

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission File Number: 001-31798

Shinhan Financial Group Co., Ltd.

(Exact name of registrant as specified in its charter)

N/A
(Translation of registrant's
name into English)

The Republic of Korea
(Jurisdiction of
incorporation or organization)

20, Sejong-daero 9-gil, Jung-gu
Seoul 04513, Korea
(Address of principal executive offices)

Park Cheolwoo, +822 6360 3129 (T), cheol.park@shinhan.com, +822 6360 3098 (F), 20, Sejong-daero 9-gil, Jung-gu, Seoul 04513, Korea
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Title of Each Class:	Securities registered or to be registered pursuant to Section 12(b) of the Act: Trading Symbol(s)	Name of Each Exchange on Which Registered:
Common stock, par value Won 5,000 per share American depository shares	SHG SHG	New York Stock Exchange* New York Stock Exchange

* Not for trading, but only in connection with the listing of American depository shares on the New York Stock Exchange, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of Shinhan Financial Group's classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report: 515,894,758 shares of common stock, par value of Won 5,000 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes No

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
 Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes No

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CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Unless otherwise specified or the context otherwise requires:

- the terms “we,” “us,” “our,” “Shinhan Financial Group,” “SFG” and the “Group” mean Shinhan Financial Group Co., Ltd. and its consolidated subsidiaries;
- the terms “Shinhan Financial Group Co., Ltd.,” “our company” and “our holding company” mean Shinhan Financial Group Co., Ltd.; and
- “Shinhan Card” refers to Shinhan Card Co., Ltd., “Shinhan Life Insurance” refers to Shinhan Life Insurance Co., Ltd., “Shinhan Investment” refers to Shinhan Investment Corp. and “Orange Life Insurance” refers to Orange Life Insurance, Ltd.

All references to “Korea” or the “Republic” contained in this annual report are to the Republic of Korea. All references to the “Government” are to the government of the Republic of Korea. References to the “Financial Services Commission” are to the Financial Services Commission of Korea, and references to the “Financial Supervisory Service” are to the Financial Supervisory Service of Korea, the executive body of the Financial Services Commission.

The fiscal year for us and our subsidiaries ends on December 31 of each year. Unless otherwise specified or the context otherwise requires, all references to a particular year are to the year ended December 31 of that year.

The currency of the primary economic environment in which we operate is Korean Won.

In this annual report, unless otherwise indicated, all references to “Korean Won”, “Won” or “₩” are to the currency of the Republic of Korea, and all references to “U.S. Dollars,” “Dollars,” “\$” or “US\$” are to the currency of the United States of America. Unless otherwise indicated, all translations from Won to Dollars were made at ₩1,086.1 to US\$1.00, which was the noon buying rate in the City of New York on December 31, 2020 for cable transfers according to the H.10 statistical release of the Federal Reserve Board (the “Noon Buying Rate”). On April 16, 2021, the Noon Buying Rate was ₩1,114.9 to US\$1.00. The Noon Buying Rate has been volatile recently and the U.S. Dollar amounts referred to in this report should not be relied upon as an accurate reflection of our results of operations. We expect this volatility to continue in the near future. No representation is made that the Won or U.S. Dollar amounts referred to in this report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

Unless otherwise indicated, the financial information presented in this annual report has been prepared on a consolidated basis in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Any discrepancies in the tables included herein between totals and sums of the amounts listed are due to rounding.

FORWARD LOOKING STATEMENTS

This annual report includes “forward-looking statements,” as defined in Section 27A of the U.S. Securities Act, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements regarding our expectations and projections for future operating performance and business prospects. The words “believe,” “expect,” “anticipate,” “estimate,” “project” and similar words used in connection with any discussion of our future operating or financial performance identify forward-looking statements. In addition, all statements other than statements of historical facts included in this annual report are forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. This annual report discloses, under the caption "Item 3.D. Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from our expectations ("Cautionary Statements"). Included among the factors discussed under the caption "Item 3.D. Risk Factors" are the followings risks related to our business, which could cause actual results to differ materially from those described in the forward-looking statements: the risk of adverse impacts from an economic downturn; increased competition; market volatility in securities and derivatives markets, interest or foreign exchange rates or indices; other factors impacting our operational plans; or legislative and/or regulatory developments. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

ITEM 3.A. Selected Financial Data

The selected consolidated income statement and balance sheet data set forth below for the years ended December 31, 2016, 2017, 2018, 2019 and 2020 have been derived from our consolidated financial statements which have been prepared in accordance with IFRS as issued by the IASB. Our consolidated financial statements as of and for the years ended December 31, 2016, 2017, 2018 and 2019 have been audited by independent registered public accounting firm KPMG Samjong Accounting Corp. Our consolidated financial statements as of and for the year ended December 31, 2020 have been audited by independent registered public accounting firm Samil PricewaterhouseCoopers.

Beginning on January 1, 2019, we have adopted IFRS 16, 'Leases'. On January 1, 2019, the date of initial application, right-of-use assets were measured by taking an amount equal to the lease liability and adjusting by the amount of prepaid or unpaid lease payments in relation to leases recognized in the consolidated statement of financial position, and therefore we did not recognize any cumulative effect of initial application. As restatement of prior periods is not required, comparative financial information for prior periods, which have been prepared applying IAS 17, has not been restated. Accordingly, certain of our historical financial information as of and for the years ended December 31, 2017 and 2018 is not directly comparable against that of our financial information after January 1, 2019. For further information regarding the adoption of IFRS 16, see "Item 5.A. Operating Results — Critical Accounting Policies — Recently Adopted Standards and Interpretations — IFRS 16, 'Leases.'" Beginning on January 1, 2018, we have adopted IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers'. In accordance with the guidance in IFRS 9 and IFRS 15, an entity that adopts the classification and measurement requirements of these standards need not restate prior periods. As the restatement of prior periods is not required, certain of our historical financial information as of and for the years ended December 31, 2016 and 2017 is not directly comparable against that of our financial information after January 1, 2018. For further information regarding the adoption of IFRS 9 and IFRS 15, see "Item 5.A. Operating Results — Critical Accounting Policies." For further details regarding these changes and the transition effects of the adoption of these new standards, see Note 49 of the notes to our consolidated financial statements included in this annual report.

You should read the following data with the more detailed information contained in "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements included in "Item 18. Financial Statements." Historical results are not necessarily indicative of future results.

Consolidated Income Statement Data

	Year Ended December 31,					
	2016	2017	2018	2019	2020	2020 ⁽¹⁾
	(In billions of Won and millions of US\$, except per common share data)					
Interest income	₩11,236	₩11,799	₩13,572	₩15,707	₩14,774	\$13,603
Interest expense	(4,031)	(3,956)	(4,992)	(5,969)	(4,891)	(4,504)
Net interest income	7,205	7,843	8,580	9,738	9,883	9,099
Fees and commission income	3,804	4,045	3,295	3,557	3,814	3,512
Fees and commission expense	(2,238)	(2,334)	(1,356)	(1,416)	(1,431)	(1,318)
Net fees and commission income	1,566	1,711	1,939	2,141	2,383	2,194
Net insurance expenses	(419)	(460)	(472)	(497)	(604)	(556)
Dividend income	282	257	88	82	98	90
Net gain on financial instruments at fair value through profit or loss	—	—	420	1,385	273	251
Net gain (loss) on financial instruments at fair value through profit or loss (overlay approach)	—	—	75	(247)	(136)	(125)
Net trading income	370	963	—	—	—	—
Net gain (loss) on financial instruments designated at fair value through profit or loss (IFRS 9)	—	—	(27)	(846)	198	183
Net loss on financial instruments designated at fair value through profit or loss (IAS 39)	(502)	(1,060)	—	—	—	—
Net foreign currency transaction gain	462	364	194	441	527	485
Net gain on disposal of financial asset at fair value through other comprehensive income	—	—	21	152	274	252
Net gain on disposal of available-for-sale financial assets	648	499	—	—	—	—
Provision for credit loss allowance	—	—	(748)	(981)	(1,382)	(1,273)
Impairment loss on financial assets	(1,196)	(1,014)	—	—	—	—
General and administrative expenses	(4,509)	(4,811)	(4,742)	(5,135)	(5,213)	(4,799)
Net other operating expenses	(798)	(462)	(829)	(1,187)	(1,371)	(1,262)
Operating income	3,109	3,830	4,499	5,046	4,930	4,539
Equity method income	10	20	17	53	159	147
Other non-operating income (expense), net	52	(53)	(50)	(188)	(335)	(309)
Profit before income taxes	3,171	3,797	4,466	4,911	4,754	4,377
Income tax expense	(346)	(848)	(1,268)	(1,269)	(1,256)	(1,156)
Profit for the year	₩ 2,825	₩ 2,949	₩ 3,198	₩ 3,642	₩ 3,498	\$ 3,221
Other comprehensive income (loss) for the year, net of income tax						
Items that are or may be reclassified to profit or loss:						
Net gain (loss) on financial asset at fair value through other comprehensive income	₩ —	₩ —	₩ 161	₩ 352	₩ (87)	\$ (80)
Net gain (loss) on financial instruments at fair value through profit or loss (overlay approach)	—	—	(54)	163	90	83
Loss on available-for-sale financial assets	(434)	(323)	—	—	—	—
Equity in other comprehensive income (loss) of associates	3	(23)	7	3	(3)	(3)
Foreign currency translation adjustments for foreign operations	12	(194)	20	106	(162)	(149)

	Year Ended December 31,					
	2016	2017	2018	2019	2020	2020 ⁽¹⁾
	(In billions of Won and millions of US\$, except per common share data)					
Net change in unrealized fair value of cash flow hedges	(1)	16	(20)	(19)	(14)	(13)
Other comprehensive income (loss) of separate account	(4)	(9)	9	11	4	4
	<u>(424)</u>	<u>(533)</u>	<u>123</u>	<u>616</u>	<u>(172)</u>	<u>(158)</u>
Items that will never be reclassified to profit or loss:						
Remeasurements of the defined benefit liability	15	103	(93)	(55)	16	15
Equity in other comprehensive income of associates	—	1	—	—	—	—
Valuation gain on financial asset at fair value through other comprehensive income	—	—	23	19	7	6
Loss on disposal of financial asset at fair value through other comprehensive income	—	—	(3)	(6)	(28)	(26)
Changes in own credit risk on financial liabilities designated at fair value through profit of loss	—	—	2	(8)	3	3
	<u>15</u>	<u>104</u>	<u>(71)</u>	<u>(50)</u>	<u>(2)</u>	<u>(2)</u>
Total other comprehensive income (loss), net of income tax	<u>(409)</u>	<u>(429)</u>	<u>52</u>	<u>566</u>	<u>(174)</u>	<u>(160)</u>
Total comprehensive income for the year	<u>₩ 2,416</u>	<u>₩ 2,520</u>	<u>₩ 3,250</u>	<u>₩ 4,208</u>	<u>₩ 3,324</u>	<u>\$ 3,061</u>
Profit for the year attributable to:						
Equity holders of the Group	₩ 2,775	₩ 2,919	₩ 3,156	₩ 3,403	₩ 3,415	\$ 3,144
Non-controlling interest	50	30	42	239	83	77
Total comprehensive income attributable to:						
Equity holders of the Group	2,367	2,491	3,208	3,891	3,243	2,986
Non-controlling interest	49	29	42	317	81	75
Earnings per share:						
Basic earnings per share in Won and US\$ ⁽²⁾	5,736	6,118	6,579	7,000	6,654	6.13
Dilutive earnings per share in Won and US\$ ⁽³⁾	5,736	6,118	6,579	7,000	6,654	6.13

Notes:

- (1) Won amounts are expressed in U.S. Dollar at the rate of ₩1,086.1 to US\$1.00, the Noon Buying Rate in effect on December 31, 2020 for the convenience of readers. No representation is made that the Won or U.S. Dollar amounts referred to above could have been or could be converted into U.S. Dollars or Won, as the case may be, at any particular rate or at all.
- (2) Basic earnings per share are calculated by dividing profit for the year available to holders of our common shares by the weighted average number of common shares issued and outstanding for the relevant period.
- (3) Dilutive earnings per share are calculated in a manner consistent with basic earnings per share, while giving effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common shares were converted into or exercised for common shares. Common shares issuable upon conversion of redeemable convertible preferred shares are potentially dilutive.

Consolidated Balance Sheet Data

	As of December 31,					
	2016	2017	2018	2019	2020	2020 ⁽¹⁾
	(In billions of Won and millions of US\$, except per common share data)					
Assets						
Cash and due from banks at amortized cost	₩ —	₩ —	₩ 17,349	₩ 28,424	₩ 33,411	\$ 30,762
Cash and due from banks	19,181	22,669	—	—	—	—
Financial assets at fair value through profit or loss (IFRS 9)	—	—	43,535	53,163	59,091	54,407
Trading assets	26,696	28,464	—	—	—	—
Financial assets designated at fair value through profit or loss (IAS 39)	3,416	3,579	—	—	—	—
Derivative assets	3,003	3,400	1,794	2,829	5,634	5,187
Securities at fair value through other comprehensive income	—	—	38,314	59,381	58,316	53,693
Available-for-sale financial assets	37,663	42,117	—	—	—	—
Securities at amortized cost	—	—	28,478	45,582	47,283	43,534
Held-to-maturity financial assets	19,805	24,991	—	—	—	—
Loans at amortized cost	—	—	299,609	323,245	356,222	327,982
Loans	259,011	275,566	—	—	—	—
Property and equipment, net	3,146	3,022	3,004	4,083	3,990	3,673
Intangible assets	4,227	4,273	4,320	5,559	5,481	5,046
Investments in associates	354	631	671	1,453	2,658	2,447
Current tax receivable	13	25	45	88	52	48
Deferred tax assets	641	592	427	218	215	198
Investment property	353	418	475	489	615	566
Asset for defined benefit obligations	—	—	—	2	18	17
Other assets	18,167	16,552	21,572	27,879	32,194	29,644
Assets held for sale	4	8	8	25	54	50
Total assets	₩395,680	₩426,307	₩459,601	₩552,420	₩605,234	\$557,254
Liabilities						
Deposits	₩235,138	₩249,419	₩265,000	₩294,874	₩326,417	\$300,540
Financial liabilities at fair value through profit or loss	—	—	1,420	1,632	1,437	1,323
Trading liabilities	1,977	1,848	—	—	—	—
Financial liabilities designated at fair value through profit or loss (IFRS 9)	—	—	8,536	9,409	8,456	7,785
Financial liabilities designated at fair value through profit or loss (IAS 39)	9,234	8,298	—	—	—	—
Derivative liabilities	3,528	3,488	2,440	2,303	5,017	4,619
Borrowings	25,294	27,587	29,819	34,863	41,594	38,297
Debt securities issued	44,327	51,341	63,228	75,363	75,134	69,178
Liability for defined benefit obligations	131	7	127	121	63	58
Provisions	729	429	508	557	805	741
Current tax payable	273	349	430	513	390	359
Deferred tax liabilities	11	10	22	452	580	534
Liabilities under insurance contracts	22,377	24,515	26,219	52,164	53,459	49,222
Other liabilities	20,916	25,312	25,200	38,238	45,525	41,917
Total liabilities	₩363,935	₩392,603	₩422,949	₩510,489	₩558,877	\$514,573

	As of December 31,					
	2016	2017	2018	2019	2020	2020 ⁽¹⁾
	(In billions of Won and millions of US\$, except per common share data)					
Equity						
Capital stock	₩ 2,645	₩ 2,645	₩ 2,645	₩ 2,732	₩ 2,970	\$ 2,734
Hybrid bonds	498	424	1,532	1,731	2,180	2,007
Capital surplus	9,887	9,887	9,896	10,565	12,235	11,265
Capital adjustments	(458)	(398)	(553)	(1,117)	(688)	(633)
Accumulated other comprehensive loss	(102)	(530)	(753)	(258)	(404)	(372)
Retained earnings	18,640	20,792	22,959	25,526	27,777	25,574
Total equity attributable to equity holders of the Group	31,110	32,820	35,726	39,179	44,070	40,575
Non-controlling interests	635	884	926	2,752	2,287	2,106
Total equity	₩ 31,745	₩ 33,704	₩ 36,652	₩ 41,931	₩ 46,357	\$ 42,681
Total liabilities and equity	₩395,680	₩426,307	₩459,601	₩552,420	₩605,234	\$557,254

Note:

- (1) Won amounts are expressed in U.S. Dollar at the rate of ₩1,086.1 to US\$1.00, the Noon Buying Rate in effect on December 31, 2020 for the convenience of readers. No representation is made that the Won or U.S. Dollar amounts referred to above could have been or could be converted into U.S. Dollars or Won, as the case may be, at any particular rate or at all.

Dividends

	Year Ended December 31,				
	2016	2017	2018	2019	2020
	(In Won and US\$)				
Cash dividends per share of common stock:					
In Korean Won	₩1,450	₩1,450	₩1,600	₩1,850	₩1,500
In U.S. Dollars ⁽¹⁾	\$ 1.20	\$ 1.36	\$ 1.44	\$ 1.60	\$ 1.38
Cash dividends per share of preferred stock:					
In Korean Won	₩ N/A	₩ N/A	₩ N/A	₩1,850	₩1,716
In U.S. Dollars ⁽¹⁾	\$ N/A	\$ N/A	\$ N/A	\$ 1.60	\$ 1.58

N/A = not available

Note:

- (1) Won amounts for 2016, 2017, 2018, 2019 and 2020 are expressed in U.S. Dollar at the rate of ₩1,203.7, ₩1,067.4, ₩1,112.9, ₩1,155.5 and ₩1,086.1, respectively, to US\$1.00, the Noon Buying Rate in effect on December 31, 2016, 2017, 2018, 2019 and 2020, respectively, for the convenience of readers. No representation is made that the Won or U.S. Dollar amounts referred to above could have been or could be converted into U.S. Dollars or Won, as the case may be, at any particular rate or at all.

Selected Statistical Information

Profitability Ratios and Other Data

	Year Ended December 31,				
	2016	2017	2018	2019	2020
	(Percentages)				
Net income attributable to the Group as a percentage of:					
Average total assets ⁽¹⁾	0.73%	0.72%	0.72%	0.69%	0.60%
Average total Group stockholders' equity ⁽¹⁾	8.97	8.94	9.23	9.02	7.95
Dividend payout ratio ⁽²⁾	25.62	23.92	24.81	25.97	25.42
Net interest spread ⁽³⁾	1.83	1.94	1.91	1.77	1.71
Net interest margin ⁽⁴⁾	2.06	2.13	2.14	2.07	1.92
Efficiency ratio ⁽⁵⁾	88.73	89.04	85.36	87.11	89.33
Cost-to-income ratio ⁽⁶⁾	51.34	52.39	47.51	46.13	45.20
Cost-to-average assets ratio ⁽¹⁾⁽⁷⁾	6.45	7.48	5.84	6.30	6.88
Equity to average asset ratio ⁽¹⁾⁽⁸⁾	8.14	8.00	7.77	7.66	7.60

Notes:

- (1) Average total assets (including average interest-earning assets), liabilities (including average interest-bearing liabilities) and stockholder's equity are based on (a) daily balances for Shinhan Bank and (b) quarterly balances for other subsidiaries.
- (2) Represents the ratio of total dividends declared on common and preferred stock and hybrid bonds as a percentage of net income attributable to the Group.
- (3) Represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (4) Represents the ratio of net interest income to average interest-earning assets.
- (5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income. Efficiency ratio is used as a measure of efficiency for banks and financial institutions. Efficiency ratio may be reconciled to comparable line items in our income statements for the periods indicated as follows:

	Year Ended December 31,				
	2016	2017	2018	2019	2020
	(In billions of Won, except percentages)				
Non-interest expense (A)	₩24,957	₩30,831	₩26,042	₩33,203	₩39,788
<i>Divided by</i>					
The sum of net interest income and non-interest income (B)	28,127	34,627	30,508	38,114	44,542
Net interest income	7,205	7,843	8,580	9,738	9,883
Non-interest income	20,922	26,784	21,928	28,376	34,659
Efficiency ratio ((A) as a percentage of (B))	88.73%	89.04%	85.36%	87.11%	89.33%

- (6) Represents the ratio of general and administrative expenses to the sum of net interest income, net fee and commission income, net gain on financial assets and liabilities at fair value through profit or loss and net other operating income.
- (7) Represents the ratio of non-interest expense to average total assets.
- (8) Represents the ratio of average stockholders' equity to average total assets.

