(12)	-
Others	10,347	6,445	-	-	16,792
	₩ 116,738	3,246	26,314	(12)	146,286

		2013			
	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 financial assets	86,718	(3,022)	-	-	83,696
Valuation on available-for-sale	(100,396)	-	(34,192)	-	(134,588)
Valuation on property and equipment	(677)	(127)	-	-	(804)
Deferred loan origination costs	(6,793)	629	-	-	(6,164)
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)	-	-	153,120
Share-based payment	(431)	195	-	247	11
Others	15,154	(4,807)	-	-	10,347
	₩ 166,543	(13,309)	(36,743)	247	116,738

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36. Income Taxes, Continued

(d) Deferred income tax expense associated with items, which is not recognized as profit (loss) for the years ended December 31, 2014 and 2013 are as follows:

	2014				
	December 31, 2014		January 1, 2014		Change in tax effect
	Amount	Tax effect	Amount	Tax effect	
Changes in fair value of available-for-sale financial assets	₩ 362,814	(115,832)	421,560	(134,588)	18,756
Effective portion of valuation gain or loss on cash flow	(20,169)	6,439	3,508	(1,120)	7,559
Share-based payment	(154)	49	(175)	61	(12)
Remeasurements of defined benefit obligations	(20,898)	6,672	(15,840)	5,057	1,615
	<u>₩ 321,593</u>	<u>(102,672)</u>	<u>409,053</u>	<u>(130,590)</u>	<u>27,918</u>
	2013				
	December 31, 2013		January 1, 2013		Change in tax effect
	Amount	Tax effect	Amount	Tax effect	
Changes in fair value of available-for-sale financial assets	₩ 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)
	<u>₩ 409,053</u>	<u>(130,590)</u>	<u>291,467</u>	<u>(93,054)</u>	<u>(37,536)</u>

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36. Income Taxes, Continued

- (e) The Group sets 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, 2014 and 2013 are as follows:

		2014	2013
Deferred tax assets	₩	303,925	288,518
Deferred tax liabilities		(157,639)	(171,780)
	₩	<u>146,286</u>	<u>116,738</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, 2014 and 2013 current tax liabilities are ₩112,765 million and ₩92,667 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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37. Statements of Cash Flows

(a) Details of cash and cash equivalents as of December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Available deposits from banks		
Deposits on demand	₩ 368,473	264,491
Current deposits	4,450	19,159
Time deposits	900	900
Foreign currency deposits	207	-
Other	-	330,000
	<u>₩ 374,030</u>	<u>614,550</u>

(b) The Group presents the cash inflows and outflows of bank overdrafts and call money as net amounts, because the transactions' turnover are quick, the amounts are large, and the maturities are short..

(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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents in the statements of financial position	₩ 413,098	830,391
Adjustment:		
Restricted due from banks	(39,068)	(215,841)
Cash and cash equivalents in the statements of cash flows	<u>₩ 374,030</u>	<u>614,550</u>

(d) The Group presents statements of cash flows using the indirect method and significant non-cash transactions for the years ended December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Valuation of available-for-sale financial assets	₩ 67,438	261,288
Valuation of derivatives	31,235	10,635

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38. Contingent Liabilities and Commitments

(a) Contingent liabilities

The Group has 27 pending lawsuits as a defendant as of December 31, 2014 for a total claim amount of ₩33,626 million. A legal provision of ₩5,484 million is included in the provision for litigation in the accompanying consolidated financial statements. Additional losses may be incurred from these legal actions, but the result of such the lawsuits can not be predicted.

(b) ABS commitments

In trust-type asset securitizations, Special Purpose Companies ("SPCs") can demand the Controlling 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 Controlling 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 September 30, 2014, the Group has no additional obligation for the asset-backed securities.

