ITEM1. ***IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS***

Not applicable.

ITEM2. ***OFFER STATISTICS AND EXPECTED TIMETABLE***

Not applicable.

ITEM3. ***KEY INFORMATION***

ITEM3.A. [Reserved]

ITEM3.B. Capitalization and Indebtedness

Not applicable.

ITEM3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

ITEM3.D. Risk Factors

An investment in the American depositary shares representing our common shares involves a number of risks. You should carefully consider the following information about the risks we face, together with the other information contained in this annual report, in evaluating us and our business.

Summary

The following summarizes some, but not all, of the risks provided below. Please carefully consider all of the information discussed in this Item 3.D. “Risk Factors” in this annual report for a more thorough description of these and other risks:

- **Risks Relating to Our Overall Business**
  - Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect our business, asset quality, capital adequacy and earnings.
  - High rates of global inflation and the occurrence of a recession could have a material and adverse impact on our business, results of operations and financial condition.
  - Competition in the Korean financial services industry is intense, and may further intensify.
  - We and our subsidiaries need to maintain our capital ratios above minimum required levels, and the failure to so maintain could result in the suspension of some or all of our operations.
  - Liquidity, funding management and credit ratings are critical to our ongoing performance.
  - Our business may be materially and adversely affected by legal claims and regulatory actions against us.
  - The implementation of IFRS 17 beginning on January 1, 2023 renders certain of our historical financial information as of December 31, 2021 and for the year ended December 31, 2021, included in this annual report, not directly comparable with our financial information as of December 31, 2022 and 2023 and for the years ended December 31, 2022 and 2023 included in this annual report.

- Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected and will continue to affect our business, results of operations and financial condition.
- Reforms of London Interbank Offered Rate and other interest rate benchmarks could adversely affect our business, financial condition and results of operations.
- We may incur losses associated with our counterparty exposures.

- **Risks Relating to Our Banking Business**
  - We have significant exposure to small- and medium-sized enterprises, and financial difficulties experienced by such enterprises may result in a deterioration of our asset quality.
  - A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may adversely affect our credit portfolio.
  - Guarantees received in connection with our real estate financing may not provide sufficient coverage.
  - A limited portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, and future financial difficulties experienced by them may have an adverse impact on us.
  - The asset quality of our retail loan portfolio may deteriorate.
  - Any deterioration in the asset quality of our guarantees and acceptances will likely have a material adverse effect on our financial condition and results of operations.
- **Risks Relating to Our Credit Card Business**
  - Future changes in market conditions as well as other factors, such as stricter regulation, may lead to reduced revenues and deterioration in the asset quality of credit card receivables.
- **Risks Relating to Our Other Businesses**
  - We may experience significant losses from our investments and, to a lesser extent, trading activities due to market fluctuations.
  - We may generate losses from our brokerage and other commission- and fee-based business.
  - Prolonged periods of declining or low interest rates or changes in related accounting standards may reduce or turn negative our investment margin on savings insurance products and result in an increase in the valuation of our liabilities associated with these products.
  - We may fail to realize the anticipated benefits of and encounter significant risks in connection with mergers and acquisitions.
- **Other Risks Relating to Us as the Holding Company**
  - Our ability to continue to pay dividends and service debt will depend on the level of profits and cash flows of our subsidiaries.
  - Damage to our reputation could harm our business.
  - Our risk management policies and procedures may not be fully effective at all times.
  - Labor unrest may adversely affect our operations.
  - We may experience disruptions, delays and other difficulties relating to our information technology systems.
  - Our activities are subject to cyber security risk.

- Our customers may become victims to “voice phishing” or other financial scams, for which we may be required to make monetary compensation and suffer damage to our business and reputation.

- **Risks Relating to Law, Regulation and Government Policy**
  - We are a heavily regulated entity and operate in a legal and regulatory environment that is subject to change, and violations could result in penalties and other regulatory actions.
  - The Government may encourage targeted lending to certain sectors in furtherance of policy objectives, and we may take this factor into account.
  - The Government may also encourage investments in certain institutions in furtherance of policy objectives, and we may not recoup our investments therein in a timely or otherwise commercially reasonable manner.
  - The level and scope of government oversight of our retail lending business, particularly regarding mortgage and home equity loans, may change depending on the economic or political climate.
  - We engage in limited settlement transactions involving Iran and also in limited business in and related to Russia which may subject us to legal or reputational risks.
  - Evolving regulatory framework for artificial intelligence and machine learning technology, may have an adverse impact on our business, financial condition and results of operations.
- **Risks Relating to Korea**
  - Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on our asset quality, liquidity and financial performance.
  - Tensions with North Korea could have an adverse effect on us, the price of our common shares and our American depositary shares.
- **Risks Relating to Our American Depositary Shares**
  - There are restrictions on withdrawal and deposit of common shares under the depositary facility.
  - Ownership of our shares is restricted under Korean law.
  - Holders of our ADSs will not have preemptive rights in certain circumstances.
  - Holders of our ADSs will not be able to exercise dissent and appraisal rights unless they have withdrawn the underlying shares of our common stock and become our direct stockholders.
  - The market value of your investment in our ADSs may fluctuate due to the volatility of the Korean securities market.
  - Your dividend payments and the amount you may realize upon a sale of your ADSs will be affected by fluctuations in the exchange rate between the U.S. Dollar and the Won.
  - If the Government deems that certain emergency circumstances are likely to occur, it may restrict the depositary bank from converting and remitting dividends in Dollars.
- **Other Risks**
  - We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.
  - You may not be able to enforce a judgment of a foreign court against us.
  - We may become a passive foreign investment company (“PFIC”), which could result in adverse U.S. tax consequences to U.S. investors.

Risks Relating to Our Overall Business

Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect our business, asset quality, capital adequacy and earnings.

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy. In light of global inflation caused by rising energy prices and global supply chain disruptions, the Russia-Ukraine conflict and the subsequent economic slowdown, rapidly changing monetary policies (including higher interest rates and quantitative tightening) led by developed countries in reaction to such inflation, instability in the financial industries (including potential for bank runs) and capital flight risks in emerging economies caused by such changes in monetary policy, credit risks of Chinese real estate developers, ongoing US-China trade conflicts, signs of economic slowdown in China, continuing geopolitical and social instability in various parts of the Middle East, including Iraq, Syria and Yemen, and risk of global pandemic such as recent COVID-19 outbreak, among others, significant uncertainty remains as to the global economic prospects in general and has adversely affected, and may continue to adversely affect, the Korean economy. In addition, as the Korean economy matures, it is increasingly exposed to the risk of a “scissor effect,” namely being pursued by competitors in less advanced economies while not having fully caught up with competitors in advanced economies, which risk is amplified by the fact that Korean economy is heavily dependent on exports. The Korean economy also continues to face other difficulties, including sluggishness in domestic consumption and investment, risk of corporate debt liquidity issues, volatility in the real estate market, rising delinquencies on project financing loans, rising household debt, potential declines in productivity due to aging demographics and low birth rates, and a rise in youth unemployment. Any future deterioration of the global and Korean economies could adversely affect our business, financial condition and results of operations.

In particular, difficulties in financial and economic conditions could result in significant deterioration in the quality of our assets and accumulation of higher provisioning, allowance for credit losses on loans and charge-offs as an increasing number of our corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. For example, in 2011 and 2012, the continuing slump in the real estate market and the shipbuilding industry led to increased delinquency among our corporate borrowers, including some Korean commercial conglomerates knowns as “*chaebol*s,” in such industries, and in certain cases, even insolvency, workouts, recovery proceedings and/or voluntary arrangements with creditors. During the same period, the sustained slump in the real estate market also led to increased delinquency among our retail borrowers, and in particular, borrowers with collective loans for pre-sale of newly constructed apartment units. Recently, various Government-led financial support programs have been introduced in response to the COVID-19 pandemic, rising inflation and economic slowdown, such as loan rescheduling and principal and interest payment deferral programs, have helped financial institutions, including Shinhan Bank, manage their asset quality at a stable level. Such financial support programs have been introduced since April 1, 2020 and are available to small-and medium-sized enterprises and “small office, home office” (“SOHO”) that meet certain criteria, such as that they have not been delinquent on their prior loans and are not subject to liquidation or bankruptcy proceedings. Such financial support programs expired on September 30, 2022. However, the Government has decided, based on discussions with financial institutions, to provide further financial support to the debtors using the financial support programs as of the expiration date of such financial support programs in the forms of (i) the extension of loan maturity dates up to three years, (ii) the postponement of repaying loans up to one year until September 2023, or (iii) the rescheduling of loans under the New Start Fund set up by the Government on October 4, 2022 or loan rescheduling programs led by the financial institutions. Accordingly, Shinhan Bank’s delinquency ratio was 0.19% as of December 31, 2021, 0.21% as of December 31, 2022 and

0.26% as of December 31, 2023. However, despite such financial support programs, there is no assurance that Shinhan Bank will not experience increased level of credit losses on loans from borrowers, particularly those in troubled industries, since the quality of loans to such borrowers may further deteriorate due to a continued slump in volatile industries amidst sluggish economic situation or for other reasons. Further, Government-led financial support programs or other countermeasures may not achieve their intended results and could also result in unintended consequences or otherwise adversely affect our business, financial condition and results of operations.

Moreover, as was the case during the global financial crisis of 2008-2009, depending on the nature of the difficulties in the financial markets and general economy, we may be forced to scale back certain of our core lending activities and other operations and/or borrow money at a higher funding cost or face a tightening in the net interest spread, any of which may have a negative impact on our earnings and profitability. Furthermore, while we and our principal subsidiaries currently maintain a capital adequacy ratio at a level higher than the required regulatory minimum, there is no guarantee that an even higher capital requirement will not be imposed by the Government in case of a renewed economic crisis.

In addition, given the highly integrated nature of financial systems and economic relationships worldwide, there may be other unanticipated systemic or other risks that may not be presently predictable. Any of these risks, if materialized, may have a material adverse effect on our business, liquidity, financial condition and results of operations.

High rates of global inflation and the occurrence of a recession could have a material and adverse impact on our business, results of operations and financial condition.

During 2023, the global markets experienced, and continue to experience, higher rates of inflation as a result of several market factors, including in the form of increased costs pertaining to labor, materials, shipping and overhead. As a result of these inflationary pressures, governments in many countries have implemented tighter monetary policies, which could slow the growth rate of local economies and restrict the availability of credit. We believe that our financial condition and results of operations have thus far not been materially impacted by inflationary pressures. However, to the extent the current rates of inflation and shifts in fiscal and monetary policy result in prolonged and slower growth or a recession, it could have a material and adverse effect on the demand for our products and services and, in the process, our business, results of operations and financial condition as a whole, including with respect to general and administrative expenses as a percentage of total revenue. Moreover, in the event that a global recession was to occur, it could adversely impact the critical counterparties that we engage, including in the form of a decrease in the products and services they seek to obtain from us.

Competition in the Korean financial services industry is intense, and may further intensify.

Competition in the Korean financial services industry is, and is likely to remain, intense, including as a result of the sustained low interest rate environment (which narrows opportunities to make profit based on the spread between lending rates and funding rates), the continuing sluggishness in the general economy, the growing maturation and saturation of the industry as a whole, the entry of new market participants and deregulation, among others.

In the banking sector, Shinhan Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, Internet-only banks, government-owned development banks and Korea’s specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Federation of Fisheries Cooperatives, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2023, Korea had six major nationwide domestic commercial banks (including Citibank Korea Inc. and Standard Chartered Bank Korea Limited, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks, three Internet-only banks and thirty-five branches and subsidiaries of foreign banks. Foreign financial institutions, many of which have greater experiences and resources than we do, may continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

In the small- and medium-sized enterprise and retail banking segments, which have been Shinhan Bank’s traditional core businesses, competition is expected to increase further. In recent years, Korean banks, including Shinhan Bank, have increasingly focused on stable asset growth based on quality credit, such as corporate borrowers with high credit ratings, loans to SOHO with high levels of collateralization, and mortgage and home equity loans within the limits of the prescribed loan-to-value ratios and debt-to-income ratios. This common shift in focus toward stable growth based on less risky assets has intensified competition as banks compete for the same limited pool of quality credit by engaging in price competition or by other means although Shinhan Bank has traditionally focused, and will continue to focus, on enhancing profitability rather than increasing asset size or market share, and has avoided, to the extent practicable, engaging in price competition by way of lowering lending rates. In addition, such competition may result in lower net interest margin and reduced overall profitability, especially if a low interest rate environment were to continue for a significant period of time. Shinhan Bank’s net interest margin (on a separate basis) increased to 1.86% in 2023 from 1.85% in 2022 primarily due to increases in base interest rate by the Bank of Korea from 1.00% to 1.25% in January 2022, from 1.25% to 1.50% in April 2022, from 1.50% to 1.75% in May 2022, from 1.75% to 2.25% in July 2022, from 2.25% to 2.50% in August 2022, from 2.50% to 3.00% in October 2022 and from 3.00% to 3.25% in November 2022. The Bank of Korea further raised the base interest rate from 3.25% to 3.50% in January 2023, and has maintained the same rate to date. Even if interest rates were to increase, the effect on Shinhan Bank’s results of operations may not be as beneficial as expected, or at all, due to factors such as increased volatility of market interest rates and tighter regulations regarding SOHO loans, including the implementation of additional credit review guidelines for individual businesses. Further, if competing financial institutions seek to expand market share by lowering their lending rates, Shinhan Bank may suffer customer loss, especially among customers who select their lenders principally on the basis of lending rates. In response thereto or for other strategic reasons, Shinhan Bank may subsequently lower its lending rates to stay competitive, which could lead to a further decrease in its net interest margins and outweigh any potential positive impact on the net interest margin from a general rise in market interest rates. Any future decline in Shinhan Bank’s customer base or its net interest margins could have an adverse effect on our results of operations and financial condition.

In the credit card sector, Shinhan Card competes principally with existing “monoline” credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, credit card service providers allied with mobile telecommunications service providers in Korea. Competition has been historically intense in this sector and the market has shown signs of saturation as existing and new credit card service providers make significant investments and engage in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. While competition has subsided somewhat recently due to stricter government regulations, such as curbs on excessive marketing expenses, competition remains intense and credit card issuers may continue to compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products such as credit card reward points, gift cards and low-interest consumer loan products. As a result, Shinhan Card may lose customers or service opportunities to competing credit card issuers and/or incur higher marketing expenses. Also, over the years, the Government has implemented regulations lowering certain merchant fees chargeable by credit card companies. In 2012, the Government adopted regulations mandating lower merchant fees chargeable to small-and medium-sized enterprises, and beginning January 31, 2016, a further reduction in the merchant fees chargeable to small-and medium-sized enterprises went into effect. The Enforcement Decree of the Specialized Credit Finance Business Act was amended in July 2017 and January 2019 to further expand the range of small-and medium-sized enterprises subject to lower merchant fees. Pursuant to the Specialized Credit Financial Business Act, the rates of fees chargeable to merchants are subject to review and revision every three years, and beginning January 2022, the fees chargeable to small-and medium-sized enterprises with respect to credit cards were further reduced as a result of this periodic review and revision. Additional amendments to regulations requiring further downward adjustments to merchant fees may come into force in the future. For further details on the Government's regulations on merchant fees chargeable by credit card companies, see "Risks Relating to Our Credit Card Business — Future changes in market conditions as well as other factors, such as stricter regulation, may lead to reduced revenues and deterioration in the asset quality of credit card receivables." In March 2023, the Financial Services Commission set up a task force consisting of members of the Financial Services Commission, the Financial Supervisory Service, credit card companies, and consumer groups, to discuss how to improve the merchant commission rate adjustment system in order to address disagreements among the stakeholders involved in the periodic review of the rates of fees charged to merchants.

In addition, since the implementation of the Improper Solicitation and Graft Act in September 2016, revenue growth for corporate cards and service related industries such as dining, floral and entertainment have shown signs of decline, and additional regulations on loans reducing maximum interest rates chargeable from 24% to 20% came into effect in July 2021. These developments have put further downward pressure on the results of operations for credit card companies, including Shinhan Card. Furthermore, the Government's recent guidelines to bolster consumer protection and protect customers' personal data in the aftermath of data leaks at certain credit companies (not including Shinhan Card) may result in additional compliance costs for Shinhan Card. Customer attrition, together with any further lowering of fees or reduction in base and market interest rates and/or additional expenses from more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of Shinhan Card's customers may deteriorate if customers with higher credit quality borrow from our competitors rather than Shinhan Card and it may become more difficult for Shinhan Card to attract and maintain quality customers. In general, the growth, market share and profitability of Shinhan Card's operations may decline or become negative as a result of market saturation in this sector, interest rate competition, pressure to lower fee rates and incur higher marketing expenses, as well as Government regulation and social and economic developments in Korea that are beyond our control, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt. If Shinhan Card fails to maintain or attract new cardholders or increase the card usage by existing customers or experiences deterioration in its asset quality and a rise in delinquency, our business, financial condition and results of operations may be adversely affected. In other financial services sectors, our other subsidiaries also compete in a highly fragmented market. Some of our competitors, particularly major global financial institutions, have greater experience and resources than we do.