Asset Quality Ratios

	As of December 31,				
	2016	2017	2018	2019	2020
	(In billions of Won, except percentages)				
Total gross loans	₩261,004	₩277,489	₩303,070	₩327,578	₩360,804
Total allowance for credit losses on loans	₩ 2,361	₩ 2,311	₩ 2,725	₩ 2,685	₩ 3,061
Allowance for credit losses on loans as a percentage of total loans	0.90%	0.83%	0.90%	0.82%	0.85%
Impaired loans ⁽¹⁾	₩ 1,804	₩ 1,793	₩ 1,697	₩ 1,878	₩ 2,011
Impaired loans as a percentage of total loans	0.69%	0.65%	0.56%	0.57%	0.56%
Allowance as a percentage of impaired loans	130.88%	128.89%	160.58%	142.97%	152.21%
Total non-performing loans ⁽²⁾	₩ 1,174	₩ 1,075	₩ 1,090	₩ 1,325	₩ 1,689
Non-performing loans as a percentage of total loans	0.45%	0.39%	0.36%	0.40%	0.47%
Allowance as a percentage of total assets	0.60%	0.54%	0.59%	0.49%	0.51%

Notes:

- (1) Impaired loans include (i) loans for which the borrower has defaulted under Basel standards applicable during the relevant period and (ii) loans that qualify as “troubled debt restructurings” applicable during the relevant period.
- (2) Non-performing loans are defined as loans, whether corporate or retail, that are past due more than 90 days.

Capital Ratios

	As of December 31,				
	2016	2017	2018	2019	2020
	(Percentages)				
Group BIS ratio ⁽¹⁾	15.00%	14.78%	14.87%	13.90%	15.74%
Total capital adequacy ratio of Shinhan Bank	15.70	15.59	16.03	15.91	18.47
Adjusted equity capital ratio of Shinhan Card ⁽²⁾	26.23	24.52	21.69	20.08	19.91
Solvency ratio for Shinhan Life Insurance ⁽³⁾	178.28	175.41	238.67	227.86	249.50
Solvency ratio for Orange Life Insurance ⁽³⁾	319.20	455.32	425.03	393.91	395.44

Notes:

- (1) Under the guidelines of the Financial Services Commission applicable to financial holding companies, the minimum requisite capital ratio applicable to us is the Bank for International Settlement (“BIS”) ratio of 8%. This computation is based on our consolidated financial statements in accordance with IFRS. See “Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Capital Adequacy.”
- (2) Represents the ratio of total adjusted shareholders’ equity to total adjusted assets and is computed in accordance with the guidelines issued by the Financial Services Commission for credit card companies. Under these guidelines, a credit card company is required to maintain a minimum adjusted equity capital ratio of 8%. This computation is based on the consolidated financial statements of the credit card company prepared in accordance with IFRS. See “Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Credit Card Companies — Capital Adequacy.”
- (3) Solvency ratio is the ratio of the solvency margin to the standard amount of solvency margin as defined and computed in accordance with the guidelines issued by the Financial Services Commission for life insurance companies. Under these guidelines, Shinhan Life Insurance and Orange Life Insurance are required to maintain a minimum solvency ratio of 100%. See “Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Insurance Companies — Capital Adequacy.”

The Financial Services Commission regulations require that capital ratios be computed based on our consolidated financial statements under IFRS and regulatory guidelines. The following table sets forth our capital ratios computed on the basis of our consolidated financial statements under IFRS and the regulatory guidelines of the Financial Services Commission.

	As of December 31,		
	2018	2019	2020
	(In millions of Won, except percentages)		
Risk-weighted assets	₩228,678,105	₩256,891,664	₩252,321,426
Total risk-adjusted capital	₩ 33,993,061	₩ 35,714,570	₩ 39,709,077
Tier I capital	₩ 30,677,876	₩ 31,699,830	₩ 36,267,236
Tier I common equity capital	₩ 28,696,267	₩ 28,561,568	₩ 32,461,864
Capital adequacy ratio (%)	14.87%	13.90%	15.74%
Tier I capital adequacy ratio (%)	13.42%	12.34%	14.37%
Common equity capital adequacy ratio (%)	12.55%	11.12%	12.87%

Exchange Rates

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

<u>Year Ended December 31,</u>	<u>At End of Period</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
		(Won per US\$1.00)		
2016	1,203.7	1,160.5	1,242.6	1,090.3
2017	1,067.4	1,141.6	1,207.2	1,067.4
2018	1,112.9	1,099.3	1,141.7	1,054.6
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
October	1,134.0	1,143.8	1,166.1	1,127.8
November	1,105.8	1,116.1	1,137.4	1,105.3
December	1,086.1	1,093.8	1,107.3	1,081.9
2021 (through April 16)	1,114.9	1,115.9	1,140.6	1,081.6
January	1,118.4	1,098.2	1,118.4	1,081.6
February	1,123.4	1,111.8	1,123.7	1,099.6
March	1,126.7	1,130.3	1,140.6	1,118.6
April (through April 16)	1,114.9	1,121.2	1,131.6	1,114.9

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 31, 2020, which was ₩1,086.1 to US\$1.00. On April 16, 2021, the Noon Buying Rate in effect was ₩1,114.9 to US\$1.00.

ITEM 3.B. Capitalization and Indebtedness

Not applicable.

ITEM 3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

ITEM 3.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**
 - The extent to which the recent coronavirus (COVID-19) pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and difficult to predict.
 - Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect our business, asset quality, capital adequacy and earnings.
 - 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.
 - 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 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.
 - We may suffer losses or record provisions for credit loss allowance for expected losses in connection with financial products sold by us or our subsidiaries, including Shinhan Investment and Shinhan Bank, which may have a negative impact on us, including our reputation.
- **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.
 - 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.
 - Legal claims and regulatory risks arise in the conduct of our business.
- **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 which may subject us to legal or reputational risks.
 - The implementation of IFRS 9 with effect from January 1, 2018 renders certain of our historical financial information as of and for the years ended December 31, 2015, 2016 and 2017 not directly comparable with that of our financial information after January 1, 2018.

- The implementation of IFRS 9 has caused us to increase our allowance for impairment losses to cover expected credit loss on our loan portfolio and other financial instruments and may increase volatility in our profit or loss.
- **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

The extent to which the recent coronavirus (COVID-19) pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and difficult to predict.

The rapid and diffuse spread of the recent coronavirus (COVID-19) and global health concerns relating to this outbreak, which was declared a “pandemic” by the World Health Organization in March 2020, have had severe negative impact on, among other things, financial markets, liquidity, economic conditions and trade and could continue to do so or could worsen for an unknown period of time, which could in turn have a material adverse impact on the our business, results of operations and financial condition, including liquidity, asset quality and growth. Risks associated with a prolonged outbreak of COVID-19 may include:

- an increase in defaults on loan payments from our customers who may not be able to meet payment obligations, which may lead to an increase in delinquency;
- decreases in interest rates worldwide (see “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.” and “Risks Relating to Our Other Businesses — Prolonged periods

of declining or low interest rates 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.”);

- depreciation of the Won against major foreign currencies, which may increase our costs in servicing foreign currency-denominated debt and result in foreign exchange losses (see “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.”);
- impairments in the fair value of our investments in companies that may be adversely affected by COVID-19;
- disruption in the normal operations of our business resulting from the contraction of the disease by our employees or customers, which may necessitate its employees to be quarantined and/or its offices or branches to be temporarily shut down;
- disruption resulting from the necessity for social distancing, including, for example, temporary arrangements for employees to work remotely or in two or more teams on alternating shifts, which may lead to a reduction in labor productivity; and
- increased cyberattacks and financial crimes under the new working arrangements such as expanded telework for employees.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19 both in Korea and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and difficult to predict. In particular, a number of governments and organizations have revised GDP growth forecasts for 2021 downward in response to the economic slowdown caused by the spread of COVID-19, and it is possible that the COVID-19 pandemic will cause a prolonged global economic crisis or recession. Even in countries that succeed in significantly reducing the number of the cases from the current outbreak, the level of economic activity may not fully recover in the short term or at all due to concerns of future waves of COVID-19, the distribution and effectiveness of vaccines or changes in lifestyle and business practices. Therefore, the Korean and global economy may remain volatile or continue to deteriorate. To the extent that the ongoing COVID-19 pandemic prolongs and adversely affects our business, results of operations and financial conditions, it may also have the effect of increasing the likelihood and magnitude of the other risks described in this annual report.

We are continuously assessing forward looking information to reasonably estimate the adverse impact of COVID-19 on our asset portfolio. We accumulated an additional ₩394.4 billion (₩184.7 billion during the second quarter of 2020, ₩22.4 billion during the third quarter of 2020 and ₩187.3 billion during the fourth quarter of 2020) in COVID-19-related provisions during 2020 by reflecting forward looking criteria amid the COVID-19 pandemic, based on discounted cash flow assessment and reclassification of loss allowance stages depending on the extent of credit risk for certain loan assets. It is difficult to estimate the amount, if any, of special provisions for credit losses that will be incurred going forward as a result of COVID-19, and accordingly there is no guarantee that any such special provisions for credit losses will not be significant during first half of 2021 and beyond, and accordingly, the impact of COVID-19, including any special provisions for credit losses due to COVID-19, may have a material adverse effect on our business, liquidity, financial condition and results of operations. See “Item 5.A. Operating Results — Results of Operations.”

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 the ongoing general uncertainty about economic and political conditions in Europe (particularly amidst Brexit), signs of cooling economy for China, the continuing geopolitical and social instability in various parts of the Middle East, including Iraq, Syria and Yemen, as well as in the former republics of the Soviet Union, including Russia and Ukraine, potential escalation of ongoing trade wars between major economies including the U.S. and China and the recent coronavirus (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, volatility in the real estate market, 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 known as “*chaebols*,” 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. Accordingly, Shinhan Bank’s delinquency ratio (based on delinquency of one or more months past due and after charge-offs and loan sales) increased from 0.48% as of December 31, 2010 to 0.60% as of December 31, 2011 and 0.61% as of December 31, 2012. Since 2013, primarily due to a modest rebound in the housing market and Shinhan Bank’s active efforts to reduce its exposure to such troubled industries and other at-risk borrowers through preemptive risk management policies and increased lending to borrowers with high-quality credit profiles as part of Shinhan Bank’s strategic initiative to improve its asset quality, Shinhan Bank’s delinquency ratio steadily decreased. Shinhan Bank’s delinquency ratio has remained stable during the past few years mainly due to Shinhan Bank’s efforts to increase asset quality for both its retail and corporate loans and reduce exposures in certain industries such as IT, manufacturing and construction. More recently, various Government-led financial support programs introduced in response to the COVID-19 pandemic, 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 are expected to continue through September 30, 2021. Accordingly, Shinhan Bank’s delinquency ratio was 0.39% as of December 31, 2013, 0.31% as of December 31, 2014, 0.33% as of December 31, 2015, 0.28% as of December 31, 2016, 0.23% as of December 31, 2017, 0.25% as of December 31, 2018, 0.26% as of December 31, 2019 and 0.24% as of December 31, 2020. There is no assurance, however, that Shinhan Bank will not experience further 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 amid sluggish economic situation or for other reasons. In addition, the coronavirus (COVID-19) outbreak is expected to have a direct impact on global

and domestic consumption, most notably in the transportation, tourism, retail, lodging, catering, industrial production and construction industries particularly small- and medium-sized enterprises and retail customers may face significant difficulties in making timely interest and principal payments, which may lead to an increase in delinquency and adversely affect Shinhan Bank's asset quality. 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.

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, 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, 2020, 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, two Internet-only banks and branches and subsidiaries of 36 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 the low interest rate environment were to continue for a significant period of time. Shinhan Bank's net interest margin (on a separate basis) declined to 1.37% in 2020 from 1.54% in 2019 due to, at least partly, decreases in base interest rate by the Bank of Korea from 1.25% to 0.75% in March 2020 and from 0.75% to 0.50% in May 2020 and may decline further if the base interest rate is decreased again during 2021. 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, additional amendments to regulations requiring further downward adjustments to merchant fees may come into force in the future. Additional adjustments to merchant fees are expected during 2021, which may further reduce merchant fees for credit card companies, including Shinhan Card. 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 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% is expected to come 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, including Hana Financial Group's acquisition of Korea Exchange Bank in 2012 and the resulting merger of Hana Bank and Korea Exchange Bank in September 2015. In October 2014, the Government's ownership interests in the holding companies of Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group (now BNK Financial Group), respectively. In January 2019, Woori Financial Group was established pursuant to a comprehensive stock exchange 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 December 31, 2020 owned 17.25% of the outstanding common stock of Woori Financial Group, is expected to sell all of such common stock in multiple transactions by 2022 in accordance with its plan that was approved by the Financial Services Commission in June 2019. In the securities brokerage sector, Mirae Asset acquired KDB Daewoo Securities in 2016, creating the largest brokerage company in Korea by assets, and on June 1, 2016, KB Financial Group completed its acquisition of Hyundai Securities and merged it with its existing brokerage unit, KB Investment & Securities Co, creating the fifth largest brokerage company in Korea by assets. 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.

In September 2018, we announced the acquisition of 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 and closed on February 1, 2019. 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 has become our wholly owned subsidiary as of such date. A merger between Shinhan Life Insurance and Orange Life Insurance is currently underway, with Shinhan Life Insurance to be the surviving entity upon completion of the merger which is subject to approval by the Financial Services Commission. 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. 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. Since July 2015, the Financial Services Commission has provided, through the Korea Financial Telecommunications and Clearings Institute, the integrated automatic payment transfer management service, which allows account holders to search for, terminate or modify automatic payments they have set up with financial institutions participating in such service (currently including banks, securities companies and other financial institutions such as The Post Office, Korean Federation of Community Credit Cooperatives, National Credit Union Federation of Korea, Mutual Savings Bank and National Forestry Cooperative Federation). In addition, the Financial Services Commission began providing the integrated account management service from December 2016, which allows account holders to search for detailed information of their bank accounts opened in banks participating in such service, close small-sum inactive accounts (i.e., accounts with no transaction activity during the previous one year period and with a balance of less than ₩500,000) and transfer the balance in such accounts to other accounts. Moreover, 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. Also, widespread consumer acceptance of mobile phone payment services in lieu of credit card services could add to the competitive threat faced by existing credit card service providers, including our credit card subsidiary. In 2015, the Government announced its plans to allow Internet-only banks to operate in Korea. KT consortium’s K-Bank and Kakao consortium’s Kakao Bank commenced operations in April 2017 and July 2017, respectively, and Viva Republica consortium’s Toss Bank obtained preliminary business authorization from the Financial Services Commission on December 16, 2019 and filed with the Financial Services Commission the application for final business authorization on February 5, 2021. 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 and are planning to provide advanced wealth management and various financial services. If and when fintech companies receive authorization as MyData service providers, we expect competition for customers among banks and fintech firms such as Kakao Pay, Toss and Bank Salad to intensify.

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 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. 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, Orange Life Insurance and Shinhan Investment 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. According to the decision of the Korean financial authorities, we have introduced and applied the credit risk division of Basel III from September 2020 and plan to introduce both market risk and operation risk in January 2023.

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 Supervisory Service temporarily lowered the liquidity coverage ratio requirement from 100% to 85%. This temporary lower ratio requirement will apply through September 2021. 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 2021. 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 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. Since March 2016, the Financial Services Commission has maintained countercyclical capital buffer requirements at 0%, and the Financial Supervisory Service has maintained the countercyclical capital buffer requirement at 0% for the first quarter of 2021.

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 Supervisory Service temporarily lowered the liquidity coverage ratio requirement from 100% to 85%. This temporary lower ratio requirement will apply through September 2021.

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.

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.

Of particular importance is the change in the base and market interest rates. Since 2009, Korea, like many other countries, has experienced a low interest rate environment despite some marginal fluctuations, in part due to the Government's policy to stimulate the economy through active rate-lowering measures. Between 2009 and 2014, the base interest rate set by the Bank of Korea remained within the band between 2.00% and 3.25%. In an effort to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects, the Bank of Korea reduced the base interest rate to 1.75% in March 2015, 1.50% in June 2015, and further reduced such rate to the historic low of 1.25% in June 2016. In November 2017, the Bank of Korea raised the base interest rate to 1.50%, marking the first time it 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. 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.

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 “The extent to which the recent coronavirus (COVID-19) outbreak impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted.” and “Item 5.A. Operating Results — Interest Rates.”

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

Many of our products and services refer to benchmark interest rates such as the London Interbank Offered Rate (“LIBOR”) in many currencies, including the U.S. Dollar. We also utilize such benchmark interest rates for our own evaluation of financial instruments and various other internal management purposes. LIBOR for different periods and currencies is determined and announced on a daily basis by the ICE Benchmark Administration, the administrator of LIBOR, based on rate submissions provided by groups of panel banks for the relevant currencies. In July 2017, the U.K. Financial Conduct Authority (the “FCA”), which has regulatory authority with respect to LIBOR, announced that it does not intend to continue to encourage, or use its power to compel, panel banks to provide rate submissions for the determination of LIBOR beyond the end of 2021. On March 5, 2021, the FCA formally announced the dates of the future cessation or loss of representativeness of all 35 LIBOR settings currently published by the ICE Benchmark Administration. According to the announcements, the ICE Benchmark Administration will cease publication of certain LIBOR settings in their current form immediately following the publication on December 31, 2021, including 1-week and 2-month U.S. Dollar LIBOR. The ICE Benchmark Administration will cease publication of overnight, 1-month, 3-month, 6-month and 12-month U.S. Dollar LIBOR in their current form immediately following the publication on June 30, 2023. Accordingly, there are considerable uncertainties regarding the publication of LIBOR after the calendar year 2021.

In anticipation of the discontinuation of the publication of LIBOR at the end of the calendar year 2021, we have been taking measures to deal with the reform of LIBOR and other interest rate benchmarks and the transition to an alternative interest rate, including launching a task force within Shinhan Bank in March 2020 as well as developing a governance framework across multiple departments and subsidiaries to allow for flexibility, autonomy and efficiency across the Group in addressing these issues. However, such transition is complex and uncertain in many respects and may have various adverse impacts on our business, financial position and operating results. 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 reform 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 reform of LIBOR and other interest rates 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 reform 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 reform 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 on loans and deferred loan origination costs and fees) to such enterprises amounted to ₩84,972 billion as of December 31, 2018, ₩91,162 billion as of December 31, 2019 and ₩108,016 billion as of December 31, 2020, representing 28.0%, 27.8% and 29.9%, 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, 2018, 2019 and 2020, Shinhan Bank's delinquent loans to small- and medium-sized enterprises were ₩299 billion, ₩346 billion and ₩372 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.35%, 0.38% and 0.34%, 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, 2020, 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 ₩34,068 billion and ₩3,169 billion, respectively, representing 11.4% and 1.1%, 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 seen modest growth backed by the housing market which has remained strong over the recent few years. However, the Government's policy measures to stabilize the real estate market, oversupply of residential property, ongoing economic sluggishness in Korea and globally and demographic changes in the Korean population may result in difficulties to the housing market in general as well as these 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 had experienced a relatively 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, 2020, the secured portion were collateralized or guaranteed of Shinhan Bank's loans amounted to ₩160,001 billion, representing 53.3% 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 45% to 82% 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, 2020, installment principal repayment-based housing loans accounted for 51.2% of the housing loans extended by Shinhan Bank, and the loan-to-value ratio of mortgage and home equity loans of Shinhan Bank was 45.6%. 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, 2020, the total outstanding amount of Shinhan Bank's real estate project financing-related exposure was ₩4.7 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, 2020, 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 mostly 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 ₩20,866 billion, or 10.3%, of its total exposures. As of that date, Shinhan Bank's single largest outstanding exposure to a main debtor group amounted to ₩4,247 billion, or 2.1%, 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 ₩4.2 trillion and extensive streamlining measures, and in November 2016, Korea Development Bank agreed to swap ₩1.8 trillion of debt to equity and the Export-Import Bank of Korea agreed to issue ₩1 trillion of perpetual bonds. Amid 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 ₩2.9 trillion in loans and swap ₩1.6 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, 2020, Shinhan Bank's retail loan portfolio (before allowance for credit losses on loans and deferred loan origination costs and fees and excluding credit card loans) ₩134,280 billion, representing 44.8% of its total loans outstanding. As of December 31, 2018, 2019 and 2020, Shinhan Bank's non-performing retail loans (excluding credit card loans) were ₩238 billion, ₩271 billion and ₩278 billion, respectively, representing non-performing loan ratios (net of charge-offs and loan sales) of 0.21%, 0.22% and 0.21%, 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, 2020, Shinhan Bank had aggregate guarantees and acceptances of ₩15,153 billion, for which we provided allowances for losses of ₩79.6 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, 2018, 2019 and 2020, Shinhan Card's interest-earning credit card assets amounted to ₩28,311 billion, ₩30,597 billion and ₩32,812 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.