The Controlling Company has entered into an agreement with the SPCs to provide asset management services for the transferred assets. Under the agreement, the Controlling 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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39. Asset Backed Securitization (ABS)

- (a) The initial transfer price of the bond sold by Asset-Backed Securitization Act as of December 31, 2014 and 2013 are as summarized as follows:

	<u>Initial transfer date</u>		<u>2014</u>	<u>2013</u>
Shinhan Card 2013-1	2013.08.02	₩	-	599,970
Shinhan Card 2014-1	2014.07.24		539,451	-
Shinhan Card 2014-2	2014.10.29		892,307	-
		₩	<u>1,431,758</u>	<u>599,970</u>

The amounts of financial liability book value about securities, which is transferred, for the years ended December 31, 2014 and 2013 are ₩1,968,729 million and ₩1,575,082 million, respectively.

- (b) The uncollected details among transfer securities, which is sold by act on ABS, as of December 31, 2014 and 2013 are summarized as follows:

	<u>List of disposal asset</u>	<u>Initial transfer date</u>		<u>2014</u>	<u>2013</u>
Shinhan Card 2010-1	Credit card assets	2010.11.12	₩	-	356,699
Shinhan Card 2011-1	Credit card assets	2011.02.11		-	572,564
Shinhan Card 2011-2	Credit card assets	2011.03.18		-	415,416
Shinhan Card 2011-3	Credit card assets	2011.08.18		530,195	542,066
Shinhan Card 2012-1	Credit card assets	2012.06.17		781,336	797,744
Shinhan Card 2013-1	Credit card assets	2013.08.02		586,133	578,178
Shinhan Card 2014-1	Credit card assets	2014.07.24		500,369	-
Shinhan Card 2014-2	Credit card assets	2014.10.29		884,062	-
			₩	<u>3,282,095</u>	<u>3,262,667</u>

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40. Related Party Transactions

(a) As of December 31, 2014, related parties of the Group are summarized as follows:

<u>Name of company</u>	<u>Control relationship</u>
Shinhan Financial Group Co., Ltd	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
BNP Paribas Cardif General Insurance	Other related parties
Aju capital Co., Ltd.	Other related parties
Kukdong Co., Ltd.	Other related parties
UAMCO., Ltd.	Other related parties

(b) Significant transactions with related parties for the years ended December 31, 2014 and 2013 are as follows:

<u>Related party / Account</u>	<u>2014</u>		<u>2013</u>	
	<u>Revenue</u>	<u>Expense</u>	<u>Revenue</u>	<u>Expense</u>
Shinhan Financial Group Co., Ltd				
Interest expense	₩ -	31,980	-	31,980
Fee and commission expense	-	13,736	-	21,518
Bad debt expenses	-	1	-	1
Shinhan Bank				
Interest income	208	-	530	-
Interest expense	-	214	-	533
Fee and commission income	431	-	513	-
Fee and commission expense	-	174,636	-	168,947
Bad debt expenses	-	21	-	-
Reversal of allowance for bad debts	-	-	161	-
Other general and administrative expense	-	520	-	746
Other operating income	41	-	40	-

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40. Related Party Transactions, Continued

Related party / Account	2014		2013	
	Revenue	Expense	Revenue	Expense
Shinhan Credit Information Co., Ltd.				
Fee and commission income	₩ -	-	4	-
Fee and commission expense	-	11,859	-	14,922
Bad debt expenses	-	-	-	1
Reversal of allowance for doubtful accounts	1	-	-	-
Shinhan Life Insurance Co., Ltd.				
Fee and commission income	9,404	-	8,278	-
Fee and commission expense	-	47	-	40
Reversal of allowance for doubtful accounts	1	-	-	-
Employee benefits	-	225	-	258
Other general and administrative	-	12	-	18
Shinhan Data System Co., Ltd.				
Fee and commission expense	-	13,419	-	14,045
Bad debt expenses	-	-	-	1
Reversal of allowance for doubtful accounts	1	-	-	-
Depreciation expenses	-	748	-	574
Other general and administrative	-	1	-	2
Shinhan Investment Corp.				
Interest income	153	-	73	-
Interest expenses	-	25	-	10
Fee and commission income	152	-	87	-
Fee and commission expense	-	127	-	37
Bad debt expenses	-	8	-	-
Reversal of allowance for doubtful accounts	-	-	1	-
Other general and administrative	-	33	-	91
Jeju Bank				
Interest income	1	-	1	-
Fee and commission income	23	-	116	-
Fee and commission expense	-	6	-	8
BNP Paribas Cardif Life Insurance				
Fee and commission income	322	-	168	-
Bad debt expenses	-	1	-	1