Consolidation among our rival institutions and the Government's privatization efforts may also add competition in the markets in which we and our subsidiaries conduct business. A number of significant mergers and acquisitions in the industry have taken place in Korea recently. In January 2019, Woori Financial Group was established pursuant to a comprehensive stock transfer under the Korean Commercial Code whereby holders of the common stock of Woori Bank and certain of its subsidiaries transferred all of their shares to Woori Financial Group (the new financial holding company) and in return received shares of Woori Financial Group. As a result, Woori Bank and certain of its former wholly-owned subsidiaries became direct and wholly-owned subsidiaries of Woori Financial Group. The Korea Deposit Insurance Corp., which as of April 9, 2021 owned 17.25% of the outstanding common stock of Woori Financial Group, has sold 13.63% of the outstanding common stock of Woori Financial Group in multiple transactions in accordance with its plan that was approved by the Financial Services Commission in June 2019. The Korea Deposit Insurance Corp. sold additional 2.33% of the outstanding common stock of Woori Financial Group in May 2022 and currently owns only 1.29% of the outstanding common stock of Woori Financial Group. In the asset management business sector, Woori Financial Group acquired two asset management companies, Tongyang Asset Management and ABL Global Asset Management (former Allianz Global Investors). In August 2021, KB Financial Group completed the acquisition of Prudential Life Insurance, the former Korean unit of Prudential Financial Inc. Any of these developments may place us at a competitive disadvantage and outweigh any potential benefit to us in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganized entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding.

On February 1, 2019, we acquired a 59.15% interest in Orange Life Insurance, the former Korean unit of ING Life Insurance, as part of our efforts to diversify and enhance our non-banking businesses. On January 28, 2020, we acquired the remaining interests in Orange Life Insurance by effecting a comprehensive stock exchange under Articles 360-2 of the Korean Commercial Code whereby holders (other than us) of Orange Life Insurance’s common stock transferred all of their shares to us and in return receive shares of our common stock, and hence Orange Life Insurance became our wholly owned subsidiary as of such date. In May 2021, the Financial Services Commission approved the merger of Shinhan Life Insurance and Orange Life Insurance, with Shinhan Life Insurance being the surviving entity upon completion of the merger. Orange Life Insurance was subsequently merged with and into Shinhan Life Insurance in July 2021. On September 29, 2020, we acquired a 96.8% interest in Neoplux Co., Ltd. (“Neoplux”), a venture capital company formerly under the Doosan Group. On December 30, 2020, we acquired the remaining interest in Neoplux by effecting a small-scale stock exchange under Article 360-10 of the Korean Commercial Code, and hence Neoplux has become our wholly owned subsidiary as of such date. On January 11, 2021, Neoplux changed its legal name to Shinhan Venture Investment. In addition, on January 15, 2021, we acquired the remaining 35% interest in Shinhan BNP Paribas Asset Management Co., Ltd. (“Shinhan BNP Paribas Asset Management”) and changed its legal name to Shinhan Asset Management, and hence Shinhan Asset Management has become our wholly-owned subsidiary as of such date. On June 30, 2022 we acquired 94.54% interest in BNP Paribas Cardif General Insurance, which then changed its name to Shinhan EZ General Insurance, Ltd. Subsequently in November 2022, Shinhan EZ General Insurance, Ltd. conducted a paid-in capital increase and our shares decreased to 85.1%. We expect that such consolidation and other structural changes in the financial industry will continue. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability.

Regulatory reforms and the general modernization of business practices in Korea have also led to increased competition among financial institutions in Korea. In December 2017, the Financial Services Commission introduced the “my account at a glance” system, which enables consumers to view their key financial account information online, including information on banks, insurances, mutual finance, loan and card issuances on one page. The “my account at a glance” system became available on mobile channels in February 2016 and expanded its scope of services to include savings banks and securities companies. Since their introduction, the integrated automatic payment transfer management service, integrated account management service and “my account at a glance” system have gained widespread acceptance. As the reform of the financial sector continues, competition may become more intense among existing banks, insurance companies, securities companies and other financial organizations, and may lead to significant changes in the current Korean financial market. Moreover, since January 1, 2020, in calculating loan to deposit ratio, retail loans and corporate loans are weighed differently, with retail loans subject to a multiple of 115% and corporate loans (excluding loans to SOHOs) subject to a multiple of 85%, thereby increasing the impact of retail loans and reducing the impact of corporate loans in calculating such ratio. This may further intensify competition for corporate loans and deposits among commercial banks and, as a result, Shinhan Bank may face difficulties in increasing or retaining its corporate loans and deposits, which in turn may result in an increase in its cost of funding.

Furthermore, as the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. For example, as online service providers and technology companies with large-scale user networks, such as Kakao Corp., NAVER and Samsung Electronics, recently make significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as “fintech,” competition for online customers is growing not just among commercial banks, but also from online and mobile payment service providers. In 2015, the Government announced its plans to allow Internet-only banks to operate in Korea. KT consortium's K-Bank, Kakao consortium's Kakao Bank and Viva Republica consortium's Toss Bank commenced operations in April 2017, July 2017 and October 2021, respectively. Internet-only banks may have advantages over traditional banks as the former can pass savings in labor and overhead costs to their customers by offering higher interest rates on deposit accounts, lower loan costs and reduced service fees. Accordingly, commercial banks will likely face increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches.

As part of the Government's financial policies to promote innovative digital finance, 10 commercial banks, including Shinhan Bank, began offering a preliminary open banking service in October 2019. More local banks and fintech companies joined in December 2019, when the open banking service was fully and officially launched. Open banking service allows each fintech company and bank to provide banking services, such as checking balances and making withdrawals and transfers, with regards to customers' accounts at other banks. Using open banking service, customers can easily access accounts, products and services across multiple banks, instead of being limited to the accounts, products and services available at the particular bank that they deal with. In addition, on January 9, 2020, the Korean National Assembly passed amendments to three major data privacy laws (the Personal Information Protection Act, the Act on the Promotion of Information and Communications Network Utilization and Information Protection and the Act on the Use and Protection of Credit Information). These amendments introduced the MyData service, allowing and requiring (upon the customer's request and subject to compliance requirements) financial institutions that have been approved by the Financial Service Commission as a MyData service provider access and sharing of customers' personal information, credit information and transaction data. On January 27, 2021, Shinhan Bank and Shinhan Card each obtained a license from the Financial Services Commission as a MyData service provider. On January 5, 2023, Shinhan Bank launched the MyData business and Shinhan Card is planning to provide advanced wealth management and various financial services. Until October 13, 2021, the Financial Services Commission granted MyData licenses to 58 companies (46 companies receiving main licenses and 12 companies receiving preliminary licenses), 22 of which were fintech firms (19 companies receiving main licenses and three companies receiving preliminary licenses), and competition between traditional financial institutions like us and fintech firms is expected to intensify, particularly with respect to asset management services. On January 5, 2022, the API-based MyData service was fully implemented and 33 companies (including ten fintech firms) are providing services. As of December 31, 2023, the Financial Services Commission had granted licenses to 64 companies to operate as MyData service providers, 24 of which were fintech or IT firms. If more fintech companies receive authorization as MyData service providers, we expect competition for customers among banks and fintech firms to intensify. In addition, the Financial Services Commission also led discussions in July 2022 about the creation of a government-led platform where consumers can compare loan products from various financial institutions and apply for debt consolidation on a single platform. The platform launched in May 2023.

Recently, following the global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices (including a requirement to maintain a certain ratio of core capital to total risk exposure, which was introduced in January 2018 in order to control excessive leverage), which has had a dampening effect on competition. The Financial Services Commission implemented the capital requirements of Basel III, whose minimum requirements were phased in sequentially from December 1, 2013 through full implementation by January 1, 2015, based on the guidelines set forth in the amended Regulation on the Supervision of the Banking Business and the Detailed Regulation on the Supervision of the Banking Business. In addition, the Financial Services Commission has implemented the Basel III requirements relating to liquidity coverage ratio and capital conservation buffer, each of which have been fully phased in as of January 1, 2019. As of January 1, 2016, the Financial Services Commission implemented Basel III requirements relating to accumulation of additional capital for systemically important banks and bank holding companies and countercyclical capital buffer requirements. Each year, the Financial Services Commission may designate banks with significant influence (based on size and connectivity with other financial institutions) on the domestic financial system as a domestic systemically important bank and require the accumulation of additional capital in accordance with the highest of: (i) ratio of common equity capital to risk-weighted assets, ranging from 0.0% to 2.0%, depending on the systematic importance evaluation score, (ii) if the bank's holding company is a domestic systemically important bank holding company, the capital ratio corresponding to the additional capital required for the bank holding company under the Financial Holding Company Supervision Regulations, or (iii) if the bank is also a global systemically important bank, as defined by the Basel Committee on Banking Supervision (the "Basel Committee"), the capital ratio as required by the Basel Committee. According to the instructions of the Financial Services Commission, domestic systemically important banks, including Shinhan Bank, have been required to maintain an additional capital buffer of 0.25% since January 1, 2016, with such buffer increased by 0.25% annually to reach 1.00% as of January 1, 2019. The additional capital buffer was set to 1.00% on January 1, 2019 and has remained unchanged as of the date hereof. The Financial Services Commission may also, upon quarterly review, determine and require banks to accumulate a required level of countercyclical capital buffer within the range of 0% to 2.5% of risk-weighted assets, taking into account factors such as the degree of increase in credit relative to the gross domestic product. Also, the Financial Services Commission has formally implemented a regulation on the limit for large exposures based on the Basel standards for banks and bank holding companies, through the Banking Supervision Regulations and the Financial Holding Company Supervision Regulations, effective as of February 1, 2024. On May 24, 2023, the Financial Services Commission decided to increase the level of cyclical capital buffer of banks and their holding companies to 1.00%. The decision will be put into effect starting from May 1, 2024. In July 2021, Shinhan Financial Group, Hana Financial Group, KB Financial Group, NongHyup Financial Group and Woori Financial Group were designated by the Financial Services Commission as domestic systemically important bank holding companies, and Shinhan Bank, Hana Bank, Kookmin Bank, NongHyup Bank and Woori Bank were designated by the Financial Services Commission as domestic systemically important banks. In addition, in July 2021, the Financial Services Commission identified domestic systemically important bank holding companies and domestic systemically important banks as domestic systemically important financial institutions under the Act on the Structural Improvement of the Financial Industry. Domestic systemically important financial institutions are required to prepare and submit their own recovery plans to the Financial Supervisory Service within three months from the date of notification of designation pursuant to the Act on the Structural Improvement of the Financial Industry. However, there is no assurance that these measures will have the effect of curbing competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition in the Korean financial services industry. For further details on the capital requirements applicable to us, see "Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Capital Adequacy."

If, despite our efforts to adapt to the changing macroeconomic environment and comply with new regulations, we are unable to compete effectively in the changing business and regulatory environment, our profit margin and market share may erode and our future growth opportunities may become limited, which could adversely affect our business, financial condition and results of operations.

We and our subsidiaries need to maintain our capital ratios above minimum required levels, and the failure to so maintain could result in the suspension of some or all of our operations.

We and our subsidiaries in Korea are required to maintain specified capital adequacy ratios. For example, since January 1, 2015, we and our banking subsidiaries in Korea are required to maintain a minimum common equity Tier I capital adequacy ratio of 4.5%, a Tier I capital adequacy ratio of 6.0% and a total capital (BIS) ratio of 8.0%. These ratios measure the respective regulatory capital as a percentage of risk-weighted assets on a consolidated basis and are determined based on guidelines of the Financial Services Commission. In addition, as further described below, Shinhan Bank is also required to maintain a capital conservation buffer and additional capital as a domestic systemically important bank and may be required to maintain a countercyclical capital buffer. Also, our subsidiaries Shinhan Card, Shinhan Life Insurance and Shinhan Securities are each required to maintain a consolidated adjusted equity capital ratio of 8.0%, a solvency ratio of 100% and a net capital ratio of 100%, respectively.

While we and our subsidiaries currently maintain capital adequacy ratios in excess of the respective required regulatory minimum levels, we or our subsidiaries may not be able to continue to satisfy the capital adequacy requirements for a number of reasons, including an increase in risky assets and provisioning expenses, substitution costs related to the disposal of problem loans, declines in the value of securities portfolios, adverse changes in foreign currency exchange rates, changes in the capital ratio requirements, the guidelines regarding the computation of capital ratios, or the framework set by the Basel Committee upon which the guidelines of the Financial Services Commission are based, or other adverse developments affecting our asset quality or equity capital.

In December 2010, the Basel Committee issued final rules in respect of (i) a global regulatory framework for more resilient banks and banking systems and (ii) an international framework for liquidity risk measurement, standards and monitoring, which together are commonly referred to as "Basel III." Under Basel III, Tier I capital is defined to include common equity Tier I and additional Tier I capital. Common equity Tier I capital is a new category of capital primarily consisting of common stock, capital surplus, retained earnings and other comprehensive income (progressively phased into the capital ratio calculation over several years). The new minimum capital requirements, including the minimum common equity Tier I requirement of 4.5% and additional mandatory capital conservation buffer requirement of 2.5%, have been fully implemented as of January 1, 2019. Additional discretionary countercyclical capital buffer requirements are also expected to be phased in, which will range at the discretion of national regulators between 0% and 2.5% of risk-weighted assets. Basel III also introduces a minimum leverage ratio requirement. On December 7, 2017, the Basel Committee finalized several key methodologies for measuring risk-weighted assets. The revisions include a standardized approach for credit risk, a standardized approach for operational risk, revisions to the credit valuation adjustment (CVA) risk framework and constraints on the use of internal models. The Basel Committee had also previously finalized a revised standardized model for counterparty credit risk, revisions to the securitization framework and its fundamental review of the trading book, which updates both modeled and standardized approaches for market risk measurement. The revisions also include an output floor set at 72.5% of total risk-weighted assets based on the revised standardized approaches to limit the extent to which banks can reduce risk-weighted asset levels through the use of internal models. In order to provide additional operational capacity for banks and supervisors to respond to the impact of COVID-19 on the global banking system, the Basel Committee has announced deferral of the implementation date of the final Basel III standards by one year, to January 2023, including the revised standardized approach for credit and operational risk, revised CVA framework, and revised market risk framework. The 72.5% output floor is subject to a six-year phase-in period, beginning at 60% in January 2020 and increasing to 72.5% by January 2028. Upon implementation, banks in jurisdictions that permit reference to external credit ratings will be able to take into account external credit ratings in determining the risk weights for certain exposure classes, and different mortgage risk weights will apply depending on the loan-to-value ratio of the mortgage. In addition, the 2017 reforms remove the option to use internal ratings-based approaches for measurement of equity exposures, thus requiring use of the standardized approach. Banks will also need to reflect internal loss data in evaluating operational risk and comply with the principles for sound management of operational risk.