Internet-only banks, as well as non-financial institutions and fintech companies, are becoming major competitors to Shinhan Card in various business areas, particularly in the mid-term interest loan, and mid-range credit loan and installment financing markets. KT consortium's K-Bank and Kakao consortium's Kakao Bank commenced operations in April 2017 and July 2017, respectively. In addition, with the rapid growth of online service providers and technology companies providing virtual payment services, more competitors are entering the financial payments industry, creating a new paradigm in the payments market and changing the competitive landscape. New competitors, including Kakao Corp., NAVER and Samsung Electronics, have introduced new payment methods which are now competing with Shinhan Card's payment model AppCard. In 2018, Kakao Bank launched its own credit card business, expanding its mid-range interest rate loan offerings and competing with the existing credit card service providers. Shinhan Card is currently making efforts to enhance its AppCard payment model and cooperating with other credit card service providers to promote its joint NFC (near field communication) payment network. With the introduction of the MyData service and increased sharing of customers' personal information, credit information and transaction data among various digital platforms, we expect competition for customers to intensify.

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 ₩300 million and up to ₩500 million are subject to merchant fees chargeable with respect to credit cards of 1.3%, and merchants with annual sales of up to ₩300 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 ₩500 million and up to ₩3 billion. Upon the amendment, merchants with annual sales of less than ₩500 million are subject to merchant fees chargeable with respect to credit cards of 0.8%, merchants with annual sales of more than ₩500 million and up to ₩1 billion are subject to merchant fees chargeable with respect to credit cards of 1.4%, and merchants with annual sales of more than ₩1 billion and up to ₩3 billion are subject to merchant fees chargeable with respect to credit cards of 1.6%. 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. 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 Investment, enabling Shinhan Investment 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 Investment 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 Investment 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 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 is expected to become 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. See "Item 3. Key Information — Risk Factors — Risks Relating to Our Overall Business — The extent to which the recent coronavirus (COVID-19) outbreak impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted."

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. Most notably, our acquisition of Chohung Bank in 2003 has enabled us to have the second largest banking operations in Korea. In addition, our acquisition in March 2007 of LG Card, the then largest credit card company

in Korea, has enabled us to have the largest credit card operations in Korea and significantly expand our non-banking business capacity so as to achieve a balanced business portfolio. In September 2018, we announced the acquisition of 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 and closed on February 1, 2019. 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 has become our wholly owned subsidiary as of such date. 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. 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.

We may suffer losses or record provisions for credit loss allowance for expected losses in connection with financial products sold by us or our subsidiaries, including Shinhan Investment and Shinhan Bank, which may have a negative impact on us, including our reputation.

We are subject to lawsuits and other claims in the ordinary course of our business, including with respect to financial products sold by us or our subsidiaries, including Shinhan Investment and Shinhan Bank. We may suffer losses or record provisions for credit loss allowance for expected losses in connection with the sales of such financial products and related legal or other proceedings related to such matters, which may have a negative impact on us, including our reputation.

In August 2019, the Financial Supervisory Service launched an investigation into Lime Asset Management Co., Ltd. ("Lime Asset"), Korea's largest hedge fund managing approximately ₩4.1 trillion in assets as of December 31, 2020, including with regards to allegations that Lime Asset had concealed the fact that it had changed the multi-manager trade finance fund's investment method and concealed losses in their trade finance funds. Beginning in October 2019, Lime Asset suspended withdrawals from certain of its funds, freezing approximately ₩1.7 trillion in total as of the end of 2019, according to the Financial Supervisory Service. According to Financial Supervisory Service investigations, Lime Asset's ₩211 billion trade finance fund was found to have been associated with a debacle involving the International Investment Group LLC ("IIG"), a New York-based investment adviser charged with securities fraud and running a Ponzi scheme. On November 26, 2019, the SEC revoked the registration of IIG for allegedly overvaluing defaulted loans in the fund's portfolio to conceal losses in its flagship hedge fund and selling at least \$60 million in fake loan assets to clients. According to the Financial Supervisory Service, Lime Asset signed a contract with a Singaporean commodity trader, which took over Lime Asset's ownership stake in an IIG fund in June 2019, with the Singaporean entity issuing promissory notes to Lime Asset, and Lime Asset did not properly disclose to its investors such change in the fund's investment target from the IIG fund to promissory notes.

Certain investors in funds of Lime Asset have filed dispute mediation claims to the Financial Supervisory Service and criminal and civil claims against Lime Asset, as well as against financial institutions that have sold such products, claiming they learned of the change in the trade finance fund's investment method and losses only in October 2019 and that they were also misguided and not fully informed of the risks associated with these funds when investing in such products. The Financial Supervisory Service conducted a comprehensive audit in November and December 2019. In February 2020, the Prosecutors' Office of Korea announced that they had launched an investigation into Lime Asset as well as Shinhan Investment and also searched Shinhan Bank's headquarters on July 1, 2020 in connection with this matter. The Financial Supervisory Service is continuing investigations into Lime Asset as well as financial institutions that have sold Lime Asset products, including Shinhan Bank and Shinhan Investment, and is expected to impose regulatory sanctions on institutions and employees for improper solicitation and inadequate internal controls. In November 2020, the Financial Supervisory Service imposed a partial business suspension on Shinhan Investment and suspension from duties and a cautionary warning to its two former CEOs. On April 22, 2021, the sanctions committee of the Financial Supervisory Service recommended a partial business suspension and fine of ₩8.7 billion on Shinhan Bank, a cautionary warning to the CEO of Shinhan Bank, an institutional caution and fine of ₩50 million on Shinhan Financial Group and a caution to the CEO of Shinhan Financial Group in connection with Shinhan Bank's alleged improper solicitation of troubled Lime Asset funds and management's oversight in risk management. The partial business suspension on Shinhan bank and the fines on Shinhan Bank and Shinhan Financial Group recommended by the sanctions committee will be deliberated at the Securities and Futures Commission of the Financial Services Commission and will be confirmed if approved at a regular meeting of the Financial Services Commission.

On September 25, 2020, the Seoul Southern District Court found a former employee of Shinhan Investment partially guilty on charges of conspiring to conceal from investors Lime Asset's losses and change in investment target and imposed a sentence of eight years imprisonment and ₩300 million fine. In May 2020, Shinhan Investment announced that its board of directors has resolved to compensate certain investors for amounts ranging between 30% to 70% (in the case of retail investors) and 20% to 50% (in the case of institutional investors) of the amount of such investor's investment in Lime Asset products. In June 2020, Shinhan Bank announced that its board of directors has resolved to make prepayments to investors in certain Lime Asset funds that have reached maturity in an amount equal to 50% of such investor's investment in the relevant product. On June 30, 2020, the Financial Supervisory Service's dispute settlement committee recommended through a non-binding ruling for brokerages to return 100% of the amount of investors' investment in certain of Lime Asset products sold after November 2018 in the aggregate of approximately ₩161 billion. In October 2020, the board of directors of Shinhan Investment resolved to accept the non-binding ruling for certain Lime Asset's trade finance funds sold around November 2018. With these resolutions by the board of directors of Shinhan Investment, the total amount of compensation to investors of Lime Asset funds that Shinhan Investment has agreed to pay has reached ₩76.9 billion. On April 19, 2021, the Financial Supervisory Service's dispute settlement committee recommended through a non-binding ruling for Shinhan Bank to compensate investors of certain Lime Asset products (Lime Credit Insured Funds) it had sold by applying a 55% base compensation ratio, with adjustments depending on particular facts, such as the nature of the investor (e.g., whether retail or institutional investor, the age and experience level of the investor, etc.) and adequacy of documentation, which would result in compensation of such investors for amounts ranging from between 40% to 80% of the loss they have suffered on such products. On April 21, 2021, the board of directors of Shinhan Bank resolved to accept the non-binding ruling for such Lime Asset products sold by Shinhan Bank. As a result, Shinhan Bank recognized an additional ₩53.2 billion in non-operating expenses.

From May 2017 to December 2018, Shinhan Investment sold approximately ₩390.7 billion of certain German Heritage derivative-linked securities ("German Heritage DLS Products"). As of December 31, 2020, the principal amount of German Heritage DLS Products that have become eligible for payment but for which payment has been delayed is ₩379.9 billion. The German Heritage DLS Products are derivative-linked trust products where performance is based on underlying Singapore funds that invest in Germany's old downtown development projects. Since July 2019, maturity payments have been delayed on the German Heritage DLS

Products as recovery on the underlying funds has been delayed. In March 2020, Shinhan Investment announced that its board of directors has resolved to make prepayments to investors who have consented to the extension of maturity in an amount equal to 50% of the amount of such investor's investments in the German Heritage DLS Products. During the fiscal year 2020, we recognized ₩138.2 billion in non-operating expenses as provisions for potential future compensation in connection with the sale of German Heritage DLS Products. However, we may suffer additional losses or record additional provisions during 2021 or beyond in connection with the sale of German Heritage DLS Products, and there is no guarantee that such amounts, if any, will not be significant.

The prepayments to be made by Shinhan Bank and Shinhan Investment to investors of Lime Asset funds and German Heritage DLS Products, respectively, as explained above, will be settled at the time of recovery of the underlying funds. If the amount recovered on the underlying fund is less than the amount prepaid to investors, Shinhan Bank and Shinhan Investment may not be able to recover from investors the amount of the prepaid amount that is in excess of the recovered amount and accordingly suffer losses. Depending on the performance of such underlying funds, we may record provisions for credit loss allowance to account for expected future losses.

Any legal or administrative proceedings in connection with these matters, if brought and particularly if adversely determined, may have a negative impact on us, including our reputation. Accordingly we cannot assure you that these matters and related events will not have an adverse effect on us, including our reputation. For further details, see "Item 8.A. Consolidated Statements and Other Financial Information — Legal Proceedings." and Note 43 of the notes to our consolidated financial statements included in this annual report.

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.

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.

For example, in March 2013, we experienced a temporary interruption in providing online financial services due to large-scale cyber-attacks by unidentified sources on the security systems of major broadcasting networks and financial institutions in Korea. The interruption of our online financial services lasted approximately 90 minutes, after which our online system resumed without further malfunction. The Financial Supervisory Service conducted an investigation into the incident and found that Shinhan Bank and Jeju Bank had not properly maintained their information technology administrator accounts and vaccine servers. As a result, in December 2013, the Financial Supervisory Service notified Shinhan Bank and Jeju Bank of an institutional caution (which does not give rise to significant sanctions unlike in the case of repeated institutional warnings) and imposed disciplinary actions against five of Shinhan Bank's employees and three of Jeju Bank's employees. We do not believe such incident resulted in any material loss or leakage of customer information or other sensitive data.

Major financial institutions in Korea and around the world have also fallen victim to large-scale data leakage in the past. In December 2013, it was reported that there was a leakage of personal information of approximately 130,000 customers of Standard Chartered Bank and Citibank in Korea, which leakage was attributed to a third party sub-contractor in the case of Standard Chartered Bank, and an employee in the case of Citibank. In addition, in January 2014, it was reported that there was a leakage of personal information of approximately 100 million customers of NH Card, Lotte Card and KB Card in Korea due to illegal access to such information by an employee of a third party credit information company in the course of developing information technology programs for these three credit card companies. In 2017, Equifax Inc., a U.S. credit reporting company, was reported to have suffered a breach of personal information of over 143 million people.

Other than the cyber security attack in March 2013 as discussed above, we have not experienced any material security breaches in the past, including any similar large scale leakage of customer information. 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 ₩10 billion in relation to our banking business and up to ₩3 billion in the aggregate and up to ₩1 billion per incident for our securities investment business and have set aside a reserve of ₩1 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. However, 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 last amended in October 2017, 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 2018, 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 treble 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 April 2017 with effect from October 2017, 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. Recently, 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), expanding 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. There is no assurance, however, that the regulatory activities will have the desired effect of substantially eradicating or even containing the incidents of voice phishing or other financial scams. For example, following an investigation in November and December 2011 of major credit card companies, including Shinhan Card, as to their compliance with regulations on card loan-related voice phishing and the scope of damage suffered by customers as a result of voice phishing, the Financial Supervisory Service issued a number of guidelines for credit companies to comply with in order to minimize damage from voice phishing, including, among others, (i) strengthening identity verification procedures for card loan applications that are made online or through the automated response system, (ii) delaying the timing of loan payout by a few hours following the approval of card loan application, and (iii) giving an option to customers to block card loan applications. In May 2012, Shinhan Card completed all necessary steps to fully comply with these additional guidelines and has been in full compliance since then.

Although the financial institutions are often not legally at fault for the damage suffered by victims of voice phishing, the compensation scheme was adopted largely in consideration of social responsibility among financial institutions and that the financial institutions were not required to, and therefore in many instances did not, confirm the personal identity of the card loan or cash advance applicants prior to the adoption of such scheme. On December 8, 2011, Shinhan Card began implementing a mandatory outcall procedure to verify the personal identity of applicants for card loans and cash advances if not requested in person. In January 2012, financial institutions, the Financial Supervisory Service, the police and other related institutions formed a joint committee to prevent voice phishing incidents and implemented preventive measures such as enforcing a 10 minute delay for withdrawal of credit card loans of ₩3 million or more from an automated teller machine. In addition, Shinhan Card and our other subsidiaries have established a fraud detection system that identifies any questionable transactions based on deviations from a customer's conventional transaction patterns.

Partly as a result of these efforts, Shinhan Card did not receive any claims in 2020 in relation to voice phishing. Accordingly, we do not believe that any currently outstanding claims in relation to voice phishing will have a material adverse impact on our business, financial condition or results of operations. Additionally, other than voice phishing incidents and the recent cyber security attacks as discussed above, we have not experienced any material security breaches in the past. However, 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 rise. 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.

Legal claims and regulatory risks arise in the conduct of our business.

In the ordinary course of our business, we are subject to regulatory oversight and potential legal and administrative liability risk. We are also subject to a variety of other claims, disputes, legal proceedings and government investigations in Korea and other jurisdictions where we are active. See "Item 8.A. Consolidated Statements and Other Financial Information — Legal Proceedings." These types of proceedings may expose us to substantial monetary and/or reputational damages and legal defense costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on our businesses. The outcome of these matters cannot be predicted and they could adversely affect our future business.

While we plan to rigorously defend our positions in the lawsuits or other regulatory proceedings against us, it is difficult to predict the final outcome of such cases. The total amount in dispute may increase during the

course of litigation and other lawsuits may be brought against us based on similar allegations. Accordingly, these lawsuits and other proceedings may have a material adverse effect on our business, financial condition and results of operations.

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 amid 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 recent coronavirus (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 ₩163.8 trillion, ₩205.5 trillion and ₩266.9 trillion as of December 31, 2018, 2019 and 2020, respectively. Shinhan Bank's total balance of outstanding loans to technology companies as of December 31, 2018, 2019 and 2020 was ₩21.7 trillion, ₩26.2 trillion and ₩36.6 trillion, respectively.

Furthermore, in response to an increasing level of consumer debt and amid concerns over the debt-servicing capacity of retail borrowers if interest rates were to rise, the Financial Services Commission announced in February 2014 that it plans to increase the proportion of fixed interest rate loans and installment principal repayment-based loans within the total housing loans extended by commercial banks (which loans have historically been, for the most part, variable interest rate loans with the entire principal being repaid at maturity, which is usually rolled over on an annual basis). According to this plan, the target proportion for fixed interest rate loans was set at 35%, 37.5% and 40% and the target proportion for installment principal repayment-based housing loans was set at 35%, 40% and 45%, each by the end of 2015, 2016 and 2017, respectively. Amid concerns about increasing household debt, in May 2016 the target proportion for fixed interest rate loans and installment principal repayment-based housing loans for 2016 were increased to 40% and 45%, respectively, and in February 2017 the target proportion for fixed interest rate loans and installment principal repayment-based housing loans for 2017 were increased to 45% and 55%, respectively. The target proportions for fixed interest rate loans for 2019 and 2020 were subsequently increased to 47.5% and 48.0%, respectively, while the target proportion for installment principal repayment-based housing loans remained at 55% for 2019 and 2020.

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%. 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 46.4% and 51.2%, respectively, of the housing loans extended by Shinhan Bank as of December 31, 2020.

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.

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 ₩200.0 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 ₩28 billion. Shinhan Bank has committed to contribute ₩175 billion of capital to UAMCO, of which ₩113.1 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 ₩131.7 billion, ₩110.4 billion and ₩246.5 billion, in 2018, 2019 and 2020, 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.

For example, since 2017, the Government led by President Moon Jae-in has announced and implemented a series of robust policies aimed at taming speculation and deterring the rise of housing prices. The Government has continuously increased the number of areas subject to the “speculative districts”, “overheated speculative

districts” 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. For example, homes located in a non-regulated area are currently subject to a loan-to-value ratio of 70% of the appraised value thereof, whereas homes located in “speculative districts” or “overheated speculative districts” are subject to a loan-to-value ratio of 40% and homes located in “adjustment targeted areas” are subject to a loan-to-value ratio of 50%. Furthermore, for homes located in any of the “speculative districts” or “overheated speculative districts” with a value equal or less than ₩1.5 billion but greater than ₩900 million (based on the evaluation data of a certified rating institution, for which the detailed standards shall be as determined by the director of the Financial Supervisory Service), the loans may only be up to 40% of the appraised value up to ₩900 million and 20% of any remaining value between ₩1.5 billion and ₩900 million, and for homes located in any “adjustment targeted areas” with a value equal or greater than ₩900 million, the loans may only be up to 50% of the appraised value up to ₩900 million and 30% of any remaining value exceeding ₩900 million. In addition, if the value of a home located in any of the “speculative districts” or “overheated speculative districts” is greater than ₩1.5 billion, no mortgage or home equity loans may be provided, and no mortgage or home equity loans may be provided to purchase a new home located in any of the regulated areas to a household that already owns one or more housing units. Similarly, the debt-to-income ratio applicable to apartment units located in the greater Seoul metropolitan area which are not “speculative districts”, “overheated speculative districts” or “adjustment targeted areas” is 60%, whereas homes located in “speculative districts” or “overheated speculative districts” are subject to a debt-to-income ratio of 40% and homes located in “adjustment targeted areas” are subject to a debt-to-income ratio of 50%.

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 the loan applicant who has existing mortgage and home equity loans for homes located in any of the “speculative districts” and “overheated speculative districts” and with appraised values exceeding ₩900 million are limited to 40%.

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 Supervisory Service announced a series of measures to temporarily ease the regulations on loan-to-deposit ratio. In particular, until December 2021, the loan-to-deposit ratio of 1:1 (100%) will be temporarily increased to 105%, and corporate loans to SOHOs extended since January 1, 2020 will also be subject to a multiple of 85% provided such loans are not real estate related. Additionally, the Detailed Regulation on the Supervision of the Banking Business was amended on June 30, 2018 to provide for a weighted multiple to be applied to mortgage and home equity loans where the loan-to-value ratio exceeds 60% in determining required minimum total capital (BIS) ratio. The Detailed Regulation on the Supervision of the Banking Business was also amended on June 30, 2018 to add “concentration of risk in the retail sector” as an additional criterion when the Financial Supervisory Service evaluates the risk management systems of Korean banks.

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 stimulative 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 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. Some OFAC Sanctions require a U.S. nexus in order to apply (“Primary Sanctions”) while other OFAC Sanctions on certain dealings with or related to Iran, North Korea, and Russia apply even in the absence of a U.S. nexus (“Secondary Sanctions”). Non-U.S. persons are subject to Secondary Sanctions and can also be held liable for violations of Primary Sanctions on various legal grounds, such as causing violations by U.S. persons by engaging in transactions completed in part in the United States. 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 entities 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.

The implementation of IFRS 9 with effect from January 1, 2018 renders certain of our historical financial information as of and for the years ended December 31, 2015, 2016 and 2017 not directly comparable with that of our financial information after January 1, 2018.