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40. Related Party Transactions, Continued

Related party / Account	2014		2013	
	Revenue	Expense	Revenue	Expense
Shinhan Saving Bank				
Fee and commission expense	₩ -	1	-	-
Bad debt expenses	-	1	-	-
Reversal of allowance for doubtful accounts	-	-	1	-
Shinhan Aitas Co., Ltd.				
Reversal of allowance for doubtful accounts	1	-	1	-
Shinhan Capital Co., Ltd.				
Bad debt expenses	-	1	-	1
Shinhan Private Equity Investment Management				
Bad debt expenses	-	-	-	1
Reversal of allowance for doubtful accounts	1	-	-	-
Shinhan BNP Paribas ITMC Co., Ltd.				
Fee and commission income	-	-	2	-
Fee and commission expense	-	3	-	-
Reversal of allowance for doubtful accounts	1	-	1	-
SHC Management Co., Ltd.				
Other operating income	55	-	55	-
BNP Paribas Cardif General Insurance				
Fee and commission income	8	-	4	-
Reversal of allowance for doubtful accounts	1	-	1	-
Kukdong Co., Ltd.				
Bad debt expenses	-	1	-	1
Aju capital Co., Ltd.				
Fee and commission expense	-	1,693	-	881
Bad debt expenses	-	1	-	-
Reversal of allowance for doubtful accounts	-	-	1	-
UAMCO., Ltd.				
Bad debt expenses	-	-	-	1
Reversal of allowance for doubtful accounts	1	-	-	-

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40. Related party transactions, continued

(c) Significant balances with the related parties as of December 31, 2014 and 2013 are summarized as follows:

Related party / Account	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Shinhan Financial Group Co., Ltd.				
Credit card assets	₩ 324	-	368	-
Borrowings	-	700,000	-	700,000
Current tax liabilities	-	112,765	-	92,667
Accrued expenses	-	9,042	-	10,286
Allowance for doubtful accounts	-	2	-	2
Shinhan Bank				
Cash and due from bank	97,333	-	21,081	-
Derivative assets	58	-	1,363	-
Credit card assets	2,570	-	1,988	-
Prepaid expenses	135	-	297	-
Guarantee deposits	16,456	-	30,512	-
Derivative liabilities	-	11,456	-	2,844
Allowance for asset retirement obligation	-	734	-	936
Accounts payable	-	27	-	3
Accrued expenses	-	1,766	-	1,572
Allowance for doubtful accounts	-	31	-	10
Shinhan Credit Information Co., Ltd.				
Credit card assets	79	-	82	-
Accounts payable	-	1,246	-	1,152
Allowance for doubtful accounts	-	1	-	1
Shinhan Life Insurance Co., Ltd.				
Credit card assets	2,431	-	2,570	-
Accounts payable	-	344	-	388
Allowance for doubtful accounts	-	13	-	13
Shinhan Data System Co., Ltd.				
Credit card assets	125	-	203	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Investment Corp.				
Cash and due from bank	325	-	267	-
Credit card assets	1,440	-	1,198	-
Prepaid expenses	8	-	11	-
Guarantee deposits	976	-	976	-
Allowance for asset retirement obligation	-	63	-	60
Allowance for doubtful accounts	-	15	-	7

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40. Related Party Transactions, Continued