In order to implement the capital requirements under Basel III in Korea, the Regulation on the Supervision of the Banking Business was amended, effective December 1, 2013. Under the amended Regulation on the Supervision of the Banking Business, effective from January 1, 2015, commercial banks in Korea are required to maintain a minimum common equity Tier I ratio of 4.5%, a minimum Tier I capital ratio of 6.0% and a minimum total capital (BIS) ratio of 8.0%. The Regulation on the Supervision of the Banking Business was further amended on December 26, 2014, to implement the liquidity coverage ratio requirements under Basel III in increments of 5% annually, from 80% as of January 1, 2015 to 100% as of January 1, 2019. In April 2020, in response to the COVID-19 pandemic, the Financial Services Commission temporarily lowered the liquidity coverage ratio requirement from 100% to 85%. The Financial Services Commission subsequently decided to gradually restore this ratio on a quarterly basis from the third quarter of 2022, to a ratio of 90% in the third quarter of 2022, 92.5% in the fourth quarter of 2022, 95% in the first quarter of 2023, 97.5% in the second quarter of 2023 and 100% from the third quarter of 2023. However, the Financial Services Commission decided to apply the 92.5% ratio until the end of June 2023. Afterwards, at a financial market inspection meeting in October 2023, the Financial Services Commission decided to maintain 95% ratio until June 2024, and in principle, the gradual normalization is expected to resume from July 2024, but the final decision on whether to start normalization will be made based on market conditions in the second quarter of 2024. Capital conservation buffer requirements have also been phased in from January 1, 2016 in increments of 0.625% annually, to the effect that commercial banks in Korea are required to maintain a capital conservation buffer of 2.5% as of January 1, 2019. If a commercial bank fails to maintain such capital conservation buffer requirements, such bank will be subject to certain restrictions relating to its use of income, such as distributing dividends and purchasing treasury stock. As of January 1, 2016, the Financial Services Commission implemented Basel III requirements relating to accumulation of additional capital for systemically important banks and bank holding companies and countercyclical capital buffer requirements. Each year, the Financial Services Commission may designate banks with significant influence (based on size and connectivity with other financial institutions) on the domestic financial system as a domestic systemically important bank and require the accumulation of additional capital in accordance with the highest of: (i) ratio of common equity capital to risk-weighted assets, ranging from 0.0% to 2.0%, depending on the systematic importance evaluation score, (ii) if the bank’s holding company is a domestic systemically important bank holding company, the capital ratio corresponding to the additional capital required for the bank holding company under the Financial Holding Company Supervision Regulations, or (iii) if the bank is also a global systemically important bank, as defined by the Basel Committee, the capital ratio as required by the Basel Committee. Shinhan Financial Group and Shinhan Bank were selected as a domestic systemically important bank holding company and domestic systemically important bank, respectively, from 2016 through 2023. According to the instructions of the Financial Services Commission, domestic systemically important banks, including Shinhan Bank, have been required to maintain an additional capital buffer of 0.25% since January 1, 2016, with such buffer increased by 0.25% annually to reach 1.00% as of January 1, 2019. The additional capital buffer was set to 1.00% on January 1, 2019 and has remained unchanged as of the date hereof. The Financial Services Commission may also, upon quarterly review, determine and require banks to accumulate a required level of countercyclical capital buffer within the range of 0% to 2.5% of risk-weighted assets, taking into account factors such as the degree of increase in credit relative to the gross domestic product. Also, the Financial Services Commission has formally implemented a regulation on the limit for large exposures based on the Basel standards for banks and bank holding companies, through the Banking Supervision Regulations and the Financial Holding Company Supervision Regulations, effective as of February 1, 2024. On May 24, 2023, the Financial Services Commission decided to increase the level of cyclical capital buffer of banks and their holding companies to 1.00%. The decision will be put into effect starting from May 1, 2024.

We and our banking subsidiaries are currently, and have been, in full compliance with Basel III requirements as implemented in Korea since its introduction in December 2013. However, there is no assurance that we will continue to be able to be in compliance with Basel III requirements. New requirements under Basel III may require an increase in the credit risk capital requirements in the future, which may require us or our subsidiaries to either improve asset quality or raise additional capital. In addition, if the capital adequacy ratios of us or our subsidiaries were to fall below the required levels, the Financial Services Commission might impose penalties ranging from a warning to suspension or revocation of our or our subsidiaries’ business licenses. In order to maintain the capital adequacy ratios above the required levels, we or our subsidiaries may be required to raise additional capital through equity financing, but there is no assurance that we or our subsidiaries will be able to do so on commercially favorable terms or at all and, even if successful, any such capital raising may have a dilutive effect on our shareholders with respect to their interest in us or on us with respect to our interest in our subsidiaries.

Liquidity, funding management and credit ratings are critical to our ongoing performance.

Liquidity is essential to our business as a financial intermediary, and we may seek additional funding in the near future to satisfy liquidity needs, meet regulatory requirements, enhance our capital levels or fund the growth of our operations as opportunities arise.

For example, Basel III includes an international framework for liquidity risk measurement, standards and monitoring, as noted above, including a new minimum liquidity standard, known as the liquidity coverage ratio, which is designed to ensure that banks have an adequate stock of unencumbered high quality liquid assets ("HQLA") that can be easily and speedily converted into cash in the private marketplace to survive a significant stress scenario lasting 30 calendar days. The liquidity coverage ratio is computed as (a) the value of a banking organization's HQLA, divided by (b) its total expected net cash outflows over the next 30 calendar days under stress scenarios. The minimum liquidity coverage ratio is 100%. In January 2013, the Basel Committee released a revised formulation of the liquidity coverage ratio, one of two quantitative liquidity measures approved in December 2010 as part of Basel III. The Basel Committee extended the timetable for full phase-in of the liquidity coverage ratio to the effect that the minimum liquidity coverage ratio was set at 60% as of January 1, 2015 and thereafter was increased in annual increments of 10% so that the minimum liquidity coverage ratio reached 100% as of January 1, 2019. In December 2014, the Financial Services Commission promulgated regulations to implement the liquidity requirements of Basel III, including raising the minimum liquidity coverage ratio to 80% as of January 1, 2015 and thereafter by annual increments of 5% so that the minimum liquidity coverage ratio for commercial banks in Korea is 100% since January 1, 2019. In April 2020, in response to the COVID-19 pandemic, the Financial Services Commission temporarily lowered the liquidity coverage ratio requirement from 100% to 85%. The Financial Services Commission subsequently decided to gradually restore this ratio on a quarterly basis from the third quarter of 2022, to a ratio of 90% in the third quarter of 2022, 92.5% in the fourth quarter of 2022, 95% in the first quarter of 2023, 97.5% in the second quarter of 2023 and 100% from the third quarter of 2023. However, the Financial Services Commission decided to apply the 92.5% ratio until the end of June 2023. Afterwards, at a financial market inspection meeting in October 2023, the Financial Services Commission decided to maintain 95% ratio until June 2024, and in principle, the gradual normalization is expected to resume from July 2024, but the final decision on whether to start normalization will be made based on market conditions in the second quarter of 2024.

A substantial part of the liquidity and funding requirements for our banking subsidiaries is met through short-term customer deposits, which typically roll over upon maturity. While the volume of our customer deposits has generally been stable over time, customer deposits have from time to time declined substantially due to the popularity of other, higher-yielding investment opportunities, namely stocks and mutual funds, for example, during times of bullish stock markets. During such times, our banking subsidiaries were required to obtain alternative funding at higher costs. There is no assurance that a similar development will not occur in the future. In addition, in recent years, we have faced increasing pricing competition from our competitors with respect to our deposit products. If we do not continue to offer competitive interest rates to our deposit customers, we may lose their business, which has traditionally provided a stable and low-cost source of funding. In addition, even if we are able to match our competitors' pricing, doing so may result in an increase in our funding costs, which may have an adverse impact on our results of operations.

We and our subsidiaries also raise funds in capital markets and borrow from other financial institutions, the cost of which depends on market rates and the general availability of credit and the terms of which may limit our ability to pay dividends, make acquisitions or subject us to other restrictive covenants. While we and our subsidiaries are not currently facing liquidity difficulties in any material respect, if we or our subsidiaries are unable to obtain the funding we need on terms commercially acceptable to us for an extended period of time for whatever reason, we may not be able to ensure our financial viability, meet regulatory requirements, implement our strategies or compete effectively.

Credit ratings affect the cost and other terms upon which we and our subsidiaries are able to obtain funding. Domestic and international rating agencies regularly evaluate us and our subsidiaries, and their ratings of our and our subsidiaries' long-term debt are based on a number of factors, including our financial strength as well as conditions affecting the financial services industry and the Korean economy in general. There can be no assurance that the rating agencies will maintain our current ratings or outlooks. There is no assurance that Shinhan Bank, Shinhan Card, any of our other major subsidiaries or our holding company will not experience a downgrade in their respective credit ratings and outlooks for reasons related to the general Korean economy or reasons specific to such entity. Any downgrades in the credit ratings and outlooks of us and our subsidiaries will likely increase our cost of funding, limit our access to capital markets and other borrowings, or require us to provide additional credit enhancement in financial transactions, any of which could adversely affect our liquidity, net interest margins and profitability, and in turn, our business, financial condition and results of operations.

Our business may be materially and adversely affected by legal claims and regulatory actions against us.

In the ordinary course of our business, we are subject to risk of legal claims and regulatory actions. We are also subject to a variety of other lawsuits, claims, disputes, legal proceedings and government investigations in Korea and other jurisdictions where we are active, including with respect to financial products sold by us or our subsidiaries. These types of claims, disputes, proceedings or investigations may expose us to substantial monetary and/or reputational damages, legal defense costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on our businesses or sanctions against our management and employees. We may also be required to compensate purchasers of financial products sold by us that become subject to dispute or regulatory action, or suffer losses or record provisions for credit loss allowance for expected losses in connection with such financial products. See "Item 8.A. Consolidated Statements and Other Financial Information — Legal Proceedings" and Note 46 of the notes to our consolidated financial statements included in this annual report.

While we plan to rigorously defend our positions in such disputes, lawsuits or other regulatory proceedings against us, the outcome of these matters are highly uncertain and difficult to predict, and they could adversely affect our results of operation and future business. The total amount in dispute or subject to regulatory action may increase during the course of these legal claims and regulatory actions, and other lawsuits may be brought against us based on similar allegations. Accordingly, these legal claims and regulatory actions may have material adverse effect on our business, financial condition, results of operations and reputation.

Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected and will continue to affect our business, results of operations and financial condition.

The most significant market risks we face are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in foreign currency exchange rates, particularly in the Korean Won to U.S. Dollar exchange rates, affect the value of our assets and liabilities denominated in foreign currencies, the reported earnings of our non-Korean subsidiaries and income from foreign exchange dealings, and substantial and rapid fluctuations in exchange rates may cause difficulty in obtaining foreign currency-denominated financing in the international financial markets on commercial terms acceptable to us or at all. The performance of financial markets may affect bond and equity prices and, therefore, cause changes in the value of our investment and trading portfolios. While we have implemented risk management systems and risk thresholds to mitigate and control these and other market risks to which we are exposed, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on our business, financial condition and results of operations.

Historically, Korea, like many other countries, has experienced interest rate fluctuations, in part due to the Government's policy to stabilize the economy through active rate-controlling measures. In November 2017, the Bank of Korea raised the base interest rate to 1.50%, marking the first time it has increased the base interest rate since 2011, and further raised such rate to 1.75% in November 2018. The Bank of Korea reduced the base interest rate from 1.75% to 1.50% in July 2019, from 1.50% to 1.25% in October 2019, from 1.25% to 0.75% in March 2020 and from 0.75% to 0.50% in May 2020. The Bank of Korea raised the base interest rate from 0.50%

to 0.75% in August 2021, from 0.75% to 1.00% in November 2021, from 1.00% to 1.25% in January 2022, from 1.25% to 1.50% in April 2022, from 1.50% to 1.75% in May 2022, from 1.75% to 2.25% in July 2022, from 2.25% to 2.50% in August 2022, from 2.50% to 3.00% in October 2022 and from 3.00% to 3.25% in November 2022. The Bank of Korea further raised the base interest rate from 3.25% to 3.50% in January 2023. Interest rate movements, in terms of magnitude and timing as well as their relative impact on our assets and liabilities, have a significant impact on our net interest margin and profitability, particularly with respect to our financial products that are sensitive to such movements. For example, if the interest rates applicable to our loans (which are recorded as assets) increase at a slower pace or by a thinner margin than the interest rates applicable to our deposits (which are recorded as liabilities), our net interest margin will shrink and our profitability will be negatively affected. In addition, the relative size and composition of our variable rate loans and deposits (as compared to our fixed rate loans and deposits) may also impact our net interest margin. Furthermore, the difference in the average repricing frequency of our interest-earning assets (primarily loans) compared to our interest-bearing liabilities (primarily deposits) may also impact our net interest margin. For example, since our deposits tend to have longer terms, on average, than those of our loans, our deposits are on average less sensitive to movements in the base interest rates on which our deposits and loans tend to be pegged, and therefore, a decrease in the base interest rates tends to decrease our net interest margin while an increase in the base interest rates tends to have the opposite effect. While we continually manage our assets and liabilities to minimize our exposure to interest rate volatility, such efforts by us may not mitigate the impact of interest rate volatility in a timely or effective manner, and our net interest margin, and in turn our financial condition and results of operations, could suffer significantly.

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in Won per US$1.00.

Year Ended December 31,	**At End of Period**	**Average(1)**	**High**	**Low**
		(Won per US$1.00)		
2019	1,155.5	1,165.8	1,220.7	1,111.8
2020	1,086.1	1,180.6	1,267.3	1,081.9
2021	1,188.6	1,144.9	1,198.7	1,081.6
2022	1,260.2	1,291.8	1,440.5	1,187.0
2023	1,291.0	1,306.8	1,362.9	1,220.3
October	1,351.0	1,351.5	1,362.9	1,338.2
November	1,290.0	1,308.2	1,356.9	1,289.3
December	1,291.0	1,304.4	1,325.3	1,288.5
2024 (through April 5)	1,352.6	1,331.1	1,352.6	1,300.5
January	1,334.9	1,325.9	1,344.2	1,300.5
February	1,336.2	1,331.3	1,337.3	1,321.9
March	1,347.1	1,331.7	1,348.6	1,310.8
April (through April 5)	1,352.6	1,349.6	1,352.6	1,346.9

Source: Federal Reserve Board
Note:

(1) The average rate for annual and interim periods were calculated by taking the simple average of the Noon Buying Rates on the last day of each month during the relevant period. The average rates for the monthly periods (or portion thereof) were calculated by taking the simple average of the daily Noon Buying Rates during the relevant month (or portion thereof).

We have translated certain amounts in Korean Won, which appear in this annual report, into U.S. Dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into U.S. Dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, translations of Won amounts to U.S. Dollars are based on the Noon Buying Rate in effect on December 29, 2023, which was ₩1,291.0 to US$1.00. On April 5, 2024, the Noon Buying Rate in effect was ₩1,352.6 to US$1.00.

We cannot assure you when and to what extent the Bank of Korea will in the future adjust the base interest rate, to which the market interest rate correlates. A decision to adjust the base interest rate is subject to many policy considerations as well as market factors, including the general economic cycle, inflationary levels, interest rates in other economies and foreign currency exchange rates, among others. In general, a decrease in interest rates adversely affects our interest income due to the different maturity structure for our assets and liabilities as discussed above. In contrast, if there were to be a significant or sustained increase in interest rates, all else being equal, such movement would lead to a decline in the value of traded debt securities and could also raise our funding costs, while reducing loan demand, especially among retail customers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches in our asset liability management and to maintain our profitability. In addition, rising interest rates may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to deterioration of asset quality for our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rates will increase the funding costs of our borrowers and may adversely affect their ability to make payments on their outstanding loans. See “Item 5.A. Operating Results — Interest Rates.”

The implementation of IFRS 17 beginning on January 1, 2023 renders certain of our historical financial information as of December 31, 2021 and for the year ended December 31, 2021, included in this annual report, not directly comparable with our financial information as of December 31, 2022 and 2023 and for the years ended December 31, 2022 and 2023 included in this annual report.

In response to a lack of comparability in the global insurance industry stemming from variations in accounting policies being applied, in May 2017, the International Accounting Standard Board issued IFRS 17 ‘Insurance Contracts’, a new IFRS accounting standard for insurance contracts effective for annual reporting periods beginning on or after January 1, 2023. In April 2021, the Korea Accounting Standard Board adopted IFRS 17 ‘Insurance Contracts’, effective for annual periods beginning on or after January 1, 2023. Under IFRS 17, insurance contract liabilities will be calculated in terms of market value (as the present value of future insurance cash flows with a provision for risk) instead of book value. As the discount rate will reflect current interest rates rather than book yields, we may have a significantly higher debt balance under IFRS 17 due to higher insurance liabilities, thereby resulting in a decrease in our risk-based capital.