With effect from January 1, 2018, IFRS 9 ‘Financial Instruments’ has replaced in entirety previous guidance in IAS 39. Following the adoption of IFRS 9, we are required to re-classify and re-measure (including

impairment measurement) certain of our financial instruments from January 1, 2018 without requiring any restatement of the corresponding figures of the prior period. Based on the method of adoption allowed under IFRS 9, we are permitted to adjust our shareholder equity from January 1, 2018 without requiring any restatement of the corresponding figures of the prior period where the difference between the new carrying amount and original carrying amount recognized in retained earnings. The difference between the new carrying amount and original carrying amount amounted to ₩344 billion as of January 1, 2018. As we are not required to restate affected financial figures with the implementation of IFRS 9, certain of our historical financial information as of and for the years ended December 31, 2015, 2016 and 2017 is not directly comparable against that of our financial information after January 1, 2018. Investors must therefore exercise caution when making comparisons of any financial figures after January 1, 2018 against our historical financial figures prior to January 1, 2018 and when evaluating our financial condition, results of operations and results. For further information regarding the adoption of IFRS 9, see “Item 5.A. Operating Results — Critical Accounting Policies” and Note 49 of the notes to our consolidated financial statements included in this annual report.

The implementation of IFRS 9 has caused us to increase our allowance for impairment losses to cover expected credit loss on our loan portfolio and other financial instruments and may increase volatility in our profit or loss.

Following the adoption of IFRS 9, the “incurred loss” model under the previous guidance for loans, debt instruments, lease receivables, contractual assets and financial guarantee contracts has been replaced with a forward-looking “expected credit loss” model, and therefore impairment losses are likely to be recognized earlier, on a more forward-looking basis and on a broader scope of financial instruments than using the incurred loss model under the previous guidance. Accordingly, as of January 1, 2018, we increased our credit loss allowance from ₩2,579 billion to ₩3,226 billion as a result of adopting IFRS 9. IFRS 9 also introduces additional requirements for a financial asset to be measured at amortized costs or fair value through other comprehensive income compared to the previous guidance and therefore would potentially increase the proportion of financial assets that are measured at fair value through profit or loss, thereby increasing volatility in our profit or loss. For further information regarding the adoption of IFRS 9, see “Item 5.A. Operating Results — Critical Accounting Policies” and Note 49 of the notes to our consolidated financial statements included in this annual report.

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;
- 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 and the overall impact of the United Kingdom's exit from the European Union on January 31, 2020 ("Brexit") on the value of the Korean Won), 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, as well as increased uncertainty in the wake of Brexit;
- 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 the recent coronavirus (COVID-19) outbreak, as well as the 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 December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.
- In August 2015, two Korean soldiers were injured in a landmine explosion while on routine patrol of the southern side of the demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both sides. High-ranking officials from North Korea and Korea subsequently met for discussions intending to diffuse military tensions and released a joint statement whereby, among other things, North Korea expressed regret over the landmine explosions that wounded the Korean soldiers.
- 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 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; or (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) 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 ₩50 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.

You may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. All or substantially all of our directors and officers and other persons named in this annual report reside in Korea, and all or a substantial portion of the assets of our directors and officers and other persons named in this annual report and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of the American depository shares to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

We may become a passive foreign investment company (“PFIC”), which could result in adverse U.S. tax consequences to U.S. investors.

Based upon the past and projected composition of our income and assets and valuation of our assets, including goodwill, we do not believe that we were a PFIC for 2020, and we do not expect to be a PFIC in 2021 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a PFIC, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. Our PFIC status is determined on an annual basis and depends on the composition of our income and assets. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which generally includes cash) is at least 50%. Special rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. See “Item 10.E. Taxation — Certain United States Federal Income Tax Consequences — Passive Foreign Investment Company Rules.” We cannot assure you that we will not be a PFIC for 2021 or any future taxable year.

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4.A. History and Development of the Company

Introduction

We are one of the leading financial institutions in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. Incorporated on September 1, 2001, we are the first privately-held financial

holding company to be established in Korea. Since inception, we have developed and introduced a wide range of financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are the largest financial services provider in Korea (as measured by consolidated total assets as of September 30, 2020) and operate the second largest banking business (as measured by consolidated total bank assets as of September 30, 2020) and the largest credit card business (as measured by total credit purchase volume in 2020) in Korea.

We have experienced substantial growth through several mergers and acquisitions. Most notably, our acquisition of Chohung Bank in 2003 has enabled us to have the second largest banking operations in Korea. In addition, our acquisition in March 2007 of LG Card, the then largest credit card company in Korea, has enabled us to have the largest credit card operations in Korea and significantly expand our non-banking business capacity so as to achieve a balanced business portfolio. In September 2018, we announced the acquisition of 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 and closed on February 1, 2019. 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 has become our wholly owned subsidiary as of such date.

As of December 31, 2020, we have 18 direct and 30 indirect subsidiaries offering a wide range of financial products and services, including commercial banking, corporate banking, private banking, credit card, asset management, brokerage and insurance services. We believe that such breadth of services will help us to meet the diversified needs of our present and potential clients. We currently serve approximately 19 million active customers, which we believe is the largest customer base in Korea, through approximately 24,515 employees at approximately 1,383 network branches group-wide. While over 80% of our revenues have been historically derived from Korea, we aim to serve the needs of our customers through a global network of 241 offices in the United States, Canada, the United Kingdom, Japan, the People's Republic of China, Germany, India, Australia, Hong Kong, Vietnam, Cambodia, Kazakhstan, Singapore, Mexico, Uzbekistan, Myanmar, Poland, Indonesia, the Philippines and the United Arab Emirates.

Our registered office and corporate headquarters are located at 20, Sejong-daero 9-gil, Jung-gu, Seoul, Korea 04513 and our telephone number is +822 6360 3000.

Our Strategy

'Excellent Shinhan' for 2020 and beyond

The Group has implemented the '2020 SMART Project' since 2017, and we have seen this strategy result in balanced growth across the Group, such as expanding and strengthening the Group's offerings, establishing new subsidiaries, acquisitions of domestic and foreign financial companies, upgrading digital platforms and promoting sustainable management. In 2020, we established a new mid-term group-wide strategy known as 'F.R.E.S.H. 2020s', building upon and replacing the existing 2020 SMART Project. 'F.R.E.S.H.' stands for 'Fundamental' (solid fundamentals), 'Resilience' (ability to adapt to and overcome crisis situations), 'Ecosystem' (creating an integrated digital ecosystem), 'Sustainability' (consistent Group-wide effort to achieve sustainable growth) and 'Human-talent' (talented human resources leading the Fourth Industrial Revolution). Under this 'F.R.E.S.H. 2020s' initiative, we have established seven detailed strategic directions for 2021 and beyond to allow us to achieve distinguished and sustainable growth despite uncertainties and become a leading financial group.

Under the unique growth directive summarized as 'F.R.E.S.H.', we have established seven detailed strategic directions for 2021 that comprehensively consider the management environment in 2021.

1. Conversion to Innovative and Open Digital Platforms

We plan to accelerate all-around digital transformation, particularly through developing innovative digital platforms, acquiring a competitive advantage in data-based businesses, fostering digital startups and creating new business models through competitive partnerships. In addition, we will continue to scale-up our group-wide digital capabilities and human resources.

2. Pursuit of Efficient Growth

We plan to efficiently enhance our profitability by developing existing business lines and investing in future growth areas. To strengthen the efficiency of our existing business lines, we aim to improve the quality of our core businesses, enhance our non-interest income generating businesses, strategically allocate our existing resources, promote new business opportunities and expand our business portfolio to discover future growth areas.

3. Global connectivity and expansion

We will look to diversify our global business model by shifting our focus from a volume-based expansion to a more advanced quality focused growth initiative for our global business, implementing our unique localization strategies and increasing cooperation and cross-selling across the Group. We will also work to increase our global product sourcing capabilities and foreign asset management capabilities.

4. Sustainable Performance

Our plans to foster sustainable finance consist of three strategic pillars — (1) environmentally friendly, (2) inclusive and (3) trust-based business management system. In 2020, we declared “Zero Carbon Drive”, as part of our vision to go carbon-neutral by 2050. We plan to promote environmentally sustainable development through financing of projects aimed at reducing carbon and greenhouse gas emission. Moreover, in December 2019 we launched the Triple-K Project to provide promising start-ups and tech companies with systematic support in our efforts to promote inclusive and innovative growth ecosystems.

5. Proactive Risk Management

Due to continuously increasing uncertainty and unstable market conditions, we place particular importance on the proactive management of risk. We will continue to enhance our core risk management competencies, including by upgrading our Group-wide digital capabilities and IT infrastructure. We also intend to develop a sophisticated customer protection system with a greater emphasis on customer-oriented risk management.

6. Development of a Dynamic Organization System

To further efficient management on a Group-wide basis, we plan to develop a dynamic Group-wide portfolio system. In particular, we plan to efficiently streamline our portfolio across various Group subsidiaries, while strengthening each subsidiaries’ organizational efficiency and flexibility, and establish a customer-oriented organizational system.

7. Convergent Human Resources Management

In order to recruit and retain talent, we plan to go beyond simply improving our human resources system by establishing an innovative human resource management platform. Our specific plans include fostering a healthy working environment, creating a flexible organization and innovative culture. Moreover, we intend to increase our brand value, allowing us to target and recruit talented professionals.

Our History and Development

On September 1, 2001, we were formed as a financial holding company under the Financial Holding Companies Act, as a result of acquiring all of the issued shares of the following four entities from their former shareholders in exchange for shares of our common stock: (i) Shinhan Bank, a nationwide commercial bank listed on the Korea Exchange, (ii) Shinhan Securities Co., Ltd., a securities brokerage company listed on the Korea Exchange, (iii) Shinhan Capital Co., Ltd., a leasing company listed on the Korea Exchange Korean Securities Dealers Automated Quotations (“KRX KOSDAQ”), and (iv) Shinhan Investment Trust Management Co., Ltd., a privately held investment trust management company. On September 10, 2001, the common stock of our holding company was listed on what is currently the KRX KOSPI Market.

Since our inception, we have expanded our operations, in large part, through strategic acquisitions, establishing subsidiaries or formation of joint ventures. Our key acquisitions, capital contributions and joint venture formations are described as below:

<u>Date of Acquisition</u>	<u>Entity</u>	<u>Principal Activities</u>	<u>Method of Establishment</u>
April 2002	Jeju Bank	Regional banking	Acquisition from Korea Deposit Insurance Corporation
July 2002	Shinhan Investment Corp. ⁽¹⁾	Securities and investment	Acquisition from the SsangYong Group
August 2002	Shinhan BNP Paribas Investment Trust Management Co., Ltd. ⁽²⁾	Investment advisory	50:50 joint venture with BNP Paribas
August 2003	Chohung Bank	Commercial banking	Acquisition from creditors
December 2005	Shinhan Life Insurance	Life insurance services	Acquisition from shareholders
March 2007	LG Card	Credit card services	Acquisition from creditors
January 2012	Tomato Mutual Savings Bank ⁽³⁾	Savings bank	Purchase and assumption of assets and liabilities from creditors
January 2013	Yehanbyoul Savings Bank ⁽⁴⁾	Savings bank	Acquisition from Korea Deposit Insurance Corporation
October 2017	Shinhan REITs Management	Real estate asset management	Newly established
February 2019, January 2020	Orange Life Insurance ⁽⁵⁾	Life insurance services	Acquisition from majority shareholders and subsequent comprehensive stock exchange
May 2019	Asia Trust Co. Ltd. ⁽⁶⁾	Real estate trust business	Acquisition from majority shareholders

<u>Date of Acquisition</u>	<u>Entity</u>	<u>Principal Activities</u>	<u>Method of Establishment</u>
August 2019	Shinhan AI. Co., Ltd.	Investment advisory	Incorporated and joined as a wholly-owned subsidiary
September 2020, December 2020	Shinhan Venture Investment) ⁽⁷⁾	Venture capital	Acquisition from majority shareholders and subsequent comprehensive stock exchange
January 2021	Shinhan Asset Management) ⁽⁸⁾	Asset management services	Acquisition of remaining interests from BNP Paribas Asset Management Holding

Notes:

- (1) Renamed as Shinhan Investment Corp. from Goodmorning Shinhan Securities Co., Ltd. effective August 2009.
- (2) In January 2009, SH Asset Management Co., Ltd. and Shinhan BNP Paribas Investment Trust Management merged to form Shinhan BNP Paribas Asset Management.
- (3) Shinhan Hope Co., Ltd. was established on December 12, 2011, to purchase and assume certain assets and liabilities of Tomato Mutual Savings Bank. On December 28, 2011, Shinhan Hope Co., Ltd. obtained a savings bank license, changed its name to Shinhan Savings Bank and became our direct subsidiary.
- (4) In January 2013, we entered into a share purchase agreement with Korea Deposit Insurance Corporation for the acquisition of Yehanbyoul Savings Bank, a savings bank located in Korea, for ₩45.3 billion, and received regulatory approval to merge Yehanbyoul Savings Bank into our existing subsidiary Shinhan Saving Bank. On April 1, 2013, Shinhan Savings Bank and Yehanbyoul Savings Bank merged into a single entity, with Yehanbyoul Savings Bank being the surviving entity and the newly merged bank being named Shinhan Savings Bank.
- (5) 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 has become our wholly owned subsidiary as of such date.
- (6) In October 2018, we announced the acquisition of a 60.0% interest in Asia Trust Co. Ltd. According to the transaction agreement, we seek to complete the acquisition by acquiring the remaining 40.0% shares in Asia Trust Co. Ltd. by 2022. The acquisition was approved by the Financial Services Commission on February 17, 2019 and closed on May 2, 2019. Upon closing, Asia Trust Co. Ltd. became our direct subsidiary.
- (7) 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.
- (8) On January 15, 2021, we acquired the remaining 35% interest in Shinhan BNP Paribas Asset Management from BNP Paribas Asset Management Holding and changed its legal name to Shinhan Asset Management, and hence Shinhan Asset Management has become our wholly-owned subsidiary as of such date.

ITEM 4.B. Business Overview

Unless otherwise specifically mentioned, the following business overview is presented on a consolidated basis under IFRS.

Our Principal Activities

We provide comprehensive financial services, principally consisting of the following:

- commercial banking services, mainly consisting of:
 - retail banking, which primarily focuses on making loans to or receiving deposits from individual customers (including high net-worth individuals and families) and, to a lesser extent, not-for-profit institutions such as hospitals, airports and schools;
 - corporate banking, which primarily focuses on making loans to or receiving deposits from for-profit corporations, including small- and medium-sized enterprises, and providing investment banking services to corporate clients;
 - international banking, which primarily focuses on management of overseas subsidiaries and branch operations and other international businesses; and
 - other banking, which consists of treasury business (including internal asset and liability management and other non-deposit funding activities), securities investing and trading and derivatives trading, as well as administration of the overall banking operations.
- credit card services;
- securities brokerage services;
- life insurance services;
- asset management services, including brokerage and trading of various securities, related margin lending and deposit and trust services, and other asset management services; and
- other services, including leasing and equipment financing, savings banking services, loan collection and credit reporting, collective investment administrative services, financial system development services, real estate trust services, investment advisory services, venture capital services as well as engaging in alternative investments through formation of private equity funds on a private placement basis.

In addition to the above-mentioned business activities, we, at the holding company level, have the following business departments and planning offices, the primary functions of which are to support cross-divisional management with respect to these specific functional areas: group & global investment banking business department, global market & securities planning office, global business planning office, wealth management planning office and retirement pension planning office.

Our principal business activities are not subject to any material seasonal trends. Although we have a number of overseas branches and subsidiaries, substantially all of our assets are located, and substantially all of our revenues are generated, in Korea.

Deposit-Taking Activities

Principally through Shinhan Bank, we offer many deposit products that target different customer segments with features tailored to each segment's financial and other profiles. Our deposit products consist principally of the following:

- *Demand deposits.* Demand deposits do not accrue interest or accrue interest at a lower rate than time or savings deposits and allow the customer to deposit and withdraw funds at any time. If interest-bearing,

demand deposits have interest accruing at a fixed or variable rate depending on the period and the amount of deposit. Demand deposits constituted 16.1%, 15.6% and 18.7% of our total deposits as of December 31, 2018, 2019 and 2020, respectively. Demand deposits paid average interest of 0.39%, 0.42% and 0.33% in 2018, 2019 and 2020, respectively.

- *Time and savings deposits.* Time deposits generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate or a variable rate based on certain financial indexes, including the “cost of funds index,” or COFIX, published by the Korean Federation of Banks. If the deposit is withdrawn prior to the end of the fixed term, the customer is paid a lower interest rate than that originally offered. The term typically ranges from one month to five years. Time deposits constituted 51.3%, 52.4% and 47.8% of our total deposits as of December 31, 2018, 2019 and 2020, respectively, and paid average interest of 1.81%, 1.92% and 1.46% in 2018, 2019 and 2020, respectively. Savings deposits allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate, which is typically lower than the rate applicable to time or installment deposits. Savings deposits constituted 29.1%, 28.7% and 31.7% of our total deposits as of December 31, 2018, 2019 and 2020, respectively, and paid average interest of 0.56%, 0.58% and 0.32% in 2018, 2019 and 2020, respectively.
- *Other deposits.* Other deposits consist mainly of certificates of deposit. Certificates of deposit typically have maturities from 30 days to two years. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market interest rates. Certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit. Certificates of deposit constituted 3.5%, 3.3% and 1.8% of our total deposits as of December 31, 2018, 2019 and 2020, respectively and paid average interest of 1.96%, 2.07% and 1.42% in 2018, 2019 and 2020, respectively.

We also offer deposits which provide the customer with preferential rights to housing subscriptions under the Housing Law and Rules on Housing Supply (the “Housing Law”), and eligibility for mortgage and home equity loans. As a result of an amendment to the Housing Law in June 2015, new subscriptions to housing subscription savings accounts, housing subscription time deposits accounts and housing subscription installment savings accounts became no longer available after September 1, 2015. Instead, general housing subscription savings accounts (which combine all of the functions of the aforementioned three accounts) presently remain available to all. The contribution period is from the subscription date to the date on which the account holder is selected as the purchaser of a house, and the required monthly contribution amount is from a minimum of ₩20,000 to a maximum of ₩500,000. The interests accrued on general housing subscription savings accounts are paid in lump sum upon termination of the account, and such interests shall be calculated at the interest rate determined and announced by the Ministry of Land, Infrastructure and Transport. Those who have a general housing subscription savings account and meet certain other criteria are granted a preferential subscription right for the purchase of a house. In the case of privately funded houses, the aggregate amount of contributions made to the account must be at least the applicable deposit threshold amount for the location and area of the relevant house (from ₩2 million up to ₩15 million). It is impossible to change the account holder name of a general housing subscription savings account except in the case of inheritance by the death of the original account holder. For information on our deposits in Korean Won based on the principal types of deposit products we offer, see “— Description of Assets and Liabilities — Funding — Deposits.”

The rate of interest payable on our deposit products may vary significantly, depending on average funding costs, the rate of return on our interest-earning assets, prevailing market interest rates among financial institutions and other major financial indicators.

We also offer court deposit services for litigants in Korean courts, which involve providing effectively an escrow service for litigants involved in certain types of legal or other proceedings. Chohung Bank historically was a dominant provider of such services since 1958, and following the acquisition of Chohung Bank, we continue to hold a dominant market share in these services. Such deposits typically carry interest rates lower than

the market rates (by approximately 0.5% per annum) and amounted to ₩5,645 billion, ₩6,015 billion and ₩6,816 billion as of December 31, 2018, 2019 and 2020, respectively.

The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits at commercial banks at rates ranging from 0% to 7%, based generally on maturity and the type of deposit instrument. See “— Supervision and Regulation — Principal Regulations Applicable to Banks — Liquidity.”

The Depositor Protection Act provides for a deposit insurance system under which the Korea Deposit Insurance Corporation guarantees repayment of eligible bank deposits to depositors up to ₩50 million per depositor and ₩50 million per insured under the defined contribution retirement pension per bank. See “— Supervision and Regulation — Principal Regulations Applicable to Banks — Deposit Insurance System.”

Retail Banking Services

Overview

We provide retail banking services primarily through Shinhan Bank, and, to a significantly lesser extent, through Jeju Bank, a regional commercial bank. Our retail loans, before allowance for credit losses on loans and deferred loan origination costs and fees and excluding credit card receivables, amounted to ₩146,790 billion as of December 31, 2020.