Related party / Account	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Jeju Bank				
Cash and due from bank	₩ 176	-	154	-
Accounts payable	-	21	-	14
Cardif Life Insurance Co., Ltd.				
Credit card assets	119	-	103	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Saving Bank				
Credit card assets	46	-	33	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Aitas Co., Ltd.				
Credit card assets	48	-	59	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Capital Co., Ltd.				
Credit card assets	93	-	83	-
Allowance for doubtful accounts	-	1	-	1
Shinhan Private Equity Investment Management, Inc.				
Credit card assets	31	-	49	-
Allowance for doubtful accounts	-	1	-	1
Shinhan BNP Paribas ITMC Co., Ltd.				
Credit card assets	119	-	174	-
Allowance for doubtful accounts	-	1	-	1
BNP Paribas Cardif General Insurance				
Credit card assets	26	-	40	-
Allowance for doubtful accounts	-	1	-	1
Kukdong Co., Ltd.				
Credit card assets	17	-	15	-
Allowance for doubtful accounts	-	1	-	1
Aju capital Co., Ltd.				
Credit card assets	2,011	-	2,049	-
Allowance for doubtful accounts	-	10	-	10
UAMCO., Ltd.				
Credit card assets	43	-	49	-
Allowance for doubtful accounts	-	1	-	1

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40. Related Party Transactions, Continued

(d) Borrowings from the related parties as of December 31, 2014 and 2013 are summarized as follows:

Lender	Date of Borrowing	Date of maturity	Interest rate (%)		2014	2013
Shinhan Financial Group Co.,Ltd.	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, 2014 and 2013 are as follows:

	2014	2013
Salaries and wages	₩ 3,047	3,654
Post-employment benefits	60	80
Share-based payments	1,135	1,402
	<u>₩ 4,242</u>	<u>5,136</u>

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41. 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:

	Description
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, 2014 and 2013 are as follows:

	2014		
	Assets-backed securitization	Beneficiary certificates	Total
Total assets	₩ 2,885,422	4,500	2,889,922
	2013		
	Assets-backed securitization	Beneficiary certificates	Total
Total assets	₩ 2,616,270	126,280	2,742,550

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41. Interests in Unconsolidated Structured Entities, Continued

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

(ii) Revenues and expenses recognized relating to the Group's interests in unconsolidated structured entities for the year ended December 31, 2014 and 2013 are as follows:

		2014		
		Assets-backed securitization	Beneficiary certificates	Total
Revenues				
Fee and commission income	₩	6,753	-	6,753
Dividend income		26,447	-	26,447
Other operating income		57,189	1	57,190
	₩	<u>90,389</u>	<u>1</u>	<u>90,390</u>
Expenses	₩	-	-	-
		2013		
		Assets-backed securitization	Beneficiary certificates	Total
Revenues				
Fee and commission income	₩	5,092	-	5,092
Dividend income		30,083	-	30,083
Other operating income		63,333	1	63,334
	₩	<u>98,508</u>	<u>1</u>	<u>98,509</u>
Expenses	₩	(1,801)	-	(1,801)

(iii) The carrying amounts of the assets transferred to unconsolidated structured entities as of December 31, 2014 and 2013 are as follows:

		2014		
		Assets-backed securitization	Beneficiary certificates	Total
Loans	₩	2,162,944	-	2,162,944
		2013		
		Assets-backed securitization	Beneficiary certificates	Total
Loans	₩	2,715,397	-	2,715,397

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41. 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, 2014 and 2013 are as follows:

		2014		
		Assets-backed securitization	Beneficiary certificates	Total
Assets:				
Available-for-sale financial assets	₩	1,881	1	1,882
Other assets		555	-	555
	₩	<u>2,436</u>	<u>1</u>	<u>2,437</u>
		2013		
		Assets-backed securitization	Beneficiary certificates	Total
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, 2014 and 2013 are as follows:

		2014		
		Assets-backed securitization	Beneficiary certificates	Total
Assets held	₩	2,436	1	2,437
		2013		
		Assets-backed securitization	Beneficiary certificates	Total
Assets held	₩	2,650	1	2,651