Beginning January 1, 2023, IFRS 17 ‘Insurance Contracts’ has replaced in its entirety existing guidance in IFRS 4. Therefore, we have applied IFRS 17 to insurance contracts in preparing our financial statements as of December 31, 2023 and for the year ended December 31, 2023, and in preparing such financial statements we have retrospectively applied IFRS 17 to insurance contracts to restate the comparative financial information as of December 31, 2022 and for the year ended December 31, 2022 included therein, in each case, in accordance with IFRS 17. Unless stated otherwise, our financial information as of December 31, 2022 and 2023 and for the years ended December 31, 2022 and 2023 included in this annual report are shown based on IFRS 17 whereas our financial information as of December 31, 2021 and for the year ended December 31, 2021 included in this annual report are shown based on IFRS 4 and have not been restated based on IFRS 17. Accordingly, certain of our financial information as of December 31, 2022 and 2023 and for the years ended December 31, 2022 and 2023 included in this annual report may not be directly comparable against our historical financial information as of December 31, 2021 and for the year ended December 31, 2021, included in this annual report. Investors must therefore exercise caution when making comparisons of any financial figures in the Annual Report on Form 20-F against our financial figures included in this annual report and when evaluating our financial condition, results of operations and results.

For further information regarding the implementation of IFRS 17, see “— Risks Related to Our Other Businesses — Prolonged periods of declining or low interest rates or changes in related accounting standards may reduce or turn negative our investment margin on savings insurance products and result in an increase in the valuation of our liabilities associated with these products.” in this annual report and Note 3 and Note 52 of the notes to the audited consolidated annual financial statements included in this annual report.

Replacement of London Interbank Offered Rate and reforms of other interest rate benchmarks could adversely affect our business, financial condition and results of operations.

Many of our products and services have referred to benchmark interest rates such as the London Interbank Offered Rate (“LIBOR”) in many currencies, including the U.S. Dollar. We have also utilized such benchmark interest rates for our own evaluation of financial instruments and various other internal management purposes. In March 2021, the U.K. Financial Conduct Authority (the “FCA”), which has regulatory authority with respect to LIBOR, announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative (i) after December 31, 2021 in the case of all Sterling, Euro, Swiss franc and Japanese yen settings and the one-week and two month U.S. dollar settings and (ii) after June 30, 2023 in the case of the remaining U.S. dollar settings. While the ICE Benchmark Administration, the administrator of LIBOR, may publish certain LIBOR settings on the basis of a synthetic methodology for “tough legacy” contracts, there is no guarantee that such rates will be determined and published after the announced deadlines nor confirmed to be representative by the FCA.

In light of the transition away from LIBOR, the Secured Overnight Financing Rate (“SOFR”) has been identified by the Alternative Reference Rates Committee convened by the Board of Governors of the U.S. Federal Reserve System and the Federal Reserve Bank of New York as the preferred alternative benchmark reference rate for LIBOR and differs from LIBOR in many respects, including its basis on actual observed transactions in the U.S. treasury market as opposed to LIBOR’s usage of estimations of borrowing rates. While there are a number of international working groups focused on transition plans and the provision of fallback contract language that seek to minimize market disruption, replacement of LIBOR or any other benchmark with a new benchmark rate, such as SOFR, could adversely impact the value of and return on financial instruments and contracts. Moreover, replacement of LIBOR or other benchmark rates could result in market dislocations and have other adverse consequences for market participants, including the potential for increased costs, and litigation risks, including the potential for disputes with counterparties regarding the interpretation and enforceability of fallback contract language in LIBOR-based financial instruments and contracts. In particular, such transition may, among other things:

- adversely affect the price, liquidity, profitability, and tradability of a wide range of financial instruments, such as loans and derivatives, included in our financial assets and liabilities that reference LIBOR and other interest rate benchmarks;
- require negotiations with our counterparties to modify contracts to replace the reference rate for existing contracts based on or linked to LIBOR and other interest rate benchmarks with an alternative interest rate;
- result in disputes with customers and counterparties concerning the interpretation of affected contracts or economic adjustments to the alternative interest rate adopted in connection with the replacement of LIBOR and other interest rates and the transition to alternative interest rates, or disputes concerning inappropriate trade practices or abuse of a dominant bargaining position in transactions with customers;
- require us to respond to regulatory authorities in connection with the replacement of LIBOR and other interest rates benchmarks and the transition to an alternative interest rate;
- require us to develop risk management and other operational systems and processes (including information technology systems) necessary to effectively deal with the replacement of LIBOR and other interest rates and the transition to an alternative interest rate, which may prove challenging or impossible, or incur significant investment and other costs in connection with such replacement and transition; or
- result in accounting or other issues, such as by causing hedging accounting items to be derecognized.

There can be no assurance that a change in the benchmark interest rate and related valuation methods will not have a material adverse effect on our business, results of operations and financial condition.

We may incur losses associated with our counterparty exposures.

We face the risk that counterparties will be unable to honor contractual obligations to us or our subsidiaries. These parties may default on their obligations to us or our subsidiaries due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swaps or other derivative contracts under which counterparties have obligations to make payments to us or our subsidiaries or in executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Any realization of counterparty risk may adversely affect our business, operations and financial condition.

Risks Relating to Our Banking Business

We have significant exposure to small- and medium-sized enterprises, and financial difficulties experienced by such enterprises may result in a deterioration of our asset quality.

Our banking activities are conducted primarily through our wholly-owned subsidiary, Shinhan Bank. One of our core banking businesses has historically been and continues to be lending to small- and medium-sized enterprises (as defined in "Item 4.B. Business Overview — Our Principal Activities — Corporate Banking Services — Small- and Medium-sized Enterprises Banking"). Shinhan Bank's loans (before allowance for credit losses and deferred loan origination costs and fees) to such enterprises amounted to ₩121,961 billion as of December 31, 2021, ₩131,304 billion as of December 31, 2022 and ₩134,271 billion as of December 31, 2023, representing 31.0%, 31.8% and 32.2%, respectively, of our total loan portfolio as of such dates.

Compared to loans to large corporations, which tend to be better capitalized and better able to weather business downturns, or loans to individuals and households, which tend to be secured with homes and with respect to which the borrowers are therefore less willing to default, loans to small- and medium-sized enterprises have historically had a relatively higher delinquency ratio. Many small- and medium-sized enterprises represent sole proprietorships or small businesses dependent on a relatively limited number of suppliers or customers and tend to be affected to a greater extent than large corporate borrowers by fluctuations in the Korean and global economy. In addition, small- and medium-sized enterprises often maintain less sophisticated financial records than large corporate borrowers. Therefore, it is generally more difficult for banks to judge the level of risk inherent in lending to such enterprises, as compared to large corporations. In addition, many small- and medium-sized enterprises are dependent on business relationships with large corporations in Korea, primarily as suppliers. Any difficulties encountered by those large corporations would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans. As large Korean corporations continue to expand into China, Southeast Asia and other countries with lower labor costs and other expenses by relocating their production plants and facilities to such countries, such development may have a material adverse impact on such small- and medium-sized enterprises.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, recent economic difficulties in Korea and globally and aggressive marketing and intense competition among banks to lend to this segment in recent years, coupled with our efforts to counter asset quality deterioration through conservative lending policy, have led to a fluctuation in the asset quality of our loans to this segment. As of December 31, 2021, 2022 and 2023, Shinhan Bank's delinquent loans to small- and medium-sized enterprises were ₩363 billion, ₩385 billion and ₩542 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.30%, 0.29% and 0.40%, respectively. If the ongoing difficulties in the Korean or global economy were to continue or aggravate, the delinquency ratio for our loans to small- and medium-sized enterprises may rise.

Of particular concern is our exposure to enterprises in the real estate and leasing, and construction industries. As of December 31, 2023, Shinhan Bank had outstanding loans (before allowance for credit losses on loans and deferred loan origination costs and fees) to enterprises in the real estate and leasing, and construction industries (many of which are small-and medium-sized enterprises) of ₩45,459 billion and ₩4,377 billion, respectively, representing 13.0% and 1.2%, respectively, of its total loan portfolio as of such date. We also have other exposure to borrowers in these sectors of the Korean economy, including extending guarantees for the benefit of such companies and holding debt and equity securities issued by such companies. In addition, Shinhan

Bank has exposure to borrowers in the shipbuilding and shipping industries, which have yet to stage a meaningful turnaround.

The enterprises in the real estate development and construction industries in Korea, which are heavily concentrated in the housing market, have recently struggled to achieve growth due to rising inflation rate in recent years as well has relatively high interest rate environment. Ongoing economic sluggishness in Korea and globally and demographic changes in the Korean population, in particular a continuing trend of low birth rate and aging population, may further cause difficulties to the housing market thereby adversely affecting such enterprises. We also have limited exposure to real estate project financing, particularly by construction companies that have built residential units in provinces outside the metropolitan Seoul area, which have recently been experiencing increasing level of delinquencies primarily due to low rate of pre-sales, the proceeds from which the construction companies primarily rely on as a key source for liquidity and cash flow.

Any of the foregoing developments may result in deterioration in the asset quality of our banking subsidiaries. See “Item 4.B. Business Overview — Description of Assets and Liabilities — Credit Exposures to Companies in Workout and Recovery Proceedings.” We have been taking active steps to curtail delinquency among our small- and medium-sized enterprise customers, including by way of strengthening loan application review processes and closely monitoring borrowers in troubled sectors. Despite such efforts, there is no assurance that the delinquency ratio for our loans to small- and medium-sized enterprises will not rise in the future, especially if the Korean economy were to face renewed difficulties and, as a result, the liquidity and cash flow of these borrowers deteriorate. A significant rise in the delinquency ratios among these borrowers would lead to increased charge-offs and higher provisioning and reduced interest and fee income, which would have a material adverse effect on our business, financial condition and results of operations.

A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may adversely affect our credit portfolio.

Most of our mortgage and home equity loans are secured by borrowers’ homes, other real estate, other securities and guarantees (which are principally provided by the Government and other financial institutions), and a substantial portion of our corporate loans are also secured, including by real estate. As of December 31, 2023, the secured portion were collateralized or guaranteed of Shinhan Bank’s loans amounted to ₩223,568 billion, representing 63.7% of its total loans. No assurance can be given that the collateral value will not materially decline in the future. Shinhan Bank’s general policy for mortgage and home equity loans is to lend up to 40% to 85% of the appraised value of the collateral, but subject to the maximum loan-to-value ratio, debt-to-income ratio and debt service ratio requirements for mortgage loans implemented by the Government, and to periodically re-appraise such collateral. In order to mitigate our loss in the event of a decrease in the value of collateral, we have made effort to increase the proportion of installment principal repayment-based loans and manage the loan-to-value ratio of loans. As of December 31, 2023, installment principal repayment-based housing loans accounted for 57.5% of the housing loans extended by Shinhan Bank, and the loan-to-value ratio of mortgage and home equity loans of Shinhan Bank was 46.2%. Despite these efforts however, if the real estate market in Korea experiences a downturn, the value of the collateral may fall below the outstanding principal balance of the underlying mortgage loans. Borrowers of such under-collateralized mortgages or loans may be forced to pay back all or a portion of such mortgage loans or, if unable to meet the collateral requirement through such repayment, sell the underlying collateral, which sales may lead to a further decline in the price of real estate in general and set off a chain reaction for other borrowers due to the further decline in the value of collateral. Declines in real estate prices reduce the value of the collateral securing our mortgage and home equity loans, and such reduction in the value of collateral may result in our inability to cover the uncollectible portion of our secured loans. A decline in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such decline, may result in the deterioration of our asset quality and require us to make additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea generally take 7 to 12 months from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. No assurance can be given that we will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral and general declines in collateral value. Our failure to recover the expected value of collateral could expose us to significant losses.

Guarantees received in connection with our real estate financing may not provide sufficient coverage.

Primarily through Shinhan Bank, we, alone or together with other financial institutions, provide financing to real estate development projects, which are concentrated largely in the construction of residential complexes. Developers in Korea commonly use project financing to acquire land and pay for related project development costs. As a market practice, lenders in project financing, including Shinhan Bank, generally receive from general contractors a performance guarantee for the completion of projects by the developers as well as a payment guarantee for the loans raised by a special purpose financing vehicle established by the developers in order to procure the construction orders, as the developers tend to be small and highly leveraged. Shinhan Bank has actively managed and reduced its real estate project financing-related exposure, particularly during sustained downturns in the Korean real estate market. As of December 31, 2023, the total outstanding amount of Shinhan Bank’s real estate project financing-related exposure was W6.6 trillion. However, if defaults were to significantly increase under our existing loans to real estate development projects and the general contractors fail to pay the guaranteed amount necessary to cover the amount of our financings, this may have an adverse effect on our business, financial condition and results of operations.

A limited portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, and future financial difficulties experienced by them may have an adverse impact on us.

Of Shinhan Bank’s 10 largest corporate exposures as of December 31, 2023, three were companies for which Shinhan Bank was a main creditor bank. All of the 10 companies are or were members of the main debtor groups as identified by the Governor of the Financial Supervisory Service, which are largely comprised of the largest Korean commercial conglomerates known as *“chaebols.”* As of such date, the total amount of Shinhan Bank’s exposures to the 10 companies was W30,521 billion, or 8.8%, of its total exposures. As of that date, Shinhan Bank’s single largest outstanding exposure to a main debtor group amounted to W5,784 billion, or 1.7%, of its total exposures. Largely due to the continued stagnation in the shipbuilding industry, current and former member companies of the STX Group, one of the leading conglomerates in Korea, entered into voluntary arrangements in 2013 with their creditors (including Shinhan Bank) to improve their credit situation, and STX Offshore & Shipbuilding and STX Heavy Industries, two of the STX Group’s member companies, recently filed for court receivership in May 2016 and July 2016, respectively. Due to stagnation in the construction industry, Keangnam Enterprises Co., Ltd., a large construction company in Korea, also entered into workout proceedings in 2013 and subsequently filed for recovery proceedings in March 2015. Dongbu Steel Co., Ltd. and Sambu Construction Co., Ltd. also experienced significant hardship and entered into workout or recovery proceedings in 2015. Additionally, in October 2015, creditors of Daewoo Shipbuilding & Marine Engineering Co., Ltd., led by Korea Development Bank, announced a restructuring plan that included cash injection and additional loans totaling W4.2 trillion and extensive streamlining measures, and in November 2016, Korea Development Bank agreed to swap W1.8 trillion of debt to equity and the Export-Import Bank of Korea agreed to issue W1 trillion of perpetual bonds. Amidst continued deterioration of Daewoo Shipbuilding & Marine Engineering Co., Ltd.’s financial conditions, in March 2017, Korea Development Bank and the Export-Import Bank of Korea further agreed to provide an additional W2.9 trillion in loans and swap W1.6 trillion of debt to equity, provided that other creditors and bondholders agree to certain debt-to-equity swaps and extension of maturities. In January 2016, Hanjin Heavy Industries & Construction Co., Ltd. entered into voluntary restructuring agreements with its creditors due to liquidity shortage in the wake of prolonged industry slowdown. Partly as a result of its active past efforts to reduce exposure to the shipbuilding and construction sectors, Shinhan Bank currently has limited exposure to the aforementioned troubled companies. However, if the credit quality of Shinhan Bank’s exposure to large corporations, including those in the main debtor groups, declines, Shinhan Bank may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect its financial condition, results of operations and capital adequacy. No assurance can be given that the allowances it has established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in the case of a prolonged or renewed economic downturn.

A limited number of the main debtor groups to which Shinhan Bank has credit exposure are subject to restructuring programs or are otherwise making significant efforts to improve their financial conditions, such as by obtaining intragroup loans and entering into agreements to further improve their capital structures. No assurance can be given that there will not be future restructuring with Shinhan Bank’s major corporate customers or that such restructuring will not result in significant losses to Shinhan Bank with less than full recovery. In addition, if the Government decides to pursue an aggressive restructuring policy with respect to distressed companies, Korean commercial banks, including Shinhan Bank, may face a temporary rise in delinquencies and intensified pressure for additional provisioning. Furthermore, bankruptcies or financial difficulties of large corporations, including *chaebol* groups, may have an adverse ripple effect of triggering delinquencies and impairment of Shinhan Bank’s loans to small- and medium-sized enterprises that supply parts or labor to such corporations. If Shinhan Bank experiences future losses from its exposure to large corporations, including *chaebol* groups, it may have a material adverse effect on Shinhan Bank’s business, financial condition and results of operations. See “Item 4.B. Business Overview — Description of Assets and Liabilities — Loans — Loan Portfolio — Exposure to Main Debtor Groups.”

The asset quality of our retail loan portfolio may deteriorate.