Retail banking services include mortgage and home equity lending and retail lending as well as demand, savings and fixed deposit-taking, checking account services, electronic banking and automatic teller machines (“ATM”) services, bill paying services, payroll and check-cashing services, currency exchange and wire fund transfer. We believe that providing modern and efficient retail banking services is important to maintaining our public profile and as a source of fee-based income. Accordingly, we believe that our retail banking services and products will become increasingly important in the coming years as the domestic banking sector further develops and becomes more complex.

Retail banking has been and will continue to remain one of our core businesses. Our strategy in retail banking is to provide prompt and comprehensive services to retail customers through increased automation and improved customer service, as well as a streamlined branch network focused on sales. The retail segment places an emphasis on targeting high net-worth individuals.

Retail Lending Activities

We offer various retail loan products, consisting principally of loans to individuals and households. Our retail loan products target different segments of the population with features tailored to each segment’s financial profile and other characteristics, including customer’s occupation, age, loan purpose, collateral requirements and the duration of the customer’s relationship with Shinhan Bank. Our retail loans consist principally of the following:

- *Mortgage and home equity loans*, which are mostly comprised of mortgage loans that are used to finance home purchases and are generally secured by the housing unit being purchased; and
- *Other retail loans*, which are loans made to customers for any purpose other than mortgage and home equity loans and the terms of which vary based primarily upon the characteristics of the borrower and which are either unsecured or secured, or guaranteed by deposits or by a third party. Other retail loans also include advance loans extended on an unsecured basis to retail borrowers the use of proceeds for which is restricted to financing of home purchases prior to the completion of the construction.

As of December 31, 2020, our mortgage and home equity loans and other retail loans accounted for 49.9% and 50.1% of our total retail loans, respectively.

For secured loans, our policy is to lend up to 40% to 100% of the appraisal value of the collateral, after taking into account the value of any lien or other security interest that has priority over our security interest (other than petty claims). For mortgage and home equity loans, our general policy is to lend up to 45% to 82% of the appraisal 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. The loan-to-value ratio of secured loans, including mortgage and home equity loans, is updated on a monthly basis using the most recent appraisal value of the collateral, and maximum loan-to-value ratios are further adjusted based on factors such as the location of the secured property, nature and purpose of the loans and level of competition in the market. Since January 11, 2019, maximum loan-to-value ratios are determined and may be adjusted in increments of 1% (as opposed to increments of 5%, which was the case prior to January 11, 2019), allowing us to set more precise and tailored maximum loan-to-value ratios for our secured loans. As of December 31, 2020, the loan-to-value ratio of mortgage and home equity loans of Shinhan Bank was 45.6%. As of December 31, 2020, substantially all of its mortgage and home equity loans were secured by residential property.

Under the Regulation on the Supervision of the Banking Business and the Detailed Regulation on the Supervision of the Banking Business, our banking subsidiaries were subject to, when extending mortgage and home equity loans, to the maximum loan-to-value ratio of 70% (irrespective of the location of the property, subject to certain exceptions) 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).

On January 31, 2018, the existing debt-to-income requirement was replaced by the new debt-to-income ratio requirement, which 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. The previous debt-to-income requirement 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.

Since 2017, the Government led by President Moon Jae-in has announced and implemented a series of robust policies aimed at taming speculation and deterring the rise of housing prices. The Government has continuously increased the number of areas subject to the “speculative districts”, “overheated speculative districts” 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. For example, homes located in a non-regulated area are currently subject to a loan-to-value ratio of 70% of the appraised value thereof, whereas homes located in “speculative districts” or “overheated speculative districts” are subject to a loan-to-value ratio of 40% and homes located in “adjustment targeted areas” are subject to a loan-to-value ratio of 50%. Furthermore, for homes located in any of the “speculative districts” or “overheated speculative districts” with a value equal or less than ₩1.5 billion but greater than ₩900 million (based on the evaluation data of a certified rating institution, for which the detailed standards shall be as determined by the director of the Financial Supervisory Service), the loans may only be up to 40% of the appraised value up to ₩900 million and 20% of any remaining value between ₩1.5 billion and ₩900 million, and for homes located in any “adjustment targeted areas” with a value equal or greater than ₩900 million, the loans may only be up to 50% of the appraised value up to ₩900 million and 30% of any remaining value exceeding ₩900 million. In addition, if the value of a home located in any of the “speculative districts” or “overheated speculative districts” is greater than ₩1.5 billion, no mortgage or home equity loans may be provided, and no mortgage or home equity loans may be provided to purchase a new home located in any of the regulated areas to a household that already owns one or more housing units. Similarly, the debt-to-income ratio applicable to apartment units located in the greater Seoul metropolitan area which are not “speculative districts”, “overheated speculative districts” or “adjustment targeted areas” is 60%, whereas homes located in “speculative districts” or “overheated speculative districts” are subject to a debt-to-income ratio of 40% and homes located in “adjustment targeted areas” are subject to a debt-to-income ratio of 50%.

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 the loan applicant who has existing mortgage and home equity loans for homes located in any of the “speculative districts” and “overheated speculative districts” and with appraised values exceeding ₩900 million are limited to 40%.

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.

Our banking subsidiaries extend mortgage and home equity loans in compliance with the applicable regulations and administrative instructions by the relevant supervising authorities.

The following table sets forth a breakdown of our retail loans.

	As of December 31,		
	2018	2019	2020
	(In billions of Won, except percentages)		
Retail loans ⁽¹⁾			
Mortgage and home-equity loans	₩62,394	₩68,074	₩73,188
Other retail loans	58,438	66,350	73,602
Percentage of retail loans to total gross loans	39.9%	41.0%	40.7%

Note:

- (1) Before allowance for credit losses on loans and deferred loan origination costs and fees and excludes credit card receivables.

The total mortgage and home equity loans amounted to ₩73,188 billion as of December 31, 2020, and as of such date, consisted of amortizing loans (whose principal is repaid by part of the installment payments) in the amount of ₩47,136 billion and non-amortizing loans in the amount of ₩26,052 billion. In addition, as of December 31, 2020, we also provided lines of credit in the aggregate outstanding amount of ₩573 billion for non-amortizing loans.

Pricing

The interest rates payable on Shinhan Bank’s retail loans are either periodically adjusted floating rates (based on a base rate determined for three-month, six-month or twelve-month periods derived using an internal transfer price system, which reflects the market cost of funding, as adjusted to account for expenses related to lending and the profit margin of the relevant loan products) or fixed rates that reflect the market cost of funding, as adjusted to account for expenses related to lending and the profit margin. Fixed rate loans are offered only on a limited basis and at a premium to floating rate loans. For unsecured loans, which Shinhan Bank provides on a

floating or fixed rate basis, interest rates thereon reflect a margin based on, among other things, the borrower's credit score as determined during its loan approval process. For secured loans, the credit limit is based on the type of collateral, priority with respect to the collateral and the loan-to-value ratio. Shinhan Bank may adjust the pricing of these loans to reflect the borrower's current and/or expected future contribution to Shinhan Bank's profitability. The interest rate on Shinhan Bank's loan products may become adjusted at the time the loan is extended. If a loan is repaid within three years following the date of the loan, the borrower is required to pay an early repayment fee, which is typically 0.7% to 1.4%, depending on types of loans and applicable interest rates, of the outstanding principal amount of and accrued and unpaid interest on the loan, multiplied by a fraction the numerator of which is the number of the remaining days on the loan until maturity and the denominator of which is the number of days comprising the term of the loan or three years, whichever is greater.

As of December 31, 2020, Shinhan Bank's three-month, six-month and twelve-month base rates were 0.66%, 0.92% and 0.95%, respectively. As of December 31, 2020, Shinhan Bank's fixed rates for mortgage and home equity loans with a maturity of five years was 2.82%. Shinhan Bank's fixed rates for other retail loans with a maturity of one year ranged from 2.02% to 14.00%, depending on the credit scores of its customers.

As of December 31, 2020, 92.9% of Shinhan Bank's total retail loans were floating rate loans and 7.1% were fixed rate loans. As of the same date, 92.7% of Shinhan Bank's retail loans with maturity of more than one year were floating rate loans and 7.3% were fixed rate loans.

The interest rate charged to customers by our banking subsidiaries is based, in part, on the "cost of funds index", or COFIX, which is published by the Korean Federation of Banks. COFIX is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment savings deposits, repos, discounted bills and senior non-convertible financial debentures) of eight major Korean banks (comprised of Shinhan Bank, Kookmin Bank, Woori Bank, KEB Hana Bank, Nonghyup Bank, Industrial Bank of Korea, Citibank Korea Inc. and Standard Chartered Bank Korea Limited). Each bank then independently determines the interest rate applicable to its respective customers by adding a spread to the COFIX based on the difference between the COFIX and such bank's general funding costs, administration fees, the customer's credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. These interest rates are typically adjusted on a monthly basis. In January 2019, the Financial Services Commission announced plans to reflect rates for short term deposits such as demand deposits when computing the "cost of funds index," or COFIX, which is expected to result in lower interest rates for household loans compared to the previous COFIX rate.

Private Banking

Historically, we have focused on customers with high net-worth. Our retail banking services include providing private banking services to high net-worth customers who seek personal advice in complex financial matters. Our aim in private banking is to help enhance wealth accumulation by, and increase the financial sophistication of, our high net-worth clients by offering them customized wealth management solutions and comprehensive financial services including asset portfolio and fund management, tax consulting, real estate management and family office services, among others. Since the end of 2011, in order to preemptively respond to evolving customer needs and promote asset growth by inducing greater synergy between commercial banking and investment advisory services offered by Shinhan Investment, Shinhan Bank launched private wealth management centers which combine certain branches of Shinhan Bank with those of Shinhan Investment located in the same area. Shinhan Bank's strength in private banking has been widely recognized by a number of significant industry awards in recent years, including the grand prize at the Premium Brand Index by Korean Standards Association, Chosun Ilbo and Ministry of Trade, Industry and Energy (awarded 13 consecutive years), the Korea Prestige Brand Award by the Korea Economic Daily (awarded five consecutive years), the Star Brand Award by Maekyung Media Group (awarded four consecutive years), National Brand Award by Chosun Ilbo (awarded three consecutive years) in 2020.

As of December 31, 2020, Shinhan Bank operated 27 private wealth management service centers nationwide, including 18 in Seoul, four in the suburbs of Seoul and five in cities located in other regions in Korea. As of December 31, 2020, Shinhan Bank had approximately 37,900 private banking customers, who typically are required to have ₩500 million in deposits with the Bank to qualify for its private banking services.

Corporate Banking Services

Overview

We provide corporate banking services, primarily through Shinhan Bank, to small- and medium-sized enterprises, including enterprises known as SOHO (standing for “small office, home office”), which are small enterprises operated by individuals or households, and, to a lesser extent, to large corporations, including corporations that are affiliated with *chaebols*. We also lend to government-controlled enterprises.

The following table sets forth the balances and percentage of our total loans (before allowance for credit losses on loans and deferred loan origination costs and fees) attributable to each category of our corporate lending business as of the dates indicated.

	As of December 31,					
	2018		2019		2020	
	(In billions of Won, except percentages)					
Small- and medium-sized enterprises loans ⁽¹⁾	₩ 84,972	28.0%	₩ 91,162	27.8%	₩108,016	29.9%
Large corporate loans	35,428	11.7	34,466	10.5	35,289	9.8
Others ⁽²⁾	39,390	13.0	43,502	13.3	46,950	13.0
Total corporate loans	<u>₩159,790</u>	<u>52.7%</u>	<u>₩169,130</u>	<u>51.6%</u>	<u>₩190,255</u>	<u>52.7%</u>

Notes:

- (1) Represents the principal amount of loans extended to corporations meeting the definition of small- and medium-sized enterprises under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree.
- (2) Includes loans to governmental agencies, loans to banks and other corporate loans, including loans originated by subsidiaries other than Shinhan Bank which are classified as corporate loans for purposes of financial reporting.

Small- and Medium-sized Enterprises Banking

Under the Basic Act on Small- and Medium-sized Enterprises (the “SME Basic Act”) and the related Presidential Decree, as amended and effective from January 27, 2016, in order to qualify as a small- and medium-sized enterprise, (i) the enterprise’s total assets at the end of the immediately preceding fiscal year must be less than ₩500 billion, (ii) the enterprise must meet the standards prescribed by the Presidential Decree in relation to the average and total annual sales revenues applicable to the type of its main business, and (iii) the enterprise must meet the standards of management independence from ownership as prescribed by the Presidential Decree, including non-membership in a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. Pursuant to an amendment to the SME Basic Act, which will become effective in June 2020, an enterprise shall not qualify as a small- and medium-sized enterprise if it is incorporated into, or is deemed to be incorporated into a business group subject to disclosure under the Monopoly Regulations and Fair Trade Act. Non-profit enterprises that satisfy certain requirements prescribed in the SME Basic Act and its Presidential Decree may qualify as a small- and medium-sized enterprise. Furthermore, cooperatives and federations of cooperatives as prescribed by the Presidential Decree are deemed as small- and medium-sized enterprises, effective from April 15, 2014. As of December 31, 2020, we made loans to 402,351 small- and medium-sized

enterprises for an aggregate amount of ₩108,016 billion (before allowance for credit losses on loans and deferred loan origination costs and fees).

We believe that Shinhan Bank, whose traditional focus has been on small- and medium-sized enterprises lending, is well-positioned to succeed in the small- and medium-sized enterprises market in light of its marketing capabilities (which we believe have provided Shinhan Bank with significant customer loyalty) and its prudent risk management practices, including conservative credit rating systems for credit approval. To maintain or increase its market share of small- and medium-sized enterprises lending, Shinhan Bank:

- *has accumulated a market-leading expertise and familiarity with customers and products.* We believe Shinhan Bank has an in-depth understanding of the credit risks embedded in this market segment, allowing Shinhan Bank to develop loan and other products specifically tailored to the needs of this market segment;
- *operates a relationship management system to provide customer service that is tailored to small- and medium-sized enterprises.* Shinhan Bank currently has relationship management teams in 179 banking branches, of which 50 are corporate banking branches and 129 are hybrid banking branches designed to serve both retail customers and, to a limited extent, corporate customers. These relationship management teams market products, and review and approve smaller loans with less credit risks; and
- *continues to focus on cross-selling loan products with other products.* For example, when Shinhan Bank lends to small- and medium-sized enterprises, it also explores opportunities to cross-sell retail loans or deposit products to the employees of these enterprises or to provide financial advisory services.

Large Corporate Banking

Large corporate customers consist primarily of member companies of *chaebols* and financial institutions. Our large corporate loans amounted to ₩35,289 billion (before allowance for credit losses on loans and deferred loan origination costs and fees) as of December 31, 2020. Large corporate customers tend to have better credit profiles than small- and medium-sized enterprises, and accordingly, Shinhan Bank has expanded its focus on these customers as part of its risk management policy.

Shinhan Bank aims to be a one-stop financial solution provider that also partners with its corporate clients in their corporate expansion and growth endeavors. To that end, Shinhan Bank provides a wide range of corporate banking services, including investment banking, real estate financing, overseas real estate project financing, large development project financing, infrastructure financing, structured financing, equity investments/venture investments, mergers and acquisitions consulting, securitization and derivatives services, including securities and derivative products and foreign exchange trading. Shinhan Bank, through its Hong Kong branch, also arranges financing for, and offers consulting services to, Korean companies expanding their business overseas, particularly in Asia.

Digital Corporate Banking

Shinhan Bank offers corporate customers a web-based total cash management service known as “Shinhan Bizbank.” Shinhan Bizbank supports substantially all types of banking transactions ranging from basic transaction history inquiries and fund transfers to opening letters of credit, trade finance, payment management, collection management, sales settlement service, acquisition settlement service, business-to-business settlement service, sweeping, pooling, ERP interface service, host-to-host banking solutions, SWIFT SCORE service and global cash and liquidity management service. In addition, Shinhan Bank provides customers with integrated and advanced access to its financial services through its “Inside Bank” program, which combines Internet banking, capital management services and enterprise resource planning to better serve corporate customers. The Inside Bank program also seeks to provide customized financial services to meet the comprehensive needs of target

corporate customers ranging from conglomerates to small enterprises in various industries, with the goal of enhancing convenience to our corporate customers in accessing our financial services as well as assisting them to strategically manage their funds. In line with Shinhan Bank's efforts to facilitate non-face-to-face online transactions for corporate transactions, in 2018, Shinhan Bank upgraded its virtual account-based corporate fund management service, known as "Shinhan Damoa Service", making it available on mobile channels. In addition, Shinhan Bank has made the fund transfers via phone number service (allowing customers to make fund transfers without the recipients' account number), which was previously only available for personal banking customers, available for corporate banking customers as well. As part of Shinhan Bank's effort to lower settlement fees for small business owners, in May 2019, Shinhan Bank launched "ZeroPay Biz Shinhan", an account-based mobile payment service enabling vendors to easily receive payments from customers' accounts by scanning the vendor's QR code with a smartphone. In October 2020, Shinhan Bank upgraded the "Shinhan S Corporate Bank" platform to launch "Shinhan SOL Biz", a non-face-to-face application for corporate clients, with the goal of improving the platform so that Shinhan Bank can offer non-face-to-face channels to corporate clients that are as convenient and user-friendly as Shinhan Bank's online retail banking platforms.

Corporate Lending Activities

Our principal loan products for corporate customers are working capital loans and facilities loans. Working capital loans, which include discounted notes and trade financing, are generally loans used for general working capital purposes. Facilities loans are provided to finance the purchase of equipment and construction of manufacturing plants. As of December 31, 2020, working capital loans and facilities loans amounted to ₩62,253 billion and ₩64,062 billion, respectively, representing 47.8% and 49.2% of our total Won-denominated corporate loans. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years in the case of unsecured loans and five or ten years in the case of secured loans. Facilities loans have a maximum maturity of 15 years, are typically repaid in semiannual installments per annum and may be entitled to a grace period not exceeding one-third of the loan term with respect to the first repayment; facilities loans with a term of three years or less may be paid in full at maturity.

Loans to corporations may be unsecured or secured by real estate, deposits or guaranty certificates. As of December 31, 2020, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 62.4% and 14.6%, respectively, of our Won-denominated loans to small- and medium-sized enterprises. As of December 31, 2020, 44.1% of the corporate loans were secured by real estate.

When evaluating whether to extend loans to corporate customers, Shinhan Bank reviews their creditworthiness, credit score, value of any collateral and/or third party guarantee. The value of collateral is computed using a formula that takes into account the appraised value of the collateral, any prior liens or other claims against the collateral and an adjustment factor based on a number of considerations including, with respect to property, the average value of any nearby property sold in a court-supervised auction during the previous year. Shinhan Bank revalues collateral when a secured loan is renewed or if a trigger event occurs with respect to the loan in question.

Pricing

Shinhan Bank determines the price for its corporate loan products based principally on their respective cost of funding and the expected loss rate based on the borrower's credit risk. As of December 31, 2020, 62.6% of Shinhan Bank's corporate loans with outstanding maturities of one year or more had variable interest rates as determined by the applicable market rates.

More specifically, interest rates on Shinhan Bank's corporate loans are generally determined as follows:

Interest rate = (Shinhan Bank's periodic market floating rate *or* reference rate) *plus* transaction cost *plus* credit spread *plus* risk premium *plus or minus* discretionary adjustment.

Depending on the market condition and the agreement with the borrower, Shinhan Bank may use either its periodic market floating rate or the reference rate as the base rate in determining the interest rate for the borrower. As of December 31, 2020, Shinhan Bank's periodic market floating rates (which are based on a base rate determined for a three-month, six-month, one-year, two-year, three-year or five-year period, as applicable, as derived using Shinhan Bank's market rate system) were 0.66% for three months, 0.92% for six months, 0.95% for one year, 1.07% for two years, 1.16% for three years and 1.53% for five years. As of the same date, Shinhan Bank's reference rate was 4.50%. The reference rate refers to the base lending rate used by Shinhan Bank and is determined annually by Shinhan Bank's Asset & Liability Management Committee based on, among others, Shinhan Bank's funding costs, cost efficiency ratio and discretionary margin.

Transaction cost reflects the standardized transaction cost assigned to each loan product and other miscellaneous costs, including contributions to the Credit Guarantee Fund, and education taxes. The Credit Guarantee Fund is a statutorily created entity that provides credit guarantees to loans made by commercial banks and is funded by mandatory contributions from commercial banks in the amount of approximately 0.22% of all loans (excluding certain loans such as facility loans) made by them.

The credit spread is added to the periodic floating rate to reflect the expected loss based on the borrower's credit rating and the value of any collateral or payment guarantee. In addition, Shinhan Bank adds a risk premium which takes into account the potential of unexpected loss that may exceed the expected loss from the credit rating assigned to a particular borrower.

A discretionary adjustment rate is added or subtracted to reflect the borrower's current and/or future contribution to Shinhan Bank's profitability. If additional credit is provided by way of a guarantee, the adjustment rate is subtracted to reflect such change in the credit spread. In addition, depending on the price and other terms set by competing banks for similar borrowers, Shinhan Bank may reduce the interest rate to compete more effectively with other banks.

International Business

Shinhan Bank also engages in treasury and investment activities in international capital markets, principally including foreign currency-denominated securities trading, foreign exchange trading and services, trade-related financial services, international factoring services and foreign banking operations through its overseas branches and subsidiaries. Shinhan Bank aims to become a leading bank in Asia and expand its international business by focusing on further bolstering its overseas network, localizing its overseas operations and diversifying its product offerings, particularly in terms of asset management, in order to meet the various financing needs of its current and potential customers overseas.

Other Banking Services

Other banking businesses carried on by Shinhan Bank include treasury business (including internal asset and liability management and other non-deposit funding activities), trading of, and investment in, debt securities and, to a lesser extent, equity securities for its own accounts, derivative trading activities, as well as managing back-office functions.

Treasury

Shinhan Bank's treasury division provides funds to all of Shinhan Bank's business operations and ensures the liquidity of its operation. To secure stable long-term funds, Shinhan Bank uses fixed and floating rate notes, debentures, structured financing and other advanced funding methods. As for overseas funding, Shinhan Bank closely monitors the feasibility of raising funds in currencies other than the U.S. Dollar, such as the Japanese Yen and the Euro. In addition, Shinhan Bank makes call loans and borrows call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Korean Won or foreign currencies with a minimum transaction amount of ₩100 million and maturities of typically one day.

Securities Investment and Trading

Shinhan Bank invests in and trades securities for its own accounts in order to maintain adequate sources of liquidity and to generate interest income, dividend income and capital gains. Shinhan Bank's trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Government agencies, local governments or certain government-invested enterprises, debt securities issued by financial institutions and equity securities listed on the KRX KOSPI Market and KRX KOSDAQ Market of the Korea Exchange. For a detailed description of our securities investment portfolio, see “— Description of Assets and Liabilities — Investment Portfolio.”

Derivatives Trading

Shinhan Bank provides to its customers, and to a limited extent, trades for its proprietary accounts, a broad range of derivatives products, which include:

- interest rate swaps, options, and futures relating to Korean Won interest rate risks and LIBOR risks, respectively;
- cross-currency swaps, largely for Korean Won against U.S. Dollars, Japanese Yen and Euros;
- equity and equity-linked options;
- foreign currency forwards, options and swaps;
- commodity forwards, swaps and options;
- credit derivatives; and
- KOSPI 200 indexed equity options.

Shinhan Bank's outstanding derivatives commitments in terms of notional amount were ₩233,655 billion, ₩246,982 billion and ₩217,006 billion in 2018, 2019 and 2020, respectively. Such derivative operations generally focus on addressing the needs of Shinhan Bank's corporate clients to enter into derivatives contracts to hedge their risk exposure and entering into back-to-back derivatives to hedge Shinhan Bank's risk exposure that results from such client contracts.

Shinhan Bank also enters into derivative contracts to hedge the interest rate and foreign currency risk exposures that arise from its own assets and liabilities. In addition, to a limited extent, Shinhan Bank engages in the proprietary trading of derivatives within its regulated open position limits. See “— Description of Assets and Liabilities — Derivatives.”

Trust Account Management Services

Overview

Shinhan Bank's trust account management services involve management of trust accounts, primarily in the form of money trusts. Trust account customers are typically individuals seeking higher rates of return than those offered by bank account deposits. Because deposit reserve requirements do not apply to deposits held in trust accounts as opposed to deposits held in bank accounts, and regulations governing trust accounts tend to be less strict, Shinhan Bank is generally able to offer higher rates of return on trust account products than on bank deposit products. However, in recent years, due to the ongoing low interest environment, Shinhan Bank has not been able to offer attractive rates of return on its trust account products.

Trust account products generally require higher minimum deposit amounts than those required by comparable bank account deposit products. Unlike bank deposit products, deposits in trust accounts are invested primarily in securities (consisting principally of debt securities and beneficiary certificate for real estate financing) and, to a lesser extent, in loans, as the relative shortage of funding sources require that trust accounts be invested in a higher percentage of liquid assets.

Under the Banking Act, the Financial Investment Services and Capital Markets Act and the Trust Act, assets in trust accounts are required to be segregated from other assets of the trustee bank and are unavailable to satisfy the claims of the depositors or other creditors of such bank. Accordingly, trust accounts that are not guaranteed as to principal (or as to both principal and interest) are accounted for and reported separately from the bank accounts. See “— Supervision and Regulation.” Trust accounts are regulated by the Trust Act and the Financial Investment Services and Capital Markets Act, and most national commercial banks offer similar trust account products. Shinhan Bank earns income from trust account management services, which is recorded as net trust management fees.

As of December 31, 2018, 2019 and 2020, Shinhan Bank had total trust assets of ₩76,161 billion, ₩93,127 billion and ₩96,269 billion, respectively, comprised principally of securities investments of ₩22,479 billion, ₩23,902 billion and ₩21,427 billion respectively; real property investments of ₩14,154 billion, ₩13,493 billion and ₩12,696 billion, respectively; and loans with an aggregate principal amount of ₩528 billion, ₩415 billion and ₩348 billion, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2018, 2019 and 2020, debt securities accounted for 28.5%, 24.9% and 21.7%, respectively, and equity securities constituted 1.1%, 0.8% and 0.6%, respectively, of Shinhan Bank’s total trust assets. Loans made by trust accounts are similar in type to those made by bank accounts, except that they are made only in Korean Won. As of December 31, 2018, 2019 and 2020, 57.8%, 62.7% and 72.2%, respectively, of the amount of loans from the trust accounts were collateralized or guaranteed. In making investment from funds received for each trust account, each trust product maintains investment guidelines applicable to each such product which set forth, among other things, company-, industry- and security-specific limitations.

Trust Products

In Korea, trust products typically take the form of money trusts, which are discretionary trusts over which (except in the case of a specified money trust) the trustees have investment discretion subject to applicable law and is commingled and managed jointly for each type of trust account. The specified money trusts are established on behalf of customers who give specific directions as to how their trust assets should be invested.

Money trusts managed by Shinhan Bank’s trust account business amounted to ₩44,290 billion, ₩49,695 billion and ₩51,998 billion as of December 31, 2018, 2019 and 2020, respectively.

Shinhan Bank offers variable rate trust products through its retail branch network. As of December 31, 2018, 2019 and 2020, Shinhan Bank’s variable rate trust accounts amounted to ₩40,270 billion, ₩45,627 billion and ₩47,930 billion, respectively, of which principal guaranteed variable rate trust accounts amounted to ₩4,019 billion, ₩4,067 billion and ₩4,067 billion, respectively. Variable rate trust accounts offer their holders variable rates of return on the principal amount of the deposits in the trust accounts and do not offer a guaranteed return on the principal of deposits, except in the limited cases of principal guaranteed variable rate trust accounts, for which payment of the principal amount is guaranteed. Shinhan Bank charges a lump sum or a fixed percentage of the assets held in such trusts as a management fee, and, depending on the trust products, is also entitled to additional fees in the event of early termination of the trusts by the customer. Korean banks, including Shinhan Bank, are currently allowed to guarantee the principal of the following types of variable rate trust account products: (i) existing individual pension trusts, (ii) new individual pension trusts, (iii) existing retirement pension trusts, (iv) new retirement pension trusts, (v) pension trusts and (vi) employee retirement benefit trusts. Shinhan Bank also offers an insignificant amount of guaranteed fixed rate trust products (amounting to ₩1.0 billion, ₩1.0 billion and ₩1.0 billion as of December 31, 2018, 2019 and 2020, respectively), which provide to its holders a guaranteed return of the principal as well as a guaranteed fixed rate of return. These products are carry-overs from past offerings, and Shinhan Bank no longer offers guaranteed fixed rate trust products.

Credit Card Services

Products and Services

We currently provide our credit card services principally through our credit card subsidiary, Shinhan Card, and to a limited extent, Jeju Bank.

Shinhan Card offers a wide range of credit card and other services, principally consisting of the following:

- *credit card services*, which involve providing cardholders with credit up to a preset limit to purchase products and services. Repayment for credit card purchases may be made either (i) on a lump-sum basis, namely, in full at the end of a monthly billing cycle or (ii) on a revolving basis subject to a minimum monthly payment. The minimum monthly payment for holders of credit cards issued before December 30, 2014 is the greater of (x) 5% to 20% of the amount outstanding (depending on the cardholder's credit) or (y) ₩30,000. The minimum monthly payment for holders of credit cards issued on or after December 30, 2014 is the greater of (x) 10% to 20% of the amount outstanding (depending on the cardholder's credit) or (y) ₩50,000. Currently, the outstanding credit card balance subject to the revolving basis payments generally accrues interest at the effective annual rates of approximately 5.4% to 23.9%.
- *cash advances*, which enable the cardholders to withdraw cash subject to a preset limit from an ATM or a bank branch. Repayments for cash advances may be made either on a lump-sum basis or, in the case of credit cards issued before December 30, 2014, on a revolving basis. Currently, the lump-sum cash advances generally accrue interest at the effective annual rates of approximately 6.1% to 23.9% and the revolving cash advances generally accrue interest at a minimum rate of 6.4% to 23.9% of the outstanding balance (depending on the cardholder's credit).
- *installment purchases*, which provide customers with an option to purchase products and services from select merchants on an installment basis for which repayments must be made in equal amounts over a fixed term generally ranging from two to 24 months, and for certain limited types of cards, up to 36 months. Currently, the outstanding installment purchase balances generally accrue interest at the effective annual rates of approximately 9.5% to 20.9%.
- *card loans*, which enable cardholders to receive, up to a preset limit, a loan which is generally unsecured. Repayment of card loans is made generally by (i) repaying principal and interest in equal amounts on an installment basis over a fixed term of two to 36 months, (ii) repaying the principal and interest amounts in full at maturity, or (iii) making interest-only payments during the initial grace period of either three months or six months and repaying the principal and interest amounts on a monthly installment basis over the remaining period of typically two to 36 months. Currently, the outstanding card loan balances generally accrue interest at the effective annual rates of approximately 6.16% to 23.9%. Delinquent credit card receivables can also be restructured into loans, which we classify as card loans, and these loans generally accrue interest at the effective annual rates of approximately 11.9% to 19.5% over a fixed term whose maximum is 72 months.

Shinhan Card derives revenues from annual membership fees paid by credit cardholders, interest charged on credit card balances, fees and interest charged on cash advances and card loans, interest charged on late and deferred payments and merchant fees paid by retail and service establishments. Merchant fees and interest on cash advances constitute the largest source of revenue.

The annual membership fees for credit cards vary depending on the type of credit card and the benefits offered thereunder. For standard credit cards and most of the affinity and co-branded cards, Shinhan Card charges an annual membership fee ranging from ₩1,000 to ₩2,000,000 per credit card, depending on the type of the card and the cardholder profile. Certain government affinity cards have no annual membership fee. If Shinhan Card's customers make cash advances using ATMs of a financial institution other than Shinhan Card, Shinhan Card also charges a usage fee for such cash advances in an amount equivalent to the fees charged by such financial institution for the use of its ATM plus costs to cover Shinhan Card's related administration expenses.

Any accounts that are unpaid when due are deemed to be delinquent accounts, for which Shinhan Card levies a late charge in lieu of the interest rates applicable prior to default. The late charge rate currently ranges from 8.4% to 24.0% per annum. Since the first half of 2018, instead of levying a late charge in lieu of interest rates prior to default, Shinhan Card maintained the interest rates prior to default but added a late charge rate of 3% in addition to the interest rates prior to default.

Merchant discount fees, which are processing fees Shinhan Card charges to merchants, can be up to the regulatory limit of 2.3% of the purchased amount depending on the merchant used, with the average charge for credit cards being 1.4% in 2020. For small- and medium-sized merchants, the applicable regulations impose reduced fee rates of 0.8% (in the case of merchants with annual sales of ₩300 million or less) and 1.3% (in the case of merchants with annual sales of more than ₩300 million and up to ₩500 million), respectively, of the purchased amount.

Although making payments on a revolving basis is more common in many other countries, this payment method is still in its early stages of development in Korea. Cardholders in Korea are generally required to repay their purchases within approximately 14 to 44 days of purchase depending on their payment cycle, except in the case of installment purchases where the repayment term is typically three to six months. Accounts that remain unpaid after this period are deemed to be delinquent, and Shinhan Card levies late charges on and closely monitors such accounts. For purchases made on an installment basis, Shinhan Card charges interest on unpaid amounts at rates that vary according to the terms of repayment.

Cardholders are required to settle their outstanding balances in accordance with the terms of the credit cards they hold. Cardholders are required to select the monthly settlement date when they open the credit card account and may subsequently change the settlement date but no more than once every 60 days. Settlement dates at or around the end of each month are the most popular since salaries are typically paid at the end of the month.

In addition to credit card services, Shinhan Card also offers check cards, which are similar to debit cards in the United States and many other countries, to retail and corporate customers. A check card can be used at any of the merchants that accept credit cards issued by Shinhan Card and the amount charged to a check card is directly debited from the cardholder's designated bank account. Check cards have a low risk of default and involve minimal funding costs. Although Shinhan Card does not charge annual membership fees on the majority of check cards, merchants are charged fees on the amount purchased using check cards at a rate between 0.50% and 2.50%, depending on the type of business, which is lower than the corresponding fee charged for credit card use.

Recently, the Financial Services Commission has allowed certain financial institutions, including Shinhan Card, to test innovative financial services. Shinhan Card obtained approval from the Financial Services Commission to test nine business: (i) peer-to-peer credit card remittance services whereby individuals can send money to others directly using credit cards, (ii) a credit scoring system that evaluates individual business owners' credit standing based on their revenue records and history of credit card use, (iii) small-scale investment using credit cards, (iv) face recognition payments, (v) house rent payments using credit cards, (vi) rental brokerage platforms, (vii) overseas remittance using credit cards, (viii) quick payment to small merchants using credit card reward points and (ix) family cards for underage children. As of December 31, 2020, six businesses have been successfully commercialized, and we expect to launch the remaining three services in the foreseeable future.

Credit Card Products

Shinhan Card offers a wide range of credit card products tailored for credit cardholders' lives and to satisfy their preferences and needs. Credit card products offered by Shinhan Card include:

- cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prices or cash;
- platinum cards and other preferred membership cards, which have higher credit limits and provide additional services in return for higher annual membership fees;

- cards with additional features to preferred customers, such as revolving credit cards, travel services and insurance;
- cards with fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet;
- corporate and affinity cards that are issued to employees or members of particular companies or organizations; and
- mobile phone cards allowing customers to conduct wireless credit card transactions through their mobile phones.

Customers and Merchants

In addition to internal growth through cross-selling, we seek to enhance our market position by selectively targeting new customers with high net-worth and solid credit quality through the use of a sophisticated and market-oriented risk management system. Shinhan Card screens its credit card applicants and sets individualized credit limits for such applicants according to internal guidelines based on a comprehensive credit scoring system. We also seek to provide a wide variety of differentiated products and services tailored to our customers' individualized needs through precision analysis and customer segmentation based on the "big data" we have compiled on our approximately 22 million customers. We have also formed a team dedicated to the "fintech" business by actively pursuing technology developments and strategic alliances with key partners as well as additional teams focused on innovation and creating new sources of value for our clients through the development of big data and digital platforms and provision of big data-based consulting services. In 2019, utilizing an innovative platform based on big data analysis, Shinhan Card launched a "Super Personalization Service", aimed at providing our individual customers with tailored and personalized services that meet their individual needs. As Shinhan Card has obtained a license from the Financial Services Commission as a MyData service provider, Shinhan Card expects to be able to utilize additional external data to enhance its ability to further refine and tailor personalized services for its customers.

The following table sets forth the number of customers of Shinhan Card and the number of merchants at which Shinhan Card can be used for purchases as of the dates indicated.

	<u>As of December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(In thousands, except percentages)		
Shinhan Card:			
Number of credit card holders ⁽¹⁾	12,701	12,843	13,056
Personal accounts	12,495	12,667	12,861
Corporate accounts	206	176	195
Active ratio ⁽²⁾	96.1%	96.05%	95.86%
Number of merchants	2,810	2,909	2,741

Notes:

- (1) Represents the number of cardholders whose card use is not subject to suspension or termination as of the relevant date.
- (2) Represents the ratio of accounts used at least once within the last six months to the total accounts as of year-end.

Installment Finance

Shinhan Card provides installment finance services to customers to facilitate purchases of durable consumer goods such as new and used cars, appliances, computers and other home electronics products. Revenues from installment finance operations accounted for 3.54% of Shinhan Card's total operating revenue in 2020. Shinhan

Card pays the merchants when Shinhan Card's customers purchase such goods, and the customers remit monthly installment payments to Shinhan Card over a number of months, generally up to 36 months (and, in the case of installment financings for automobile purchases, up to 72 months), as agreed with the customers. For installment finance products for new cars, Shinhan Card historically charged, in addition to interest, an initial financing fee of up to 9.9% of the purchase price, depending on the customer's credit score, the installment period and installment amount. Initial financing fees charged in connection with installment finance products for new cars, however, were abolished effective March 2, 2013 pursuant to the Financial Consumer Report (Automobile Financings) issued by the Financial Supervisory Service on January 29, 2013. Shinhan Card has installment financing arrangements with over 12,000 merchants in Korea, including major car dealers, manufacturers and large retailers with nationwide networks, such as electronics goods stores.

Shinhan Card promptly processes installment financing applications and, based on the extensive credit information it possesses or can access, it is able to offer flexible installment payment terms tailored to individual needs of the customers. Shinhan Card also devotes significant efforts to developing and maintaining its relationships with merchants, which are the most important source of referrals for installment finance customers. Shinhan Card makes prompt payments to merchants for goods purchased by the installment finance customers.

Auto Lease

Shinhan Card provides auto leasing financing to retail customers and corporations. Revenues from auto lease operations accounted for 3.37%, 4.83% and 6.64% of Shinhan Card's total operating revenue in 2018, 2019 and 2020, respectively.

Securities Brokerage Services

Overview

Through Shinhan Investment, we provide a wide range of financial investment services to our diversified customer base including corporations, institutional investors, governments and individuals. Financial investment services offered by Shinhan Investment range from securities brokerage services, investment advice and financial planning services, and investment banking services such as underwriting and mergers and acquisitions advisory services. Subject to market conditions, Shinhan Investment also engages in equity- and stock index-linked derivatives sales and brokerage, proprietary trading and brokerage services for futures involving interest rates, currency and commodities as well as foreign exchange margin trading.

As of December 31, 2020, according to internal data, Shinhan Investment's annual market share of Korean equity brokerage market was 7.37% (consisting of 2.96% in the retail segment, 0.56% in the institutional segment and 3.85% in the international segment) in terms of total brokerage volume, ranking seventh among securities firms in Korea. As of the same date, according to internal data, Shinhan Investment's annual market share of Korean options and futures brokerage market were 6.52% and 13.00%, respectively, in terms of total brokerage volume with respect to these products.

Products and Services

Shinhan Investment provides principally the following services:

- *retail client services.* These services include equity and bond brokerage, investment advisory and financial planning services to retail customers, with a focus on high net-worth individuals. The fees generated include brokerage commissions for the purchase and sale of securities, asset management fees, interest income from credit extensions (including in the form of stock subscription loans), margin transaction loans and loans secured by deposited securities.
- *institutional client services:*
 - *brokerage services.* These services include brokerage of stocks, corporate bonds, futures and options provided to Shinhan Investment's institutional and international customers and sale of

institutional financial products. These services are currently supported by a team of approximately 68 research analysts that specialize in equity, bonds and derivatives research.