In recent years, consumer debt, including lending to households and small unincorporated businesses, has continued to increase in Korea. Shinhan Bank’s portfolio of retail loans is comprised of two principal product types, namely secured retail loans (which are primarily comprised of mortgage and home equity loans secured by real estate) and general purpose loans (which are unsecured loans and tend to carry a higher credit risk). As of December 31, 2023, Shinhan Bank’s retail loan portfolio (before allowance for credit losses and deferred loan origination costs and fees and excluding credit card loans) was ₩141,542 billion, representing 40.3% of its total loans outstanding. As of December 31, 2021, 2022 and 2023, Shinhan Bank’s non-performing retail loans (excluding credit card loans) were ₩261 billion, ₩289 billion and ₩377 billion, respectively, representing non-performing loan ratios (net of charge-offs and loan sales) of 0.18% and 0.20% and 0.27%, respectively.

Our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. For example, a rise in unemployment, an increase in interest rates or a decline in housing prices in Korea could adversely affect the ability of consumers to make payments and increase the likelihood of potential defaults. Economic difficulties in Korea that hurt consumers could result in increasing delinquencies and a decline in the asset quality of our household loan portfolio, which may in turn require us to record higher provisions for credit loss and charge-offs and may materially and adversely affect our financial condition and results of operations.

Any deterioration in the asset quality of our guarantees and acceptances will likely have a material adverse effect on our financial condition and results of operations.

In the normal course of banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. Financial guarantees, which are contracts that require us to make specified payments to reimburse the beneficiary of the guarantee for a loss such beneficiary incurs because the debtor in respect of which the guarantee is given fails to make payments when due in accordance with the terms of the relevant debt instrument, are recognized initially at fair value, and such initial fair value is amortized over the life of the financial guarantee. Other guarantees are recorded as off-balance sheet items in the notes to our financial statements and those guarantees that we have confirmed to make payments are recorded on the statements of financial position. As of December 31, 2023, Shinhan Bank had aggregate guarantees and acceptances of ₩18,303 billion, for which it provided allowances for losses of ₩62.2 billion. If there is significant deterioration in the quality of assets underlying our guarantees and acceptances, our allowances may be insufficient to cover actual losses resulting in respect of these liabilities.

Risks Relating to Our Credit Card Business

Future changes in market conditions as well as other factors, such as stricter regulation, may lead to reduced revenues and deterioration in the asset quality of credit card receivables.

As of December 31, 2021, 2022 and 2023, Shinhan Card's interest-earning credit card assets amounted to ₩34,437 billion, ₩39,034 billion and ₩40,457 billion, respectively. Our large exposure to credit card and other consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers in general. For example, a rise in unemployment, an increase in interest rates, a downturn in the real estate market, or a general contraction or other difficulties affecting the Korean economy may lead Korean consumers to reduce spending (a substantial portion of which is conducted through credit card transactions), which in turn leads to reduced earnings for our credit card business, as well as to higher default rates on credit card loans, deterioration in the quality of our credit card assets and increased difficulties in recovering written-off assets from which a significant portion of Shinhan Card's revenues is derived. Any of these developments could have a material adverse effect on our business, financial condition and results of operations.

Increasing consumer and corporate spending and borrowing on our card products and growth in card lending balances depend in part on Shinhan Card's ability to develop and issue new or enhanced card and prepaid products and increase revenue from such products and services, as well as the level of discretionary income among our cardholders, which is largely affected by macroeconomic factors beyond our control. In addition, credit card companies in Korea, including Shinhan Card, may not be able to enjoy any rapid growth in revenue over the long term due to the maturing nature of the credit card industry, in part due to oversaturation of credit card service providers. Shinhan Card's future earnings and profitability also depend on its ability to attract new cardholders, reduce cardholder attrition, increase merchant coverage and capture a greater share of customers' total credit card spending in Korea and overseas. Shinhan Card may not be able to manage and expand cardholder benefits in a cost-effective manner or contain the growth of marketing, promotion and reward expenses to a commercially reasonable level. If Shinhan Card is not successful in increasing customer spending, maintaining or expanding its market position and asset growth, or containing costs or cardholder benefits, its financial condition, results of operations and cash flow could be negatively affected.

Non-financial companies, such as e-commerce and retail business, as well as fintech companies have become major competitors in various business areas. Fast-growing online service providers and tech companies joined the financial payment service market, changing the landscape of the payment service industry. Convenient payment service providers such as Kakao Pay, Naver Pay, and Coupang Pay are competing against the payment services of Shinhan Card. As a response to such market changes, Shinhan Card developed the "Shinhan pLay", which is a platform for mobile application-credit card payment model that can be used for both online and offline payments. Shinhan Card pioneered "touch payment" using magnetic secure transmission technology and commercialized biometric "Face Pay," which allows for payment without the need for card plates or digital devices. Competition is expected to intensify as MyData services are launched and the sharing of customer personal information, credit information, and transaction data across a variety of digital platforms is expanded.

In addition, Government policies and regulations aimed at protecting small-and medium-sized enterprises, such as the reduction of fees chargeable to small-and medium-sized merchants, may have a material adverse effect on our revenues from Shinhan Card. In January 2012, the Government expanded the definition of a small-and medium-sized merchant to include those with annual sales of up to ₩200 million and, effective September 2012, lowered fees chargeable to such merchants from 1.8% to 1.5% with respect to credit cards. In January 2015, the Government further expanded the definition of a small-and medium-sized merchant to include those with annual sales of more than ₩200 million and up to ₩300 million, and imposed a cap on fees chargeable to such merchants at 2.0% with respect to credit cards. In November 2015, the Government announced a further reduction in the merchant fees chargeable to small-and medium-sized enterprises with respect to credit cards, effective January 31, 2016, from 2.0% to 1.3% for merchants with annual sales of more than ₩200 million and up to ₩300 million, and from 1.5% to 0.8% for merchants with annual sales of up to ₩200 million. In July 2017, the Enforcement Decree of the Specialized Credit Finance Business Act was amended to expand the range of small-and medium-sized enterprises subject to lower merchant fees. Upon the amendment, merchants with annual sales of more than W300 million and up to W500 million are subject to merchant fees chargeable with respect to credit cards of 1.3%, and merchants with annual sales of up to W300 million are subject to merchant fees chargeable with respect to credit cards of 0.8%. In January 2019, the government further expanded the definition of a small-and medium-sized merchant to include those with annual sales of more than W500 million and up to W3 billion. Upon the amendment, merchants with annual sales of less than W500 million are subject to merchant fees chargeable with respect to credit cards of 0.8%, merchants with annual sales of more than W500 million and up to W1 billion are subject to merchant fees chargeable with respect to credit cards of 1.4%, and merchants with annual sales of more than W1 billion and up to W3 billion are subject to merchant fees chargeable with respect to credit cards of 1.6%. Effective January 2022, the fees chargeable to small-and medium-sized enterprises with respect to credit cards were further reduced. Upon the amendment, merchants with annual sales of less than W300 million are subject to merchant fees chargeable with respect to credit cards of 0.5%, merchants with annual sales of more than W300 million and up to W500 million are subject to merchant fees chargeable with respect to credit cards of 1.1%, merchants with annual sales of more than W500 million and up to W1 billion are subject to merchant fees chargeable with respect to credit cards of 1.25%, and merchants with annual sales of more than W1 billion and up to W3 billion are subject to merchant fees chargeable with respect to credit cards of 1.5%. Pursuant to the Specialized Credit Financial Business Act, the rates of fees chargeable to merchants are subject to review and revision every three years, starting from 2012, and the rates of fees chargeable may be further adjusted due to changes in relevant regulations or Government policy. A task force comprised of representatives from the credit card industry, consumers, merchants and the Financial Services Commission is expected to convene during 2022 to discuss improvements to the current system of adjustments to merchant commission rates. Additionally, during 2018, the Seoul metropolitan and other regional governments have launched “Zero Pay”, a government sponsored QR code-based mobile payment platform charging little to no transaction fees (up to 0.5% depending on volume of sales) and aimed at reducing transaction fees small businesses pay to credit card companies. The Financial Services Commission also announced its plans to establish an open banking system that would provide fintech firms access to banks’ payment systems at lower costs. Additional amendments to regulations requiring further downward adjustments to merchant fees or Government policies aimed at reducing transaction fees paid to credit card companies may be implemented in the future, placing further downward pressure on the results of operations for credit card companies, including Shinhan Card.

In 2013, the Government also implemented measures regulating marketing costs in order to control excessive marketing campaigns and curtail undue marketing expenses, which had the effect of impeding revenue growth for credit card companies but also reduced or slowed the growth in their marketing expenses. Effective December 2013, the Government also introduced guidelines to curb the interest rates that credit card companies, including Shinhan Card, may charge on card loans and cash advances. Furthermore, the Government also provides tax incentives, among others, for the use of check cards (where the amounts paid with check cards are instantly debited from the customer’s bank accounts) to encourage the use of check cards in lieu of credit cards in an attempt to preempt a potential rise in delinquency among credit card users, and if check cards are widely used in lieu of credit cards, this would reduce interest income from credit cards, which generally have a longer repayment period than that of check cards, and may have an adverse impact on Shinhan Card’s revenues and results of operations. On November 26, 2018, the Financial Services Commission introduced additional guidelines aimed at curtailing excessive marketing expenses for credit card companies, for example by limiting the benefits credit card companies may offer to large corporate credit card clients or merchants as well as requiring a reasonable level of annual service fees for credit card holders. Although these and similar Government initiatives and measures may result in a reduction in marketing expenses, which in turn may help reduce the overall expenses of our credit card business, there is no assurance that Government measures will achieve their intended results, and such measures may result in a decline in the volume of credit card transactions or otherwise adversely affect our business, financial condition and results of operations.

Risks Relating to Our Other Businesses

We may experience significant losses from our investments and, to a lesser extent, trading activities due to market fluctuations.

We enter into and maintain large investment positions in fixed income products, primarily through our treasury and investment operations. These activities are described in “Item 4.B. Business Overview — Our Principal Activities — Other Banking Services.” We also maintain smaller trading positions, including equity and equity-linked securities and derivative financial instruments as part of our operations. Taking these positions entails making assessments about financial market conditions and trends. The revenues and profits we derive from many of these positions and related transactions are dependent on market prices, which are beyond our control. When we own assets such as debt or equity securities, a decline in market prices, for example, as a result of fluctuating market interest rates or stock market indices, can expose us to trading and valuation losses. If market prices move in a way that we have not anticipated, we may experience losses. In addition, when markets are volatile and subject to rapid changes in price directions, actual market prices may be contrary to our assessments and lead to lower than anticipated revenues or profits, or even result in losses, with respect to the related transactions and positions.

We may generate losses from our brokerage and other commission- and fee-based business.

We, through our investment and other subsidiaries, currently provide, and seek to expand the offerings of, brokerage and other commission- and fee-based services. Downturns in stock markets typically lead to a decline in the volume of transactions that we execute for our customers and, therefore, a decline in our non-interest revenues. In addition, because the fees that we charge for managing our clients’ portfolios are often based on the size of the assets under management, a downturn in the stock market, which has the effect of reducing the value of our clients’ portfolios or increasing the amount of withdrawals, also generally reduces the fees we receive from our securities brokerage, trust account management and other asset management services. Even in the absence of a market downturn, below-market performance by our securities, trust account or asset management subsidiaries may result in increased withdrawals and reduced cash inflows, which would reduce the revenue we receive from these businesses. In addition, protracted declines in asset prices can reduce liquidity for assets held by us and lead to material losses if we cannot close out or otherwise dispose of deteriorating positions in a timely way or at commercially reasonable prices. In July 2019, we made a capital contribution of ₩660 billion by subscribing for new shares of common stock of Shinhan Securities, enabling Shinhan Securities to satisfy the ₩4 trillion capitalization requirement required to apply to the Financial Services Commission for designation as a mega-investment bank (“**mega-IB**”). Upon designation as a mega-IB, Shinhan Securities will be able to issue debt securities up to 200% of its capitalization amount and would be able to utilize such proceeds for corporate lending and other businesses. This capital contribution was made in line with our strategic initiative to strengthen our non-banking businesses and capital market activities. However, we cannot assure you that this capital contribution, any designation of Shinhan Securities as a mega-IB or any resulting developments will not have a negative effect on our business, financial condition and results of operations that outweigh any potential benefits, and we may not be successful in furthering our strategic initiative.

Prolonged periods of declining or low interest rates or changes in related accounting standards may reduce or turn negative our investment margin on savings insurance products and result in an increase in the valuation of our liabilities associated with these products.

We, principally through Shinhan Life Insurance, offer fixed rate insurance policies such as savings insurance products that include guaranteed benefits. These products expose us to the risk that changes in interest rates will reduce our investment margin, which is the difference between the amounts that we are required to pay under the contracts and the rate of return we earn on investments intended to support obligations under such contracts. During periods of declining or low interest rates, we may have to invest insurance cash flows and reinvest the cash flows we received as interest or return of principal on our investments in lower yielding instruments. In addition, during periods of declining or low interest rates, fixed rate policies may become relatively more attractive investments to consumers. This could result in an increase in payments we are required to pay on such products and higher percentage of such products remaining in-force from year to year, during a period when our new investments carry lower returns. During periods of sustained lower interest rates, our reserves for policy liabilities may not be sufficient to meet future policy obligations and may need to be strengthened.

Significantly lower or negative investment margins may cause us to accelerate amortization, thereby reducing net income in the affected reporting period and potentially negatively affecting our credit instrument covenants or rating agency assessment of our financial condition. In addition, under IFRS 17, which became effective beginning 2023, insurance contract liabilities will be calculated in terms of market value (as the present value of future insurance cash flows with a provision for risk) instead of book value. As the discount rate will reflect current interest rates rather than book yields, we may have a significantly higher debt balance under IFRS 17 due to higher insurance liabilities, thereby resulting in a decrease in our risk-based capital. For further information regarding the implementation of IFRS 17, see "— Risks Related to Our Overall Business — The implementation of IFRS 17 beginning on January 1, 2023 renders certain of our historical financial information as of December 31, 2021 and for the year ended December 31, 2021, included in this annual report, not directly comparable with our financial information as of December 31, 2022 and 2023 and for the years ended December 31, 2022 and 2023 included in this annual report." in this annual report and Note 3 and Note 52 of the notes to the audited consolidated annual financial statements included in this annual report.

We may fail to realize the anticipated benefits of and encounter significant risks in connection with mergers and acquisitions.

We continue to seek and evaluate opportunities for diversification and growth of our business, including through strategic acquisitions, and have experienced substantial growth through several mergers and acquisitions. On February 1, 2019, we acquired a 59.15% interest in Orange Life Insurance, the former Korean unit of ING Life Insurance, as part of our efforts to diversify and enhance our non-banking businesses. On January 28, 2020, we acquired the remaining interests in Orange Life Insurance by effecting a comprehensive stock exchange under Articles 360-2 of the Korean Commercial Code whereby holders (other than us) of Orange Life Insurance's common stock transferred all of their shares to us and in return receive shares of our common stock, and hence Orange Life Insurance became our wholly owned subsidiary as of such date. Orange Life Insurance was subsequently merged with and into Shinhan Life Insurance in July 2021. On October 31, 2018, we agreed to acquire Asia Trust Co., Ltd. in order to expand our real estate business capacity and have also acquired certain small-sized overseas financial service companies and asset management companies. On September 29, 2020, we acquired a 96.8% interest in Neoplux, a venture capital company formerly under the Doosan Group. On December 30, 2020, we acquired the remaining interest in Neoplux by effecting a small-scale stock exchange under Article 360-10 of the Korean Commercial Code, and hence Neoplux has become our wholly owned subsidiary as of such date. On January 11, 2021, Neoplux changed its legal name to Shinhan Venture Investment. In addition, on January 15, 2021, we acquired the remaining 35% interest in Shinhan BNP Paribas Asset Management and changed its legal name to Shinhan Asset Management, and hence Shinhan Asset Management has become our wholly-owned subsidiary as of such date. On June 30, 2022 we acquired 94.54% interest in BNP Paribas Cardif General Insurance, which then changed its name to Shinhan EZ General Insurance, Ltd. Subsequently in November 2022, Shinhan EZ General Insurance, Ltd. conducted a paid-in capital increase and our shares decreased to 85.1%. We expect to integrate these and any future acquisitions with our existing businesses and generate synergies and expand our business capabilities. However, we may encounter significant risks, including difficulty in successfully integrating acquired businesses, increased expenses such as working capital requirements or capital expenditures, regulatory risks and financial risks such as potential liabilities of the businesses we acquire. In addition, evaluating potential acquisitions may require us to incur significant expenses or divert management's attention away from other business issues. As such, no assurance can be given that any completed or contemplated acquisitions will not have a negative effect on our business, financial condition and results of operations that outweigh any potential benefits.