- *investment banking services.* These services include a wide array of investment banking services to Shinhan Investment's corporate customers, such as domestic and international initial public offerings, mergers and acquisitions advisory services, bond issuances, underwriting, capital increase, asset-backed securitizations, issuance of convertible bonds and bonds with warrants, structured financing, issuance of asset-backed commercial papers and project financings involving infrastructure, real estate and shipbuilding.

Shinhan Investment also engages, to a limited extent, in proprietary trading in equity and debt securities, derivative products and over-the-counter market products.

With respect to brokerage services, in the face of intense competition in the domestic brokerage industry, Shinhan Investment primarily focuses on strengthening profitability through service differentiation and efficient management of its distribution network rather than enlarging its market share indiscriminately through lowering fees and commissions. Shinhan Investment's service differentiation efforts include offering its customers opportunities to purchase stocks in a wide range of countries (currently more than 28 countries), leveraging synergy opportunities afforded by affiliation with other Shinhan entities such as offering brokerage accounts maintained at Shinhan Bank and Shinhan Capital.

With respect to investment banking services, Shinhan Investment concentrates on equity capital markets, debt capital markets, project finance and mergers and acquisitions. To a limited extent, Shinhan Investment also engages in private equity investments through formation of private equity funds by soliciting investors on a private placement basis. To better serve its international customers, Shinhan Investment has established four overseas service centers in Hong Kong, New York, Vietnam and Indonesia. In July 2015, we acquired a 100% stake in Nam An Securities (subsequently launched as Shinhan Securities Vietnam Co., Ltd.), a Vietnamese securities services firm that provides investment banking and asset management services. In addition, in order to capitalize on the rapid growth opportunity and as part of its expansion efforts in Indonesia, Shinhan Investment acquired a 99% stake in PT Makinta Securities, an Indonesian investment banking firm in July 2016 and subsequently launched it as an overseas subsidiary offering investment banking and brokerage services under the name PT Shinhan Sekuritas Indonesia in December 2016. To further expand and stabilize our global businesses, we made further capital investments totaling US\$62 million in December 2017 in our subsidiaries located in Hong Kong, New York, Vietnam and Indonesia. In 2018, we acquired PT Archipelago Asset Management, the first acquisition of an Indonesian asset management firm by a Korean financial group, which we believe will strengthen our business portfolio in Indonesia and enhance our competitiveness in the Asian financial markets.

Life Insurance Services

We provide life insurance products and services primarily through Shinhan Life Insurance and Orange Life Insurance. Shinhan Life Insurance and Orange Life Insurance provide services through diversified distribution channels consisting of financial planners, telemarketers, agency marketers and bancassurance specialists. Shinhan Life Insurance had total assets of ₩31,824 billion, ₩34,134 billion and ₩36,777 billion as of December 31, 2018, 2019 and 2020, respectively, and net profits of ₩131 billion, ₩124 billion and ₩178 billion for the years ended December 31, 2018, 2019 and 2020, respectively. Orange Life Insurance had total assets of ₩32,744 billion, ₩32,841 billion and ₩33,814 billion as of December 31, 2018, 2019 and 2020, respectively, and net profits of ₩311 billion, ₩271 billion and ₩279 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

Other Services

Through our other subsidiaries, we also provide asset management, leasing and equipment financing, savings banking, loan collection and credit reporting, collective investment administration and financial system

development services. Through Shinhan Alternative Investment Management (in addition to Shinhan Investment), we are also engaged in alternative investments through formation of private equity funds by soliciting investors on a private placement basis.

Asset Management Services

In addition to personalized wealth management services provided as part of our private banking and securities brokerage services, we also provide asset management services through Shinhan BNP Paribas Asset Management, formerly a joint venture with BNP Paribas Asset Management Holding, of which we and BNP Paribas Asset Management Holding held 65:35 interests, respectively. 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. Shinhan Asset Management ranked fifth among asset managers in Korea in terms of assets under management as of December 31, 2020, and provides a wide range of investment products, including traditional equity/fixed income funds as well as alternative investment products, to retail and institutional clients. As a former joint venture with BNP Paribas Asset Management Holding, we believe Shinhan Asset Management derives significant benefits from BNP Paribas's global network of investment professionals and expertise in the asset management industry. As of December 31, 2020, Shinhan BNP Paribas Asset Management had assets under management amounting to ₩58,678 billion. To a limited extent, Shinhan Investment also provides asset management services for discretionary accounts, see “— Securities Brokerage Services.”

Leasing and Equipment Financing

We provide leasing and equipment financing services to our corporate customers mainly through Shinhan Capital. Shinhan Capital provides customers with leasing, installment financing and new technology financing, equipment leasing, and corporate credit financing. Shinhan Capital's strength has traditionally been in leasing of ships, printing machines, automobiles and other specialty items, but it also offers other leasing and financing services, such as corporate restructuring services for financially troubled companies, project financing for real estate and infrastructure development, corporate leasing and equipment financing.

Savings Banking

Through Shinhan Savings Bank, we provide savings banking services in accordance with the Mutual Savings Bank Act to customers that generally would not, due to their credit profile, qualify for our commercial banking services or who seek higher returns on their deposits than those offered by our commercial banking subsidiaries. Established in December 2011, Shinhan Savings Bank offers savings and other deposit products with relatively higher interest rates and loans (usually in relatively small amounts and on customer-tailored terms and including loans for which we receive credit support from the Government) primarily to small- to medium-sized enterprises and low income households who would not generally qualify for our commercial banking services. Shinhan Savings Bank has assumed the assets and liabilities of Tomato Savings Bank, which we acquired in January 2012, and has merged into Yehanbyoul Savings Bank, which we acquired in March 2013, with Yehanbyoul Savings Bank as the surviving entity with its name changed to Shinhan Savings Bank. Both Tomato Savings Bank and Yehanbyoul Savings Bank were facing liquidity troubles due to difficulties in the real estate project financing business as a result of the prolonged slump in the Korean real estate market at the time we acquired them. We closely monitor the business activities and product offerings of Shinhan Savings Bank to ensure its financial soundness.

Loan Collection and Credit Reporting

We centralize credit collection and credit reporting operations for our subsidiaries through Shinhan Credit Information Co. Ltd. (“Shinhan Credit Information”), which also provides similar services to third party customers. Shinhan Credit Information's services include debt collection, credit inquiries, credit reporting, civil

application/petition services and process agent services, among others. Shinhan Credit Information also manages participants in credit recovery programs and provides support to the Kookmin Happy Fund, which is a Government-established fund that supports retail borrowers with low credit scores by purchasing defaulted loans from creditors or providing credit guarantees to enable such borrowers to refinance at lower rates.

Collective Investment Administration Services

We provide integrated collective investment administration services through Shinhan AITAS Co., Ltd. Shinhan AITAS provides general management service, asset management systems, accounting systems and trading systems to asset management companies and institutional investors. The target customers for these collective investment administration services are asset managers, investment advisors and institutional investors, and Shinhan AITAS seeks to provide a comprehensive service package including the computation of the reference value for funds, evaluation of fund performance, provision of trading systems and fund-related legal administrative services.

Alternative Investments

To a limited extent, through Shinhan Alternative Investment Management, we are also engaged in private equity investments through formation of private equity funds. The private equity funds receive funding from investors on a private placement basis, which funds are then invested in alternative assets and equity securities in companies for a variety of reasons, including management control, business turnaround or corporate governance improvements.

Financial System Development Services

We provide financial system development services through Shinhan DS, which offers system integration, system management, IT outsourcing, business process outsourcing and IT consulting services.

Real Estate Investment Trust (REIT) Asset Management

Through our wholly owned subsidiary, Shinhan REITs Management Co., Ltd., we provide real estate investment and management services to real estate investment trusts.

Real Estate Trust Services

Asia Trust Co., Ltd is a comprehensive real estate trust service provider, providing services including land development trust, management trust, proxy and agency businesses and consulting, etc.

Artificial Intelligence Based Investment Consulting

Shinhan AI. Co., Ltd. is an artificial intelligence-based investment consulting company established to enhance our competitiveness in the digital age and provide differentiated investment consulting services, with plans to expand business into the asset management sector.

Venture Capital Investment

Shinhan Venture Investment Co, Ltd. is an alternative investment management firm specializing in identifying and investing in start-up companies as well as small to mid-sized companies and also promoting the formation and operation of early stage investment funds and private equity investment funds.

Our Distribution Network

We offer a wide range of financial services to retail and corporate customers through a variety of distribution networks and channels established by our subsidiaries. The following table presents the geographical

distribution of our distribution network based on the branch offices and other distribution channels of our principal subsidiaries, as of December 31, 2020.

<i>Distribution Channels in Korea</i> ⁽¹⁾	<u>Shinhan Bank</u>	<u>Jeju Bank</u>	<u>Shinhan Card</u>	<u>Shinhan Investment</u>	<u>Shinhan Life Insurance</u>	<u>Orange Life Insurance</u>	<u>Total</u>
Seoul metropolitan	358	1	9	52	34	92	546
Gyeonggi province	186	—	4	20	22	2	234
Six major cities:	161	1	8	25	29	17	241
Incheon	57	—	1	3	6	2	69
Busan	37	1	2	6	9	6	61
Gwangju	13	—	1	3	4	2	23
Daegu	24	—	1	7	4	4	40
Ulsan	14	—	1	3	2	1	21
Daejeon	16	—	2	3	4	2	27
Sub-total	<u>705</u>	<u>2</u>	<u>21</u>	<u>97</u>	<u>85</u>	<u>111</u>	<u>1,021</u>
Others	<u>154</u>	<u>31</u>	<u>8</u>	<u>21</u>	<u>30</u>	<u>4</u>	<u>248</u>
Total	<u><u>859</u></u>	<u><u>33</u></u>	<u><u>29</u></u>	<u><u>118</u></u>	<u><u>115</u></u>	<u><u>115</u></u>	<u><u>1,269</u></u>

Note:

(1) Includes our main office and those of our subsidiaries.

Banking Service Channels

Our banking services are primarily provided through an extensive branch network, specializing in retail and corporate banking services, as complemented by self-service terminals and electronic banking, as well as an overseas services network.

As of December 31, 2020, Shinhan Bank’s branch network in Korea comprised of 859 service centers, consisting of our headquarters, 667 retail banking service centers, 13 large corporate banking service centers, 50 corporate banking services centers and 129 hybrid banking branches designed to serve retail as well as small-business corporate customers. Shinhan Bank’s banking branches are designed to provide one-stop banking services tailored to their respective target customers. Recently, Shinhan Bank has been actively adopting digital technology to improve operational efficiency of its banking service channels. For example, Shinhan Bank introduced digital kiosks to banking branches, established ‘Paperless Banking’ by replacing paper applications with electronic documents, implemented a “robotic process automation system” for the automation of certain tasks and processes and increased the volume of client communications through non-face-to-face platforms.

Retail Banking Channels

In Korea, many retail transactions are conducted in cash or with credit cards, and conventional checking accounts are generally not offered or used as widely as in other countries such as the United States. An extensive retail branch network has traditionally played an important role as the main platform for a wide range of banking transactions. However, a growing number of customers are turning to other service channels to meet their banking needs, such as Internet banking, mobile banking and other forms of non-face-to-face platforms. In response to such changes, Shinhan Bank has recently focused on reorganizing its retail branch network, including shifting, merger or closure of certain branches that are considered redundant.

Recently, one of the key initiatives at Shinhan Bank has been to target high net-worth individuals through private banking. Our private banking services are provided principally through private banking relationship managers who, within target customer groups, assist clients in developing individual investment strategies. We

believe that such relationship managers help us foster enduring relationships with our clients. Private banking customers also have access to Shinhan Bank's retail branch network and other general banking products Shinhan Bank offers through its retail banking operations.

Corporate Banking Channels

Shinhan Bank currently provides corporate banking services through corporate banking service centers primarily designed to serve large corporate customers and hybrid banking branches designed to serve retail as well as small-business corporate customers. Small- and medium-sized enterprises have traditionally been Shinhan Bank's core corporate customers and we plan to continue to maintain Shinhan Bank's strength vis-à-vis these customers.

Self-Service Terminals

In order to complement its banking branch network, Shinhan Bank maintains an extensive network of automated banking machines, which are located in branches and in unmanned outlets. These automated banking machines consist of ATMs, cash dispensers and passbook printers. In December 2015, Shinhan Bank introduced digital kiosks, a new generation of automated self-service machines in the Seoul metropolitan area featuring biometric authentication technology and the ability to perform a wide range of services that were not available through traditional ATMs, such as opening new accounts, issuance of debit and check cards, foreign currency exchange and overseas remittance of foreign currency. These digital kiosks are currently being operated at 44 branches in the Seoul metropolitan area. As of December 31, 2020, Shinhan Bank had 5,472 ATMs, 12 cash dispensers and 37 digital kiosks. Shinhan Bank has actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. In 2020, automated banking machine transactions accounted for a substantial portion of total deposit and withdrawal transactions of Shinhan Bank in terms of the number of transactions and fee revenue generated, respectively.

Digital Banking

Shinhan Bank's Internet banking services are more comprehensive than those available at the counter, including services such as 24 hour account balance posting, real-time account transfer, overseas remittance and loan requests. Shinhan Bank also offers mobile banking services in order to enable customers to make speedy, convenient and secure banking transactions using mobile phones. As of December 31, 2020, Shinhan Bank had 20,619,693 subscribers to its Internet banking services and 16,621,500 users of its smart banking apps, representing an increase of 2.2% and 9.2%, respectively, compared to December 31, 2019. Shinhan Bank continues to experience a rise in the number of online and mobile banking users. Shinhan Bank began offering online and mobile banking initially with a view to saving costs rather than increasing revenues, but is currently exploring ways to leverage the possibility of increase revenues through online and mobile banking given that these services offer customers with easier and more convenient access to banking services without limitations of time and space as well as offer tailored and customized service to each customer. In September 2017, Shinhan Bank launched "Shinhan Tong," a new mobile and web based platform that is more user friendly and easier to access than previous platforms and does not require additional applications or certifications. Shinhan Tong utilizes mobile identification and non-face-to-face identity authentication technology, which allows users to open new bank accounts, exchange currencies and use other services such as credit card application services without having to visit a physical bank branch. In February 2018, Shinhan Bank launched "SOL", a new mobile banking application integrating Shinhan Bank's six previously existing mobile applications such as the Shinhan S Bank and Sunny Bank applications. SOL is the cumulation of Shinhan Bank's efforts to provide a customer oriented and user friendly mobile banking platform and features, among others, easy-to-use biometric and non-face-to-face identity authentication technology. In addition to innovative features allowing customers to withdraw from their accounts at other banks using Shinhan Bank's ATMs and transfer funds with minimal time and effort (for example, with no need to log in or insert account numbers), Shinhan Bank began offering open

banking service in October 2019, allowing customers to access accounts, products and services across multiple banks using only SOL. In November 2019, Shinhan Bank also launched “SOL Global”, a mobile banking application for foreigners, allowing foreign customers to use open banking and various other financial services. Shinhan Bank continues to expand the scope of its mobile banking services by providing innovative offerings, including “SOL Land”, a mobile application providing information on real estate prices and loan limits, and “SOL Trip”, a mobile application providing travel-related services such as foreign currency exchange and travel insurance services. In 2020, Shinhan Bank expanded the network of financial institutions accessible through SOL’s open banking service and implemented upgrades allowing users to further customize the user interface to reflect personal asset management preferences. In addition, in August 2020, Shinhan Bank launched a housing subscription consulting service through SOL, allowing users to assess their housing subscription points based on big data analysis. In 2020, Shinhan Bank launched the COVID-19 Government relief application service through SOL, allowing users to apply for Government emergency funds through the mobile application. In addition, in February 2020, Shinhan Bank launched a medical insurance claim service on SOL, allowing users to easily submit medical insurance claims by sending photos of supporting documents through the SOL mobile application. In line with the recent trends of “live commerce”, in October 2020, Shinhan Bank also launched “SOL Live,” a live broadcast marketing stream channel for financial products. In October 2020, Shinhan Bank upgraded the “Shinhan S Corporate Bank” platform to launch “Shinhan SOL Biz”, a non-face-to-face application for corporate clients, with the goal of improving the platform so that Shinhan Bank can offer non-face-to-face channels to corporate clients that are as convenient and user-friendly as Shinhan Bank’s online retail banking platforms.

Overseas Distribution Network

The table below sets forth Shinhan Bank’s overseas banking subsidiaries and branches as of December 31, 2020.

<u>Business Unit</u>	<u>Location</u>	<u>Year Established or Acquired</u>
<i>Subsidiaries⁽¹⁾</i>		
Shinhan Bank Europe GmbH ⁽²⁾	Frankfurt, Germany	1994
Shinhan Bank America	New York, U.S.A.	1990
Shinhan Bank (China) Limited	Beijing, China	2008
Shinhan Bank (Cambodia) PLC	Phnom Penh, Cambodia	2007
Shinhan Bank Kazakhstan Limited	Almaty, Kazakhstan	2008
Shinhan Bank Canada	Toronto, Canada	2009
Shinhan Bank Japan ⁽³⁾	Tokyo, Japan	2009
Shinhan Bank Vietnam Ltd. ⁽⁴⁾	Ho Chi Minh City, Vietnam	2011
Banco Shinhan de Mexico ⁽⁵⁾	Mexico City, Mexico	2015
PT Bank Shinhan Indonesia ⁽⁶⁾	Jakarta, Indonesia	2016
<i>Branches</i>		
New York	U.S.A.	1989
Singapore	Singapore	1990
London	United Kingdom	1991
Mumbai	India	1996
Hong Kong	China	2006
New Delhi	India	2006
Kancheepuram	India	2010
Pune	India	2014
Manila	Philippines	2015
Dubai	United Arab Emirates	2015
Sydney	Australia	2016

<u>Business Unit</u>	<u>Location</u>	<u>Year Established or Acquired</u>
Yangon	Myanmar	2016
Ahmedabad	India	2016
Ranga Reddy	India	2016
<i>Representative Offices⁽⁷⁾</i>		
Mexico	Mexico City, Mexico	2008
Uzbekistan	Tashkent, Uzbekistan	2009
Poland ⁽¹⁾	Wroclaw, Poland	2014

Notes:

- (1) Shinhan Bank's subsidiary in Hong Kong SAR, China, Shinhan Asia Ltd., was liquidated as of July 14, 2020.
- (2) Shinhan Bank Europe GmbH established a representative office in Poland in 2014.
- (3) While Shinhan Bank established the subsidiary in Japan in 2009, Shinhan Bank has provided banking services in Japan through a branch structure since 1986.
- (4) Prior to the establishment of this subsidiary in 2011, Shinhan Bank provided banking services in Vietnam through a branch since 1995.
- (5) Banco Shinhan de Mexico commenced operations in March 2018.
- (6) Shinhan Bank acquired a 98.01% stake in Bank Metro Express and a 100% stake in Centratama Nasional Bank, two banks in Indonesia, in November 2015 and December 2016, respectively. On March 3, 2016, Bank Metro Express obtained a license to conduct business activities in the name of PT Shinhan Bank Indonesia. Centratama Nasional Bank was merged with PT Bank Shinhan Indonesia on December 6, 2016.
- (7) Shinhan Bank's representative office in Myanmar was closed as of June 8, 2018.

Currently, our overseas subsidiaries and branches are primarily engaged in trade financing and local currency funding for Korean companies and Korean nationals in the overseas markets, as well as providing foreign exchange services in conjunction with Shinhan Bank's headquarters. On a limited basis, these overseas branches and subsidiaries also engage in investment and trading of securities of foreign issuers. In the future, as part of our globalization efforts, we plan to expand our coverage of local customers in the overseas markets by providing a wider range of services in retail and corporate banking, and to that end, we have increasingly established subsidiaries in lieu of branches in select markets and in 2011 merged two of our Vietnam banking subsidiaries in order to enhance our presence and enable greater flexibility in its service offerings in these markets. We plan to maintain our focus on organic growth, while we may selectively pursue acquisitions in markets where it is difficult to obtain local banking licenses through greenfield entry. In furtherance of this objective, Shinhan Bank acquired a 98.01% stake in Bank Metro Express and a 100% stake in Centratama Nasional Bank, two banks in Indonesia, in November 2015 and December 2016, respectively. The Bank completed the merger of the two banks in December 2016. The Bank also opened additional branches in Australia, Myanmar and India in the second half of 2016. In April 2017, Shinhan Bank Vietnam Co., Ltd. acquired ANZ Bank (Vietnam) Limited's retail division. In 2017, Shinhan Bank became the first Korean Bank to obtain a license to set up a local subsidiary in Mexico and started local business in Mexico in March 2018. We plan to continue our efforts to expand our overseas banking service network and global operations.