Other Risks Relating to Us as the Holding Company

Our ability to continue to pay dividends and service debt will depend on the level of profits and cash flows of our subsidiaries.

We are a financial holding company with minimal operating assets other than the shares of our subsidiaries. Our primary source of funding and cash flow is dividends from, or disposition of our interests in, our subsidiaries or our cash resources, most of which are currently the result of borrowings. Since our principal assets are the outstanding capital stock of our subsidiaries, our ability to pay dividends on our common and preferred shares and service debt will mainly depend on the dividend payments from our subsidiaries.

Companies in Korea are subject to certain legal and regulatory restrictions with respect to payment of dividends. For example, under the Korean Commercial Code, dividends may only be paid out of distributable income, which is calculated by subtracting the aggregate amount of a company’s paid-in capital and certain mandatory legal reserves from its net assets, in each case as of the end of the prior fiscal year. In addition, financial companies in Korea, including banks, credit card companies, securities companies and life insurers, such as our subsidiaries, must meet minimum capital requirements and capital adequacy ratios applicable to their respective industries before dividends can be paid. For example, under the Banking Act of 1950, as amended (the “Banking Act”), a bank is required to credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until such time when this reserve equals the amount of its total paid-in capital, and under the Banking Act, the Specialized Credit Financial Business Act and the regulations promulgated by the Financial Services Commission, if a bank or a credit card company fails to meet its required capital adequacy ratio or is otherwise subject to the management improvement measures imposed by the Financial Services Commission, then the Financial Services Commission may restrict the declaration and payment of dividend by such a bank or credit card company. In addition, if our or our subsidiaries’ capital adequacy ratios fall below the required levels, our ability to pay dividends may be restricted by the Financial Services Commission.

Damage to our reputation could harm our business.

We are one of the largest and most influential financial institutions in Korea by virtue of our financial track records, market share and the size of our operations and customer base. Our reputation is critical to maintaining our relationships with clients, investors, regulators and the general public. Our reputation can be damaged in numerous ways, including, among others, employee misconduct (including embezzlement), cyber or other security breaches, litigation, compliance failures, corporate governance issues, failure to properly address potential conflicts of interest, the activities of customers and counterparties over which we have limited or no control, prolonged or exacting scrutiny from regulatory authorities and customers regarding our trade practices, or uncertainty about our financial soundness and our reliability. If we are unable to prevent or properly address these concerns, we could lose our existing or prospective customers and investors, which could adversely affect our business, financial condition and results of operations. For details of the claims, disputes, legal proceedings and government investigations we are subject to, see “Item 8.A. Consolidated Statements and Other Financial Information — Legal Proceedings.”

Our risk management policies and procedures may not be fully effective at all times.

In the course of our operations, we must manage a number of risks, such as credit risks, market risks and operational risks. We seek to monitor and manage our risk exposures through a comprehensive risk management platform, encompassing centralized risk management organization and credit evaluation systems, reporting and monitoring systems, early warning systems and other risk management infrastructure, using a variety of risk management strategies and techniques. See “Item 4.B. Business Overview — Risk Management.” Although we devote significant resources to developing and improving our risk management policies and procedures and expect to continue to do so in the future, our risk management practices may not be fully effective at all times in eliminating or mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. For example, in the past, a limited number of our and our subsidiaries’ personnel engaged in embezzlement of substantial amounts for an extended period of time before such activities were detected by our risk management systems. In response to these incidents, we have strengthened our internal control procedures by, among others, implementing a real-time monitoring system, but there is no assurance that such measures will be sufficient to prevent similar employee misconducts in the future. Management of credit, market and operational risk requires, among others, policies and procedures to record properly and verify a large number of transactions and events, and we cannot assure you that these policies and procedures will prove to be fully effective at all times against all the risks we face.

Labor unrest may adversely affect our operations.

Any significant labor unrest in the Korean financial industry or other sectors of the Korean economy could adversely affect our operations, as well as the operations of many of the Bank's customers and their ability to repay their loans, and could affect the financial conditions of Korean companies in general. Such developments would likely have an adverse effect on our business, financial condition, results of operations and capital adequacy. See "Item 6.D. Employees."

On February 28, 2018, the National Assembly passed a bill to amend the Labor Standards Act, pursuant to which the maximum working hours of employees will be reduced from 68 hours per week to 52 hours per week. This new maximum working hours restriction under the amended Labor Standards Act applied to workplaces with 300 or more workers since July 1, 2018, workplaces with 50 or more workers since January 1, 2020, and workplaces with five or more workers from July 1, 2021. There can be no assurance that any further changes to Labor Standards Act will not have a material adverse effect on our results of operations and financial condition.

We may experience disruptions, delays and other difficulties relating to our information technology systems.

We rely on our information technology systems to seamlessly provide our wide-ranging financial services as well as for our daily operations, including billing, online and offline financial transactions settlement and record keeping. We continually upgrade, and make substantial expenditures to upgrade, our group-wide information technology system, including in relation to customer data-sharing and other customer relations management systems, particularly in light of the heightened cyber security risks from advances in technology. Despite our best efforts, however, we may experience disruptions, delays, cyber or other security breaches or other difficulties relating to our information technology systems, and may not timely upgrade our systems as currently planned. Any of these developments may have an adverse effect on our business, particularly if our customers perceive us to not be providing the best-in-class cyber security systems and failing to timely and fully rectify any glitches in our information technology systems.

Our activities are subject to cyber security risk.

Our activities have been, and will continue to be, subject to an increasing risk of cyber-attacks, the nature of which is continually evolving. Cyber security risks include unauthorized access, through system-wide "hacking" or other means, to privileged and sensitive customer information, including passwords and account information, and illegal use thereof. Cyber security risk is generally on the rise as a growing number of our customers increasingly rely on our Internet- and mobile phone-based banking services for various types of financial transactions. While we vigilantly protect customer data through encryption and other security programs and have made substantial investments to build and upgrade our systems and defenses to address the growing threats from cyber-attacks, there is no assurance that such data will not be subject to future security breaches. In addition, there can be no assurance that we will not experience a leakage of customer information or other security breaches as a result of illegal activities by our employees, outside consultants or hackers, or otherwise.

In order to minimize the risk of security breaches related to customer and our other proprietary information, we have taken a series of group-wide preventive measures, such as the adoption and implementation of a best-in-class information security system and reinforcement of internal control measures. We are fully committed to maintaining the highest standards of cyber security and consumer protection measures and upgrading them continually. We have implemented the ISO 27001-certified security management system for us and all our subsidiaries, and we have obtained the Information Security Management System certification for most of our subsidiaries. We believe such certifications represent third-party validations that we are in compliance with best-in-class international standards on matters of information security. Our Integrated Security Control Center's security management system enables us to continuously monitor for signs of potential cyber-attacks and provides us with advance warnings that will allow us to promptly respond to such attacks. Our security management system continuously monitors for signs of potential cyber-attacks and is designed to provide early warning alerts to enable prompt action by us. In order to prevent intentional and accidental security issues by our employees, we have created a violation monitoring system, reinforcing our security measures by preemptively identifying various scenarios of threats and by collecting and analyzing different types of data that allows us to quickly identify any potential security violations. Moreover, we established a new information security lab to build a continuous security research and development system to respond to hacking and other cyber threats. Through these measures, we are developing technical capabilities necessary to respond to the latest security threats. We also provide intensive employee training to our information technology staff and other employees on cyber security and have adopted advanced security infrastructure (including through hiring a highly competent team of information security experts) for online financial services such as mandatory website certification and keyboard security functions. In addition, reviews of our system are conducted, across all of our subsidiaries, through periodic audits and simulation reviews by external experts. In addition, in compliance with applicable regulations we currently carry insurance to cover cyber security breaches up to W10 billion in relation to our banking business and up to W3 billion in the aggregate and up to W1 billion per incident for our securities investment business and have set aside a reserve of W1 billion for our credit card business. In addition, in light of the growing use of mobile devices to access financial services, we have implemented security measures (including encryptions and service terminal monitoring) to provide a secure mobile banking service as well as to prevent illegal leakage or sharing of customer data and otherwise enhance customer privacy. We are also keenly aware of the litigation and regulatory sanctions risks that may arise from security breaches and are aggressively reinforcing a group-wide culture that stresses safety and good custodianship as among our highest priorities. Furthermore, we are actively taking steps to implement preventive and other steps recommended or required by the regulatory authorities in relation to actual and potential financial scams. Although we have not experienced any material security breaches or any similar large scale leakage of customer information recently, given the unpredictable and continually evolving nature of cyber security threats due to advances in technology or other reasons, there is no assurance that, notwithstanding our best efforts at maintaining the best-in-class cyber security systems, we will not be vulnerable to major cyber security attacks in the future.

The public is developing heightened awareness about the importance of keeping their personal data private, and the financial regulators are placing greater emphasis on data protection by financial service providers. For example, under the Personal Information Protection Act, as amended in August 2020, financial institutions, as personal information manager, may not collect, store, maintain, utilize or provide resident registration numbers of their customers, unless other laws or regulations specifically request or permit the management of resident registration numbers. Further, under the Use and Protection of Credit Information Act, as last amended in December 2021, a financial institution has a higher duty to protect credit information, meaning information necessary to assess the creditworthiness of the counterparty to financial transactions and other commercial transactions. Such regulations have considerably restricted a financial institution’s ability to transfer or provide the information to its affiliate or holding company, and quintuple damages can be imposed on a financial institution for a leakage of such information. In addition, under the Electronic Financial Transaction Act, as last amended in June 2020 with effect from December 2020, a financial institution is primarily responsible for compensating its customers harmed by the financial institution’s cyber security breach, even if the breach is not directly attributable to the financial institution. Three major data privacy laws (the Personal Information Protection Act, the Act on the Promotion of Information and Communications Network Utilization and Information Protection and the Act on the Use and Protection of Credit Information) amended on February 4, 2024 and effective as of August 5, 2020, expands the scope of personal information that may be shared among financial institutions. With this, we expect cyber security and ensuring confidentiality of customers’ information to become more important than ever for financial institutions. We maintain an integrated system that closely monitors customer information to ensure compliance with data protection laws and regulations as well as our internal policies.

If a cyber or other security breach were to happen with respect to us or any of our subsidiaries, it may result in litigation by affected customers or other third parties (including class actions), compensation for any losses suffered by victims of cyber security attacks, reputational damage, loss of customers, heightened regulatory scrutiny and related sanctions, more stringent compliance with the present and future regulatory restrictions, and other costs related to damage control, reparation and reinforcement of information security systems, any of which may have a material adverse effect on our business, results of operations and financial condition.

Our customers may become victims to "voice phishing" or other financial scams, for which we may be required to make monetary compensation and suffer damage to our business and reputation.

In recent years, financial scams known as voice phishing have been on the rise in Korea. While voice phishing takes many forms and has evolved over time in terms of sophistication, it typically involves the scammer making a phone call to a victim under false pretenses (for example, the scammer pretending to be a member of law enforcement, an employee of a financial institution or even an abductor of the victim's child) and luring the victim to transfer money to an untraceable account controlled by the scammer. More recently, voice phishing has increasingly taken the form of the scammer "hacking" or otherwise wrongfully obtaining personal financial information of the victim (such as credit card numbers or Internet banking login information) over the telephone or other means and illegally using such information to obtain credit card loans or cash advances through automated telephone banking or Internet banking. Reportedly, a substantial number of such scammers belong to international criminal syndicates with bases overseas, such as China, with operatives in Korea.

In response to the growing incidents of voice phishing, regulatory authorities have undertaken a number of steps to protect consumers against voice phishing and other financial scams. Also in response to the heightened risk, Shinhan Card and our other subsidiaries have established certain fraud detection system that identifies any questionable transactions based on deviations from a customer's conventional transaction patterns. There is no assurance, however, that these regulatory activities and fraud detection system will have the desired effect of substantially eradicating or even containing the incidents of voice phishing or other financial scams. Also given continual advances in technology and the increasing sophistication of the financial scammers, there is no assurance that we will be able to prevent future financial scams or that the frequency and scope of financial scams will not increase. If financial scams involving us and our subsidiaries were to continue or to become more prevalent, it may result in compensation for any losses suffered by victims thereof, reputational damage, loss of customers, heightened regulatory scrutiny and related sanctions, compliance with the present and future regulatory restrictions, and other costs related to damage control, reparation and reinforcement of our preventive measures, any of which may have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to Law, Regulation and Government Policy

We are a heavily regulated entity and operate in a legal and regulatory environment that is subject to change, and violations could result in penalties and other regulatory actions.

As a financial services provider, we are subject to a number of regulations that are designed to maintain the safety and soundness of Korea's financial system, to ensure our compliance with economic and other obligations and to limit our risk exposure. These regulations may limit our activities, and changes in these regulations may increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business and implement new regulatory measures, including increasing the minimum required provisioning levels or capital adequacy ratios applicable to us and our subsidiaries from time to time. We expect the regulatory environment in which we operate to continue to change. Changes in regulations applicable to us, our subsidiaries and our or their business or changes in the implementation or interpretation of such regulations could affect us and our subsidiaries in unpredictable ways and could adversely affect our business, results of operations and financial condition.

Furthermore, the Financial Consumer Protection Act (the "FCPA") was enacted on March 24, 2020 and took effect beginning March 25, 2021. The FCPA unifies the systems for the protection of consumers of financial products, which had been dispersed in various laws, while tightening the existing consumer protection systems to strengthen the rights afforded to consumers of financial products. Banks under the Banking Act are financial instrument distributors subject to the FCPA, and deposit and loan products under the Banking Act are financial instruments subject to the FCPA.

Under the FCPA, a financial instrument distributor who intends to sell financial instruments shall comply with the following requirements: (i) confirmation of suitability and adequacy of financial instruments, (ii) compliance with the duty to explain, (iii) prohibition of unfair sales activities, (iv) prohibition of undue solicitation, and (v) prohibition of false or exaggerated advertising, etc. (collectively, the "Sales Principles"). If a financial instrument distributor breaches any of the Sales Principles, consumers may request the termination of such financial instrument within a period to be prescribed by a Presidential Decree and are entitled to unilaterally terminate the contract if the financial instrument distributor fails to present a justifiable reason for not accepting the consumer's request. Consumers who purchased a loan product, in particular, shall be entitled to withdraw from the contract within 14 days from the later of (i) the date of receipt of the proceeds pursuant to the contract and (ii) the execution date of the contract (or the date of receipt of the documents necessary for execution of the contract (if required under the FCPA), regardless of whether the financial instrument distributor breached any of the Sales Principles. When a consumer files a lawsuit for damages against a financial instrument distributor for breach of the duty to explain, the financial instrument distributor (and not the consumer) shall bear the burden of proof to prove that no willful conduct or negligence was involved in such breach of the duty to explain. In the event of a dispute with a financial instrument distributor, consumers may apply for mediation to the Dispute Mediation Committee of the Financial Services Commission. If a financial instrument distributor files a lawsuit with a court while such mediation is in progress, the court may suspend the litigation proceedings. For certain small-sum cases, a financial instrument distributor may not file a lawsuit with a court until the completion of such mediation. Financial instrument distributors must accept requests from its consumers to access information for purposes of litigation or mediation. In the event the Financial Services Commission determines that there is a clear risk that a financial product may cause significant damage to the properties of customers, the Financial Services Commission may prohibit or restrict the solicitation of, and execution of a contract for, such financial product.)

We and our subsidiaries have been proactively taking actions necessary to comply with the FCPA, including the examination of our financial products and training of our officers and employees. However, no assurance can be given that the implementation of the FCPA will not adversely affect us our subsidiaries' businesses or lead to a material adverse effect on their reputation, business, results of operations or financial condition. We may also become subject to other restrictions on our operations as a result of future changes in laws and regulations, including more stringent liquidity and capital requirements under Basel III, which are being adopted in phases in Korea in consideration of, among others, the pace and scope of international adoption of such requirements. Any of these regulatory developments may have a material adverse effect on our ability to expand operations or adequately manage our risks and liabilities. For further details on the principal laws and regulations applicable to us as a holding company and our principal subsidiaries, see "Item 4.B. Business Overview — Supervision and Regulation."

In addition, violations of law and regulations could expose us to significant liabilities and sanctions. For example, the Financial Supervisory Service conducts periodic audits on us and, from time to time, we have received institutional warnings from the Financial Supervisory Service. If the Financial Supervisory Service determines as part of such audit or otherwise that our financial condition, including the financial conditions of our operating subsidiaries, is unsound or that we have violated applicable law or regulations, including Financial Services Commission orders, or if we or our operating subsidiaries fail to meet the applicable requisite capital ratio or the capital adequacy ratio, as the case may be, set forth under Korean law, the Financial Supervisory Service may ask the Financial Services Commission to order, among other things, cancellations of authorization, permission or registration of the business, suspensions of a part or all of the business, closures of branch offices, recommendations for dismissal of officers or suspensions of officers from performing their duties, or may order, among other things, institutional warnings, institutional cautions, reprimanding warnings on officers, cautionary warnings on officers or cautions on officers. From time to time, our subsidiaries, including Shinhan Bank and Shinhan Card, have been subject to investigations and/or sanctions from the Financial Supervisory Service. See "Item 8.A. Consolidated Statements and Other Financial Information — Legal Proceedings." If any such measures are imposed on us or our subsidiaries as a result of unsound financial condition or failure to comply with minimum capital adequacy requirements or for other reasons, it will have a material adverse effect on us and our subsidiaries’ business, financial condition and results of operations.

The Government may encourage targeted lending to certain sectors in furtherance of policy objectives, and we may take this factor into account.

The Government has encouraged and may in the future encourage targeted lending to certain types of enterprises and individuals in furtherance of government initiatives. The Government, through its regulatory bodies such as the Financial Services Commission, from time to time announces lending policies to encourage Korean banks and financial institutions, including us and our subsidiaries, to lend to particular industries, business groups or customer segments, and, in certain cases, has provided lower cost funding through loans made by the Bank of Korea for further lending to specific customer segments.

For example, the Government has taken and is taking various initiatives to support small-and medium-sized enterprises and low-income individuals, who were disproportionately affected by the downturn in the Korean and global economy in the late 2000s and have yet to fully recover. As part of these initiatives, the Financial Supervisory Service has recently encouraged banks in Korea to increase lending to small-and medium-sized enterprises in order to ease the financial burden on such enterprises amidst sluggish economic recovery, and in February 2016, the Bank of Korea announced that it would increase support for loans to small-and medium-sized enterprises in anticipation of growing liquidity difficulties among such enterprises in light of the sustained sluggishness of the general economy and to stimulate trade exports, infrastructure investments and entrepreneurial efforts. The financial regulators have also adopted several measures designed to improve certain lending practices of the commercial banks which practices were perceived as having an unduly prohibitive effect on extending loans to small-to medium-sized enterprises. Moreover, in response to the threat posed to the economy by the COVID-19 outbreak, the Government has implemented various emergency aid initiatives involving Korean banks, including Shinhan Bank, to provide liquidity assistance to small-and medium-sized enterprises. Such initiatives include extending new loans to borrowers with low credit ratings, extending maturity dates on existing loans and deferring interest payment obligations on certain loans. Our participation in such Government initiatives may lead us to extend credit to small-and medium-sized enterprises that we would not otherwise extend, or offer terms on such credit that we would not otherwise offer, in the absence of such initiatives. There is no guarantee that the financial condition and liquidity of the small-and medium-sized enterprises benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis or at all. Accordingly, an increase in our exposure to small-and medium-sized enterprise borrowers resulting from such Government initiatives may have a material adverse effect on our financial condition and results of operations.

In addition, as a way of supporting the Government’s initiative to assist promising startups, in February 2015, the financial regulators announced that they would encourage the banks in Korea to increase lending to technology companies in the small- to medium-sized enterprise segment and to enhance technology-related credit review capabilities. According to the Korea Federation of Banks, the aggregate balance of loans to technology companies in the small- to medium-sized enterprise segment reached W316.3 trillion, W326 trillion and W306 trillion, as of December 31, 2021, 2022 and 2023, respectively. Shinhan Bank’s total balance of outstanding loans to technology companies As of December 31, 2021, 2022 and 2023 was W46.2 trillion and W44.8 trillion and W42.8 trillion, respectively.

Furthermore, amidst concerns about increasing household debt, the Financial Services Commission increased target proportions for fixed interest rate loans and installment principal repayment-based housing loans for 2022 to 52.5% and 60.0%, respectively, which remained the same for 2023.

In furtherance of the policy to expand the proportion of fixed rate housing loans, the Financial Services Commission implemented “Relief Debt Conversion” program from March 24 to March 27, 2015 and from March 30 to April 3, 2015, respectively, under which borrowers of eligible housing loans (namely, loans that have been in existence for one year or more since the original loan date, with no delinquency in the past six months, with principal amounts of ₩500 million or less and for houses valued at ₩900 million or less that are on a floating rate basis and/or an interest payment only basis) might convert such loans to new fixed rate loans in respect of which the borrowers would be required to repay the principal and interest in installment for a term of 10, 15, 20 or 30 years without a grace period, provided that the new loans pass the maximum loan-to-value ratio of 70% (irrespective of the location of the property) and the maximum debt-to-income ratio of 60% (only in respect of apartment units located in the greater Seoul metropolitan area, subject to certain exceptions). The borrowers were allowed to convert the original loans only at the banks that extended such loans. According to the Financial Services Commission, under this program, approximately 327,000 borrowers converted loans in the aggregate amount of ₩31.7 trillion to fixed rate loans, of which Shinhan Bank accounted for approximately 13.5%.

On August 26, 2019, the Financial Services Commission announced that it will implement an additional round of the program for up to ₩20 trillion. Despite tighter thresholds for eligibility, including newly adopted restrictions on annual income, and the imposition of prepayment penalties, the newly implemented program is expected to be substantively similar to the mortgage refinancing program implemented in 2015. Similar to the 2015 program, banks holding newly converted fixed rate loans will be required to sell such loans to Korea Housing Finance Corporation, which will then securitize such loans and issue mortgage-backed securities (backed by such loans) to be purchased by the banks who sold the loans in proportion to the amounts of the loans sold. The amount of loans Shinhan Bank will need to transfer to Korea Housing Finance Corporation is ₩1.7 trillion, but the amount of mortgage-backed securities Shinhan Bank will need to purchase from Korea Housing Finance Corporation has yet to be determined. Similar to the 2015 program, in the event that market interest rates increase from those applicable during this program’s implementation, we may experience valuation or realization losses on the mortgage-backed securities to be held by Shinhan Bank. Further, Shinhan Bank will be required to hold mortgage-backed securities it purchases from Korea Housing Finance Corporation under the program for a period of one year, and Shinhan Bank also may not be able to sell or otherwise dispose of the mortgage backed securities in the market or otherwise in amounts or at prices commercially reasonable due to the prevailing interest rate environment and/or other market conditions. As a result of this program, we may incur additional costs from recalibrating our asset portfolio and asset-liability management policy. Any of these developments could adversely affect our results of operations and financial condition. Due in large part to such initiatives, fixed interest rate loans and installment principal repayment-based loans accounted for 44.2% and 51.0%, respectively, of the total housing loans extended by commercial banks in Korea as of June 30, 2018, according to data published by the Government in December 2018. Fixed interest rate and installment principal repayment-based housing loans accounted for 57.0% and 57.5%, respectively, of the housing loans extended by Shinhan Bank as of December 31, 2023.

We, on a voluntary basis, may factor the existence of the Government’s policies and encouragements into consideration in making loans although the ultimate decision whether to make loans remains with us and is made based on our internal credit approval procedures and risk management systems independently of Government policies. In addition, in tandem with providing additional loans to small-and medium-sized enterprises and low-income individuals, Shinhan Bank takes active steps to mitigate the potential adverse impacts from making bad loans to enterprises or individuals with high risk profiles as a result of such arrangement, such as by strengthening its loan review and post-lending monitoring processes. However, we cannot assure you that such arrangement did not or will not, or similar or other government-led initiatives in the future will not, result in a suboptimal allocation of our loan portfolio from a risk-reward perspective compared to what we would have allocated based on purely commercial decisions in the absence of such initiatives. The Government may implement similar or other initiatives in the future to spur the overall economy or encourage the growth of targeted industries or relief to certain segments of the population. Specifically, the Government may introduce lending-related initiatives or enforce existing ones in a heightened fashion during times when small-and medium-sized enterprises or low-income households on average are facing an increased level of financial distress or vulnerability due to an economic downturn, which makes lending to them in the volume and the manner suggested by the Government even riskier and less commercially desirable. Accordingly, such policy-driven lending may create enhanced difficulties for us in terms of risk management, deterioration of our asset quality and reduced earnings, compared to what would have been in the absence of such initiatives, which may have an adverse effect on our business, financial condition and results of operations.

The Government may also encourage investments in certain institutions in furtherance of policy objectives, and we may not recoup our investments therein in a timely or otherwise commercially reasonable manner.

In addition to targeted lending, the Government may from time to time encourage or request the financial institutions in Korea, including us and our subsidiaries, to make investments in, or provide other forms of financial support to, certain institutions in furtherance of the Government's policy objectives. In response thereto, we have made and will continue to make the ultimate decision on whether, how and to what extent we will comply with such encouragements or requests based on our internal risk assessment and in accordance with our risk management systems and policies. At the same time, as a leading member of the financial service industry in Korea and as a responsible corporate citizen we will also fully give due consideration to such encouragements or requests from the Government, especially in relation to the long-term benefit arising from furthering the policy objective of maintaining a sound financial system, even if complying with such requests may involve additional short-term costs and risks to a limited extent.

For example, to deal with a growing number of non-performing loans in the wake of the global financial crisis of 2008-2009, the Government sponsored the establishment of United Asset Management Company Ltd. ("UAMCO") in October 2009 through capital contributions from six major policy and commercial banks, namely Shinhan Bank, Kookmin Bank, KEB Hana Bank, Industrial Bank of Korea, Woori Bank and Nonghyup Bank. The Government originally planned to dispose of UAMCO during 2015 and establish a new company that specializes in corporate restructuring, but the Government scrapped such plans and instead decided to reorganize UAMCO and expand its restructuring business. As part of an effort to strengthen its balance sheet, UAMCO received additional capital contributions in May 2016 from two new shareholders, Korea Development Bank and the Export-Import Bank of Korea, and two of its existing shareholders, Woori Bank and Nonghyup Bank. In July 2020, UAMCO notified its shareholders of a capital contribution in the aggregate amount of W200.0 billion (to be borne in proportion to the respective shareholding percentages of its shareholders) to improve financial soundness and secure additional investment capacity in case sales of non-performing loans increase due to the COVID-19 pandemic. Accordingly, on July 28, 2020, Shinhan Bank made a capital contribution of W28 billion. Shinhan Bank has committed to contribute W140 billion of capital to UAMCO, of which W113.1 billion has been contributed to date. As of the date hereof, Shinhan Bank holds a 14% equity interest in UAMCO, while seven other policy and commercial banks each hold interests ranging from 2% to 14%.

UAMCO seeks to achieve financial improvement of struggling companies through a wide range of restructuring programs, including debt restructuring, capital injection, asset sales, corporate reorganization, workouts and liquidation and bankruptcy proceedings and is the largest purchaser in Korea of non-performing financial assets generally. Shinhan Bank sold non-performing assets to UAMCO in the amount of W92.4 billion, W91.3 billion and W516.7 billion in 2021, 2022 and 2023, respectively. With an enlarged capital base following the recent capital contributions mentioned above, it is expected that UAMCO will play a more active role in the restructuring of the Korean corporate sector. The Government is also considering an amendment of the Financial Investment Services and Capital Markets Act of Korea to facilitate the business activities of UAMCO.

If UAMCO is successful in its expanded restructuring activities, it is anticipated that financial institutions including us will be able to further enhance their financial soundness by transferring more non-performing loans to UAMCO rather than directly engaging in the restructuring activities of the troubled borrowers. However, Shinhan Bank or other banks may be requested by the Government to make additional capital contributions or loans to UAMCO, which may entail unanticipated costs. Additionally, given the generally poor quality of our non-performing assets, there is no assurance that we will be able to sell such assets held by us to UAMCO on commercially reasonable terms and on a timely basis. Furthermore, there is no assurance that in furtherance of similar or other policy objectives, the Government may not request or otherwise encourage us or our subsidiaries to provide similar or other investments or provide other financial support for which we are not duly compensated or otherwise take up additional risk that we would not normally have undertaken, which may have an adverse effect on our business, financial condition and results of operations.

The level and scope of government oversight of our retail lending business, particularly regarding mortgage and home equity loans, may change depending on the economic or political climate.

Real estate comprises the most significant asset for a substantial number of households in Korea, and movements of housing prices have generally had a significant impact on the domestic economy. Accordingly, regulating housing prices, either in terms of attempting to stem actual or anticipated excessive speculation during times of a suspected housing price bubble and spur the pricing and/or volume of real estate transactions during times of a depressed real estate market by way of tax subsidy, guidelines to lending institutions or otherwise, has been a key policy initiative for the Government.

The regulations on mortgage and home equity loans are susceptible to the changes of housing market cycles and have been revised from time to time. From 2017 to 2022, the Government led by President Moon Jae-in announced and implemented a series of robust polices aimed at taming speculation and deterring the rise of housing prices. However, since the second half of 2022, the Government led by President Yoon Suk Yeol has announced and implemented a series of policies to ease the demand-side regulations in the real estate market in order to prevent housing prices from crashing due to the recent hike in interest rates. For example, the Government has released most areas from “speculative areas”, “overheated speculative areas” and “adjustment targeted areas” (collectively, the “**regulated areas**”) where tighter loan-to-value ratios and debt-to-income ratios are applicable to mortgage or home equity loans, with only Gangnam-Gu, Seocho-Gu, Songpa-Gu and Yongsan-Gu in the greater Seoul metropolitan area currently remaining as the regulated areas, removed the application of stricter loan-to-value ratio to new loans secured by high-price houses located in the regulated areas and allowed the extension of new loans secured by houses located in the regulated areas to households that already own one or more houses.

The Government also increased the loan-to-value ratio applicable to the regulated areas (i) up to 50% of the appraised value of the houses, except that such maximum loan-to-value ratio is 70% for low-income households that (1) have a combined (in case of married couple) annual income of no more than ₩90 million, (2) do not currently own any housing and (3) are using the loan to purchase low-price housing valued at ₩900 million or less (₩800 million or less in case of houses located in “adjustment targeted areas”) and (ii) up to 80% of the appraised value of the houses, for new loans to a first-time home buyer with a maximum residential mortgage loan amount of ₩600 million or less. The regulations on the debt-to-income ratio remained largely unchanged, with the debt-to-income ratio applicable to houses being (i) 60% for those that are located in the greater Seoul metropolitan area but excluding the regulated areas, (ii) 50% for those that are located in “adjustment targeted areas” and (iii) 40% for those that are located in “speculative areas” or “overheated speculative areas”. However, such debt-to-income ratios for houses located in regulated areas are adjusted to 60% for (i) low-income households that (1) have a combined (in case of married couple) annual income of no more than ₩90 million, (2) do not currently own any housing and (3) are using the loan to purchase low-price housing valued at ₩900 million or less (₩800 million or less in case of houses located in “adjustment targeted areas”) and (ii) first-time homebuyers.

The Financial Services Commission also introduced a debt service ratio and a modified debt-to-income ratio in order to modernize credit review methods and stabilize the management of household debt. The modified debt-to-income ratio, which has been implemented beginning January 31, 2018 reflects (i) both principal and interest payments on the applicable mortgage and home equity loan and existing mortgage and home equity loans and (ii) interest payments on other loans. Previously, debt-to-income ratio had only reflected (i) both principal and interest payments on the applicable mortgage and home equity loan and (ii) interest payments on existing mortgage and home equity loans. Debt service ratios reflect principal and interest payments on both the applicable loan and other loans and have been fully implemented since October 2018. The modified debt-to-income ratios are used as the primary reference index in the evaluation and approval process for mortgage and home equity loans, and debt service ratios are generally used as a supplementary reference index providing additional limits on mortgage and home equity loans. For example, debt service ratios applicable to a loan applicant with a total aggregate loan amount exceeding ₩100 million (including the applied but not yet extended loan amount) should not exceed 40% unless otherwise specified by the applicable regulations.

In August 2023, the Government enacted a special law aimed at protecting victims of lease fraud and ensuring housing stability. In connection with this, the Financial Services Commission has decided to provide special treatment for victims of lease fraud, notwithstanding existing regulations on loan-to-value ratio, debt-to-income ratio, and debt service ratios. Victims of lease fraud are eligible to receive an loan-to-value ratio of up to 80%, and in the case of mortgage loans obtained through auction winnings, the loan may be granted regardless of the regulatory status of the area, provided that the loan amount does not exceed four hundred million Won. Furthermore, such victims may be exempt from the application of debt-to-income ratio and debt service ratios regulations.

Meanwhile, the Financial Services Commission introduced the “Stress DSR” system for floating rate, blended rate, and cyclical loans in the financial sector in order to prevent excessive household debt. The “Stress DSR” system imposes a certain level of interest rate spread (a stress rate) when calculating the DSR, taking into consideration the possibility that a borrower of a floating interest rate loan may be burdened with repayment of principal and interest due to an increase in the interest rate during the loan period. The Financial Services Commission began applying the system on February 26, 2024 initially to mortgage loans in the banking sector, and plans on gradually expanding the application to all types of loans in all industries.

In addition, the supervising authorities in Korea from time to time issue administrative instructions to Korean banks, which have the effect of regulating the access of borrowers to housing loans and, as such, demand for real estate properties. For example, the Financial Supervisory Service issued administrative instructions to financial institutions to (except in limited circumstances) verify the borrower’s ability to repay based on proof of income prior to making a mortgage and home equity loan regardless of the type or value of the collateral or the location of the property, which has had the effect of practically barring the grant of any new mortgage and home equity loans to borrowers without verifiable income.

Pursuant to the Regulation on the Supervision of the Banking Business, Shinhan Bank must maintain a loan to deposit ratio of no more than 100%. Since January 1, 2020, in calculating such loan to deposit ratio, retail loans and corporate loans are weighed differently, with retail loans subject to a multiple of 115% and corporate loans (excluding loans to SOHOs) subject to a multiple of 85%, thereby increasing the impact of retail loans and reducing the impact of corporate loans in calculating such ratio. In response to the COVID-19 pandemic, on April 20, 2020, the Financial Services Commission announced a series of measures to temporarily ease the regulations on loan-to-deposit ratio. In particular, the loan-to-deposit ratio of 100% was temporarily increased to 105% and weighing of corporate loans to SOHOs extended since January 1, 2020 to December 31, 2021 also became subject to a multiple of 85% provided such loans are not real estate related. On March 30, 2022, the Financial Services Commission announced plans to cease the temporary easement of regulations relating to the loan-to-deposit ratio as of June 30, 2022 and to gradually normalize the loan-to-deposit ratio back down to 100% beginning July 1, 2022. On October 27, 2022, the Financial Services Commission further announced measures to temporarily ease the loan-to-deposit ratio requirement from 100% to 105%, and on March 27, 2023, and on June 20, 2023, the Financial Services Commission announced to extend the deadline to end of June 2023 and end of 2023, respectively, in consideration of the increasing demand for corporate loans due to the contraction of the corporate bond market. This temporary increase ended as of the end of June 2023, and a loan-to-deposit ratio of 100% has been applied since July 2023.

There is no assurance that Government measures will achieve their intended results. While any Government measure that is designed to stimulate growth in the real estate sector may result in growth of, and improved profitability for, our retail lending business (particularly with respect to mortgage and home equity loans) at least for the short term, such measure could also result in unintended consequences, including potentially excessive speculation resulting in a "bubble" for the Korean real estate market and a subsequent market crash. In contrast, any Government measure changing the direction of its stimulus measures (for example, in order to preemptively curtail an actual or anticipated bubble in the real estate market) may result in a contraction of the real estate market, a decline in real estate prices and consequently, a reduction in the growth of, and profitability for, our retail and/or other lending businesses, as well as otherwise have an adverse effect on our business, financial condition and results of operations or profitability. See "— Risks Relating to Our Banking Business — A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may adversely affect our credit portfolio."

We engage in limited settlement transactions involving Iran and also in limited business in and related to Russia which may subject us to legal or reputational risks.

The U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces certain laws and regulations ("OFAC Sanctions") that impose restrictions upon dealings with or related to certain countries, governments, entities and individuals that are the subject of OFAC Sanctions, including Iran, and maintains a list of specially designated nationals (the "SDN List"), whose assets are blocked and with whom U.S. persons are generally prohibited from dealing. OFAC Sanctions may apply to non-U.S. persons when there is a U.S. nexus. Non-U.S. persons can be held liable for violations of OFAC Sanctions on various legal grounds, such as causing U.S. persons to violate sanctions by routing transactions through the United States or the U.S. financial system. Even in the absence of a U.S. nexus, non-U.S. persons may be imposed of sanctions by OFAC if it engages in certain dealings with or related to Iran, North Korea, Russia or other sanctioned persons or individuals ("Secondary Sanctions"). The European Union also enforces certain laws and regulations that impose restrictions upon nationals and entities of, and business conducted in, member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of such laws and regulations. The United Nations Security Council and other governmental authorities also impose similar sanctions.

In August 2016, the Government authorized Shinhan Bank to act as a settlement bank for Euro-denominated transactions between Korean and Iranian businesses. Prior to the granting of this permission, payments for business activities were settled only in Korean Won and we did not participate in such settlements. From August 2016 through August 2017, Shinhan Bank processed ten such transactions that resulted in a minimal amount of revenue. Since August 2017, Shinhan Bank has ceased processing any such transactions and has no intention to process any such transactions in the future. We are committed to engaging only in lawful activities and in obeying all relevant OFAC Sanctions and European Union sanctions but cannot guarantee that actions taken by our employees will not violate such sanctions. On May 8, 2018, U.S. President Donald Trump announced his decision to terminate the participation of the United States in the Joint Comprehensive Plan of Action (the "JCPOA"), pursuant to which certain relief of OFAC Sanctions relating to Iran had been provided. Following two wind down periods, one that ended on August 6, 2018 and one that ended on November 4, 2018, all Iran-related Secondary Sanctions that had been waived pursuant to the JCPOA were re-imposed and non-U.S. persons now face risk of Secondary Sanctions for dealing with certain key sectors of the Iranian economy or for providing associated services related to the targeted activities. As such, any Iran-related activities may subject us to OFAC Sanctions and to potential legal or reputational risks.

Shinhan Bank engages in certain limited lending activities in or related to Russia. In response to the Russia-Ukraine conflict, the U.S., E.U., U.K., Korean and other governments have imposed economic sanctions on Russia, Belarus, and certain regions of Ukraine. Such sanctions target, among other persons, a wide range of Russian financial institutions as sanctioned parties as well as the Russian Central Bank and certain other state entities. They also target specific sectors of the Russian economy, including the technology, defense and related materiel, construction, aerospace and manufacturing sectors. In December 2023, OFAC was authorized to impose Secondary Sanctions on foreign financial institutions when they conduct or facilitate significant Russia-related transactions or provide certain Russia-related services, in particular involving sanctioned persons in targeted sectors or critical items relating to Russia's military-industrial base. Russia-related activities may subject us to sanctions and potential legal or reputational risk.

Evolving regulatory framework for artificial intelligence and machine learning technology, may have an adverse impact on our business, financial condition and results of operations.

The regulatory framework for artificial intelligence and machine learning technology is evolving and remains uncertain. It is possible that new laws and regulations will be adopted, or existing regulations, notably those relating to data and copyright protection, may be interpreted in new ways that would affect our operations and the way in which we use artificial intelligence and machine learning technology, including with respect to our digital platforms provided to our customers. Further, the cost of complying with such laws or regulations could be significant and would increase our operating expenses, which could adversely affect our business, financial condition and results of operations.

Risks Relating to Korea

Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on our asset quality, liquidity and financial performance.

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our business, results of operations and financial condition are substantially dependent on developments relating to the Korean economy. As Korea's economy is highly dependent on the health and direction of the global economy, and investors' reactions to developments in one country can have adverse effects on the securities price of companies in other countries, we are also subject to the fluctuations of the global economy and financial markets. Factors that determine economic and business cycles in the Korean or global economy are for the most part beyond our control and inherently uncertain. In addition to discussions of recent developments regarding the global economic and market uncertainties and the risks relating to us as provided elsewhere in this section, factors that could have an adverse impact on Korea's economy in the future include, among others:

- continued volatility or deterioration in Korea's credit and capital markets;
- difficulties in the financial sectors in Europe, China and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets, including possibility of global inflation and the spread of economic downturn to Europe as a result of geopolitical risks arising from Russia-Ukraine conflict;
- declines in consumer confidence and a slowdown in consumer spending and corporate investments;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. Dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Renminbi, increased exchange rate volatility as a result of government interventions, interest rates, inflation rates or stock markets;
- increasing levels of household debt;
- increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;
- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;
- the economic impact of any pending or future free trade agreements;
- potential escalation of the ongoing trade war between the U.S. and China as each country introduces tariffs on goods traded with the other;

- social and labor unrest;
- significant fluctuations or decreases in the market prices of Korean real estate;
- a decrease in tax revenue and a substantial increase in the Government’s expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean business groups;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geopolitical uncertainty and risk of further attacks by terrorist groups around the world, including the actions of the so-called “Islamic State”;
- the occurrence of severe health epidemics in Korea and other parts of the world, including COVID-19, Ebola, Middle East Respiratory Syndrome (MERS) and Zika virus outbreaks;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy such as the recent diplomatic tension between Korea and China with respect to the deployment of the Terminal High Altitude Area Defense (THAAD) system in Korea and trade disputes between Korea and the United States with respect to the imposition of anti-dumping duties on Korean steel, washing machines, transformers and solar panels;
- political uncertainty, or increasing strife among or within political parties in Korea, and political gridlock within the government or in the legislature, which prevents or disrupts timely and effective policy making;
- hostilities or political or social tensions involving oil-producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;
- political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets;
- the occurrence of natural or man-made disasters in Korea (such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months) and other parts of the world, particularly in trading partners of Korea; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Any future deterioration of the Korean economy could have an adverse effect on our business, financial condition and results of operations.

Tensions with North Korea could have an adverse effect on us, the price of our common shares and our American depositary shares.

Relations between Korea and North Korea have been tense throughout Korea’s modern history. The level of tension between Korea and North Korea has fluctuated and may increase abruptly as a result of current and future events. In particular, there continues to be heightened security tension in the region stemming from North Korea’s hostile military and diplomatic actions, including in respect of its nuclear weapons and long-range missile programs. Some examples from recent years include the following:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea’s actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in November 2022 in response to North Korea’s intercontinental ballistic missile test in November 2022. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.

- In February 2016, in retaliation of North Korea’s launch of a long-range rocket, Korea announced that it would halt its operations of the Kaesong Industrial Complex, an industrial complex in the border city of Kaesong, to impede North Korea’s utilization of funds from the industrial complex to finance its nuclear and missile programs. In response, North Korea announced that it would expel all Korean employees from the industrial complex and freeze all Korean assets in the complex. All 280 Korean workers present at Kaesong left hours after the announcement by North Korea, and the complex remains closed as of the date hereof.
- In March 2013, North Korea stated that it had entered “a state of war” with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies’ military drills and additional sanctions imposed on North Korea for its missile and nuclear tests.

North Korea’s economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant economic commitment and expenditure by Korea that may outweigh any resulting economic benefits of reunification.

In April, May and September 2018, President Moon Jae-in met Kim Jong-un in a series of summit meetings to discuss, among other matters, denuclearization of the Korean peninsula. In June 2018, U.S. President Donald Trump and Kim Jong-un in turn had an official summit in Singapore, the first ever meeting between leaders of the United States and North Korea. Subsequent to the Singapore summit, they signed a joint statement, which stated, among others, new peaceful relations and the denuclearization of the Korean peninsula. A second official summit between U.S. President Donald Trump and Kim Jong-un was held in Vietnam in February 2019 but ended abruptly and without an agreement. In June 2019, U.S. President Donald Trump and Kim Jong-un had another summit at the Korean Demilitarized Zone, following which both sides announced a resumption of denuclearization talks. However, in December 2019, North Korea announced its intention to resume missile testing, heightening tensions. On June 16, 2020, North Korea destroyed the joint liaison office in Kaesong, citing anti-regime propaganda allegedly disseminated using balloons across the border by Korean activists, and cut all other communication channels with Korea. In September 2023, North Korea amended constitution declaring itself to be a nuclear weapons state.

In the aftermath of these developments, there remains significant uncertainty regarding peace talks and the denuclearization of the Korean peninsula. As such, there can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that the political regime in North Korea may not suddenly collapse. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities, heightened concerns about the stability of North Korea’s political leadership or its actual collapse, a leadership crisis, a breakdown of high-level contacts or accelerated reunification could have a material adverse effect on our business, financial condition and results of operations, as well as the price of our common shares and our American depositary shares.

Risks Relating to Our American Depositary Shares

There are restrictions on withdrawal and deposit of common shares under the depositary facility.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank's custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender American depositary shares to the depositary bank and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depositary shares (including deposits in connection with the initial and all subsequent offerings of American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 40,432,628. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

Ownership of our shares is restricted under Korean law.

Under the Financial Holding Companies Act, any single shareholder (together with certain persons in a special relationship with such shareholder) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a bank holding company controlling national banks such as us. In addition, any person, except for a "non-financial business group company" (as defined below), may acquire in excess of 10% of the total voting shares issued and outstanding of a financial holding company which controls a national bank, provided that a prior approval from the Financial Services Commission is obtained each time such person's aggregate holdings exceed 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such financial holding company. The Government and the Korea Deposit Insurance Corporation are exempt from this limit. Furthermore, certain non-financial business group companies (i.e., (i) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group; (ii) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than ₩2 trillion; (iii) any mutual fund in which the same shareholder group identified in (i) or (ii) above owns more than 4% of the total shares issued and outstanding of such mutual fund; (iv) any private equity fund (a) where a person falling under any of items (i) through (ii) above is a limited partner holding not less than 10% of the total amount of contributions to the private equity fund, or (b) where a person falling under any of items (i) through (iii) above is a general partner, or (c) where the total equity of the private equity fund acquired by each affiliate belonging to several enterprise groups subject to the limitation on mutual investment is 30% or more of the total amount of contributions to the private equity fund; or (v) the investment purpose company concerned, where a private equity fund falling under item (iv) above acquires or holds stocks in excess of 4% of the shares or equity of such company or exercises de facto control over significant managerial matters of such company through appointment or dismissal of executives or in any other manner)) may not acquire beneficial ownership in us in excess of 4% of our outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of our outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 4% limit. See "Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Restrictions on Financial Holding Company Ownership." To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds these limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to ₩100 million, plus an additional charge of up to 0.03% of the book value of such shares per day until the date of disposal.

Holders of our ADSs will not have preemptive rights in certain circumstances.

The Korean Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and you will suffer dilution of your equity interest in us.

Holders of our ADSs will not be able to exercise dissent and appraisal rights unless they have withdrawn the underlying shares of our common stock and become our direct stockholders.

Under Korean law, in some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. However, under our deposit agreement, holders of our American depositary shares do not have, and may not instruct the depositary as to the exercise of, any dissenter’s rights provided to the holders of our common shares under Korean law. Therefore, if holders of our American depositary shares wish to exercise dissenting rights, they must withdraw the underlying common stock from the American depositary shares facility (and incur charges relating to that withdrawal) and become our direct stockholders prior to the record date of the shareholders’ meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

The market value of your investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the KRX KOSPI Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Stock Market Division of the Korea Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

Your dividend payments and the amount you may realize upon a sale of your ADSs will be affected by fluctuations in the exchange rate between the U.S. Dollar and the Won.

Investors who purchase the American depositary shares will be required to pay for them in U.S. Dollars. Our outstanding shares are listed on the Korea Exchange and are quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the American depositary shares will be paid to the depositary bank in Won and then converted by the depositary bank into U.S. Dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. Dollar will affect, among other things, the amounts a registered holder or beneficial owner of the American depositary shares will receive from the depositary bank in respect of dividends, the U.S. Dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depositary shares and the secondary market price of the American depositary shares.

If the Government deems that certain emergency circumstances are likely to occur, it may restrict the depositary bank from converting and remitting dividends in Dollars.

If the Government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior Government approval for the acquisition of Korean securities or for the repatriation of interest or dividends arising from Korean securities or sales proceeds from disposition of such securities. These emergency circumstances include any or all of the following:

- sudden fluctuations in interest rates or exchange rates;
- extreme difficulty in stabilizing the balance of payments; and
- a substantial disturbance in the Korean financial and capital markets.

The depositary bank may not be able to secure such prior approval from the government for the payment of dividends to foreign investors when the Government deems that there are emergency circumstances in the Korean financial markets.

Other Risks

We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. For significant differences, see “Item 16G. Corporate Governance.” There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.