Credit Card Distribution Channels

Shinhan Card primarily uses four distribution channels to attract new credit card customers: (i) the banking and credit card branch network, (ii) sales agents, (iii) business partnerships and affiliations with vendors and (iv) digital platforms such as Shinhan PayFAN.

The branch network for our credit card operations consisted of 876 branches as of December 31, 2020 of Shinhan Bank and 29 card sales branches of Shinhan Card. The use of the established distribution network of

Shinhan Bank is part of the group-wide cross-selling efforts of selling credit card products to existing banking customers. In 2020, the number of new cardholders acquired through our banking distribution network accounted for approximately 27.2% of the total number of new cardholders. We believe that the banking distribution network will continue to provide a stable and low-cost venue for acquiring high-quality credit cardholders.

The sales agents represented the most significant source of Shinhan Card's new cardholders in 2020, and the number of new cardholders acquired through sales agents accounted for approximately 34% of the total number of Shinhan Card's new cardholders in 2020. As of December 31, 2020, Shinhan Card had 2,370 sales agents, who were independent contractors. These sales agents assist prospective customers with the application process and customer service. Compensation of these sales agents is generally tied to the transaction volume of the customers introduced by them, and we believe this system helps to enhance profitability.

As a way of acquiring new cardholders, Shinhan Card also has business partnership and affiliation arrangements with a number of vendors, including gas stations, major retailers, airlines and telecommunication and Internet service providers. Shinhan Card plans to continue to leverage its alliances with such vendors to attract new cardholders.

As part of a group-wide initiative to streamline our operations and create a digital-friendly business platform, Shinhan Card has strategically expanded its digital platforms. Shinhan Card launched Shinhan FAN, a mobile application providing consolidated financial services including strategic alliances, online and offline payment services, financing services such as installment financings for automobile purchases and a group-wide integrated customer reward program, and subsequently upgraded the application to Shinhan PayFan in October 2018 in order to better provide customized financial services aimed at meeting the comprehensive needs of customers and ultimately lead the mobile payment industry in Korea. In addition to providing traditional payment services, Shinhan PayFan utilizes digital technology such as artificial intelligence and big data to provide real-time customized services tailored to individual users and integrated access across services provided by various merchants and affiliates. Shinhan PayFan is able to provide most of the services provided through traditional customer service means such as call centers and website applications.

In November 2014, as an initial step to exploring potential opportunities overseas, Shinhan Card established its first overseas subsidiary in Kazakhstan, LLP MFO Shinhan Finance, as Kazakhstan was deemed to have relatively low entry barriers to foreign financial institutions, high growth potential for retail operations and the possibility of leveraging Shinhan Bank's network. LLP MFO Shinhan Finance obtained its business license in the first half of 2015 and commenced operations in July 2015, including installment financing and credit loans. In 2018, LLP MFO Shinhan Finance expanded its sales channels and introduced new credit loan products. In 2019 and 2020, LLP MFO Shinhan Finance further expanded its sales coverage, including by opening a sales office in Shymkent in 2020. In 2021, LLP MFO Shinhan Finance plans to diversify and optimise its product portfolio.

In December 2015, Shinhan Card acquired a majority stake in PT Swadharna Indotama Finance, a multi finance company in Indonesia, and changed its legal name to PT Shinhan Indo Finance. PT Shinhan Indo Finance engages in corporate and retail operations, including installment financing and financial leases, and began offering credit card services in January 2017 after obtaining its credit card business license in December 2016. In 2018, PT Shinhan Indo Finance began to expand its retail business across Indonesia. In 2019, PT Shinhan Indo Finance launched its joint finance product with Shinhan Bank, maintaining a conservative approach to its retail business while steadily increasing its corporate leasing assets, particularly corporate fleet vehicle finance products. In 2020, PT Shinhan Indo Finance focused on expanding its fleet business and improving its financial performance. In 2021, PT Shinhan Indo Finance plans to maintain its fleet-centered strategy and also plans to explore additional partnerships for new businesses.

In March 2016, to accelerate our global business expansion, we established Shinhan Microfinance, a local subsidiary in Myanmar. Shinhan Microfinance obtained its microfinance business license in July 2016 and

launched operations in September 2016. In 2017, it expanded its business operations from Yangon to nearby Bago. In 2018, Shinhan Microfinance increased its assets and profit volume by diversifying the range of microfinance products it offers. In 2019, Shinhan Microfinance actively expanded its sales network and sought long term growth opportunities. In 2020, Shinhan Microfinance has grown significantly despite the spread of COVID-19 by expanding its branch network and launching new products. In 2021, Shinhan Microfinance plans to focus on risk management to achieve stable growth amidst the continued instability from the COVID-19 situation.

In January 2018, Shinhan Card acquired Prudential Vietnam Finance Company Limited in order to gain a stronger presence in Vietnam and increase synergy with Shinhan Bank and Shinhan Investment's Vietnam operations. In July 2019, Shinhan Card changed its legal name into Shinhan Vietnam Finance Company Ltd. ("Shinhan Vietnam Finance Company"). Utilizing its relatively lower funding cost resulting from cooperation with other affiliates in Vietnam such as Shinhan Bank and Shinhan Investment, Shinhan Vietnam Finance was able to expand its asset base, reaching total assets of US\$342 million as of December 31, 2020. The State Bank of Vietnam recently introduced Circular 18, which amends the regulation on consumer lending activities in Circular 43 and is aimed at improving soundness of Vietnam's consumer finance industry and facilitating a transition towards a cashless society by regulating the proportion of direct disbursements (for example, cash loans) to the total outstanding loans. According to the amendment, the rate of total consumer loans with direct disbursements to total consumer credit balance should gradually be decreased to 30% by 2024. In 2020, in concurrence with the State Bank of Vietnam's policies promoting consumer finance and movement towards a cashless society, Shinhan Vietnam Finance Company further diversified its offerings to include installment financing for automobiles and durable goods. Shinhan Vietnam Finance Company also launched iShinhan 3.0, a non-face-to-face loan platform. Shinhan Vietnam Finance Company plans to grow into a leading consumer finance company in Vietnam by accelerating digital transformation to increase business efficiency and create customer value. In response to the new regulatory changes, Shinhan Vietnam Finance plans to further diversify its business offerings and continue to leverage Shinhan Card's digitalization capabilities to increase efficiency and provide customers with innovative services.

Securities Brokerage Distribution Channels

Our securities brokerage services are conducted principally through Shinhan Investment. As of December 31, 2020, Shinhan Investment had 118 service centers nationwide, and four overseas subsidiaries based in Hong Kong, New York, Vietnam and Indonesia to service our corporate customers.

Approximately 61% of our brokerage branches are located in the Seoul metropolitan area with a focus on attracting high net-worth individual customers as well as enhancing synergy with our retail and corporate banking branch network. We plan to continue to explore new business opportunities, particularly in the corporate customer segment, through further cooperation between Shinhan Investment and Shinhan Bank.

Insurance Sales and Distribution Channels

We sell and provide our insurance services primarily through Shinhan Life Insurance and Orange Life Insurance. Both Shinhan Life Insurance and Orange Life Insurance, in addition to distributing bancassurance products through our bank branches, also distribute a wide range of life insurance products through their own branch network, agency network of financial planners and telemarketers, as well as through the Internet. As of December 31, 2020, Shinhan Life Insurance and Orange Life Insurance had 115 and 115 branches and 7 and 3 customer support centers, respectively. These branches are staffed by financial planners, telemarketers, agent marketers and bancassurance to meet the various needs of our insurance and lending customers. Our group-wide customer support centers arrange for policy loans (namely loans secured by the cash surrender value of the underlying insurance policy) for our insurance customers and, to a limited extent, other loans to other customers, and also handle insurance payments.

Information Technology

We dedicate substantial resources to maintaining a sophisticated information technology system to support our operations management and provide high quality customer service. Our information and technology system is operated at a group-wide level based on comprehensive group-wide information collection and processing. We also operate a single group-wide enterprise information technology system known as “enterprise data warehouse” for customer relations management capabilities, risk management systems and data processing. We continually upgrade our group-wide information technology system in order to apply the best-in-class technology to our risk management systems to reflect the changes in our business environment as well as enhance differentiation from our competitors.

In 2013, we completed the construction of the Shinhan Data Center, which is responsible for comprehensive management of information technology systems for our subsidiaries on a group-wide basis. This center ensures a stable use of a central information processing facilities for at least 15 years and is designed to maximize operational and cost efficiency as well as enhance information security by combining the various data centers previously used by our subsidiaries. All of our subsidiaries relocated their information management capabilities to this center in 2014.

In order to enhance security and trustworthiness of the financial services provided by us, we continually seek to enhance a group-wide set of standards for information security and upgrade the related systems. In 2008, we established group-wide information systems and policies, which have since been continually updated and upgraded. In 2017, we further upgraded the group-wide information security control tower to a best-in-class level and replaced most of our internal information security staff with highly qualified experts in order to reinforce our security defense capabilities in the event of cyber breaches. In addition, we have a team within our group to provide specialized data protection and related support services to our smaller operating subsidiaries, and we take active measures to preemptively forestall any security breaches through mock trials.

At the subsidiary level, we also continue to upgrade the information technology infrastructure and services for each of our subsidiaries to enhance the quality of our customer service specific to such subsidiary and thereby bolster their respective competitiveness, including with respect to electronic and mobile banking, online consultation, expanded sales services and customized informational services. In addition, we have recently strengthened our indirect service channels through a major upgrade of the corporate online banking services and expansion of mobile phone-based product offerings and sales and service networks, such as the launch of Shinhan Bank’s banking application SOL and upgrades to Shinhan Investment’s Shinhan iAlpha application system, in light of the growing base of customers who increasingly access financial services through their mobile phones. We also established in April 2015 a new credit evaluation system with enhanced precision in assessing the creditworthiness of our corporate customers, which has enabled us to manage our credit risk more effectively. On a group-wide level, we are enhancing the efficiency of the information technology operations of our subsidiaries through cloud computing. Furthermore, we have expanded, and will continue to expand, our information technology systems to support the sales and operational capabilities of our overseas subsidiaries and branches through a global customer management system as well as provide country-specific financial services.

The information technology system for each of our subsidiaries is currently backed up on a real-time basis. In 2014, we converted the pre-existing data center to a back-up and disaster recovery center for all our subsidiaries’ operations in order to provide customer services in a continued seamless manner even in the case of an interruption at Shinhan Data Center. We believe that our centralized back-up systems, including our data back-up centers and disaster recovery centers, enable more efficient back-up at a higher level of security.

Competition

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, 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, 2020, 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, two Internet-only banks and branches and subsidiaries of 36 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 the low interest rate environment were to continue for a significant period of time. Shinhan Bank's net interest margin (on a separate basis) declined to 1.37% in 2020 from 1.54% in 2019 due to, at least partly, decreases in base interest rate by the Bank of Korea from 1.25% to 0.75% in March 2020 and from 0.75% to 0.50% in May 2020 and may decline further if the base interest rate is decreased again during 2021. 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, additional amendments to regulations requiring further downward adjustments to merchant fees may come into force in the future. Additional adjustments to merchant fees are expected during 2021, which may further reduce merchant fees for credit card companies, including Shinhan Card. For further details on the Government's regulations on merchant fees chargeable by credit card companies, See "Item 3.D. Risk Factors — 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 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% is expected to come 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, including Hana Financial Group's acquisition of Korea Exchange Bank in 2012 and the resulting merger of Hana Bank and Korea Exchange Bank in September 2015. In October 2014, the Government's ownership interests in the holding companies of Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group (now BNK Financial Group), respectively. In January 2019, Woori Financial Group was established pursuant to a comprehensive stock exchange 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 December 31, 2020 owned 17.25% of the outstanding common stock

of Woori Financial Group, is expected to sell all of such common stock in multiple transactions by 2022 in accordance with its plan that was approved by the Financial Services Commission in June 2019. In the securities brokerage sector, Mirae Asset acquired KDB Daewoo Securities in 2016, creating the largest brokerage company in Korea by assets, and on June 1, 2016, KB Financial Group completed its acquisition of Hyundai Securities and merged it with its existing brokerage unit, KB Investment & Securities Co, creating the fifth largest brokerage company in Korea by assets. 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.

In September 2018, we announced the acquisition of 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 and closed on February 1, 2019. 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 has become our wholly owned subsidiary as of such date. A merger between Shinhan Life Insurance and Orange Life Insurance is currently underway, with Shinhan Life Insurance to be the surviving entity upon completion of the merger which is subject to approval by the Financial Services Commission. 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. 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. Since July 2015, the Financial Services Commission has provided, through the Korea Financial Telecommunications and Clearings Institute, the integrated automatic payment transfer management service, which allows account holders to search for, terminate or modify automatic payments they have set up with financial institutions participating in such service (currently including banks, securities companies and other financial institutions such as The Post Office, Korean Federation of Community Credit Cooperatives, National Credit Union Federation of Korea, Mutual Savings Bank and National Forestry Cooperative Federation). In addition, the Financial Services Commission began providing the integrated account management service from December 2016, which allows account holders to search for detailed information of their bank accounts opened in banks participating in such service, close small-sum inactive accounts (i.e., accounts with no transaction activity during the previous one year period and with a balance of less than ₩500,000) and transfer the balance in such accounts to other accounts. Moreover, 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. Also, widespread consumer acceptance of mobile phone payment services in lieu of credit card services could add to the competitive threat faced by existing credit card service providers, including our credit card subsidiary. In 2015, the Government announced its plans to allow Internet-only banks to operate in Korea. KT consortium’s K-Bank and Kakao consortium’s Kakao Bank commenced operations in April 2017 and July 2017, respectively, and Viva Republica consortium’s Toss Bank obtained preliminary business authorization from the Financial Services Commission on December 16, 2019 and filed with the Financial Services Commission the application for final business authorization on February 5, 2021. 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 and are planning to provide advanced wealth management and various financial services. If and when fintech companies receive authorization as MyData service providers, we expect competition for customers among banks and fintech firms such as Kakao Pay, Toss and Bank Salad to intensify.

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, 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 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. 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 “— 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. See “Item 3.D. Risk Factors — Risks Relating to Our Overall Business — Competition in the Korean financial services industry is intense, and may further intensify” and “— Supervision and Regulation.”

Description of Assets and Liabilities

Loans

As of December 31, 2020, our total gross loan portfolio was ₩360,804 billion, which represented an increase of 10.1% from ₩327,578 billion on December 31, 2019. The increase in our portfolio primarily reflects a 12.5% increase in corporate loans and an 9.2% increase in retail loans.

Loan Types

The following table presents our loans by type as of the dates indicated. Except where specified otherwise, all loan amounts stated below are before deduction of allowance for credit losses on loans. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,				
	2016	2017	2018 ⁽⁶⁾	2019 ⁽⁶⁾	2020 ⁽⁶⁾
(In billions of Won)					
Corporate					
Corporate loans ⁽¹⁾	₩ 128,672	₩138,277	₩ 151,647	₩161,501	₩179,255
Public and other ⁽²⁾	2,154	2,298	2,831	3,312	3,735
Loans to banks ⁽³⁾	4,730	2,970	3,586	2,634	5,492
Lease financing	1,814	1,713	1,726	1,683	1,773
Total — Corporate	<u>137,370</u>	<u>145,258</u>	<u>159,790</u>	<u>169,130</u>	<u>190,255</u>
Retail					
Mortgages and home equity	56,235	59,078	62,394	68,074	73,188
Other retail ⁽⁴⁾	47,949	52,512	58,438	66,350	73,602
Total — Retail	<u>104,184</u>	<u>111,590</u>	<u>120,832</u>	<u>134,424</u>	<u>146,790</u>
Credit cards	19,450	20,641	22,448	24,024	23,759
Total loans⁽⁵⁾	<u>₩ 261,004</u>	<u>₩277,489</u>	<u>₩ 303,070</u>	<u>₩327,578</u>	<u>₩360,804</u>

Notes:

- (1) Consists primarily of working capital loans, general purpose loans, bills purchased and trade-related notes and excludes loans to public institutions and commercial banks.
- (2) Consists of working capital loans and loan facilities to public institutions and non-profit organizations.
- (3) Consists of interbank loans and call loans.
- (4) Consists of general unsecured loans and loans secured by collateral other than housing to retail customers.
- (5) As of December 31, 2016, 2017, 2018, 2019 and 2020, 88.9%, 88.2%, 88.9%, 87.9% and 87.5% of our total gross loans, respectively, were Won-denominated.
- (6) Loan amounts as of December 31, 2018, 2019 and 2020 include loans at amortized cost and loans at fair value classified in accordance with IFRS 9. Corporate loans include loans at fair value in the amount of ₩1,209 billion, ₩2,155 billion and ₩2,017 billion as of December 31, 2018, 2019 and 2020, respectively.

Loan Portfolio

The total exposure of us or our banking subsidiaries to any single borrower and exposure to any single group of companies belonging to the same conglomerate is limited by law to 20% and 25%, respectively, of the Net Total Equity Capital (as defined in “— Supervision and Regulation”).

Twenty Largest Exposures by Individual Borrower

As of December 31, 2020, our 20 largest exposures, consisting of loans, securities and guarantees and acceptances, totaled ₩85,980.4 billion. The following table sets forth our total exposures to these top 20 borrowers as of December 31, 2020.

	As of December 31, 2020					
	Loans in Won Currency	Loans in Foreign Currency	Securities	Guarantees and Acceptances	Others	Total Exposure
	(In billions of Won)					
Ministry of Economy and Finance . .	₩ —	₩ —	₩ 37,097.8	₩ —	₩ —	₩ 37,097.8
Korea Housing Finance Corporation	—	—	9,277.6	—	—	9,277.6
Bank of Korea.	1,380.0	—	5,340.5	0.1	—	6,720.6
Korea Development Bank	4.4	21.8	6,026.2	—	—	6,052.4
Industrial Bank of Korea.	684.3	189.2	4,772.4	—	—	5,645.9
Export-Import Bank of Korea	—	10.8	2,519.7	26.9	—	2,557.3
NongHyup Bank.	920.5	6.5	1,500.9	48.9	—	2,476.9
Samsung Electronics Co., Ltd.	—	1,940.6	—	—	—	1,940.6
Kookmin Bank	720.1	116.8	760.3	13.4	—	1,610.6
Woori Bank.	390.0	205.4	850.1	—	—	1,445.5
KEB Hana Bank	700.5	143.1	574.5	1.9	—	1,420.1
Korea Land & Housing Corporation.	—	—	1,415.6	—	—	1,415.7
Korea Expressway Corporation.	—	—	1,374.9	—	—	1,374.9
S-Oil Corporation	0.5	424.3	231.4	491.0	—	1,147.3
KB Kookmin Card Co., Ltd	—	—	1,114.8	—	—	1,114.8
Hotel Lotte	—	459.0	350.0	276.5	—	1,085.4
National Agricultural Cooperative Federation.	55.4	—	945.3	—	—	1,000.8
Korea Electric Power Corporation.	0.3	—	798.5	111.5	—	910.2
Korea National Railway	0.2	—	853.3	—	—	853.5
Hyundai Steel.	137.7	279.6	383.1	32.3	—	832.7
Total	<u>₩ 4,994.0</u>	<u>₩ 3,797.1</u>	<u>₩ 76,187.0</u>	<u>₩ 1,002.3</u>	<u>₩ —</u>	<u>₩ 85,980.4</u>

Exposure to Main Debtor Groups

As of December 31, 2020, our total exposure to the main debtor groups as identified by the Governor of the Financial Supervisory Service amounted to ₩31,585 billion. The main debtor groups are largely comprised of *chaebols*. The following table shows, As of December 31, 2020, our total exposures to the 10 main debtor groups to which we have the largest exposure.

Main Debtor Groups	As of December 31, 2020					
	Loans in Won Currency	Loans in Foreign Currency	Securities	Guarantees and Acceptances	Others	Total Exposure
	(In billions of Won)					
Hyundai Motors	₩ 702.5	₩2,347.7	₩1,999.6	₩ 399.0	₩0.0	₩ 5,448.7
Samsung	290.8	2,553.1	1,190.7	857.2	0.0	4,891.9
SK	382.7	395.8	1,495.4	735.4	0.0	3,009.3
Lotte	105.8	926.3	1,558.4	418.5	0.0	3,008.9
LG	250.3	671.0	968.8	586.8	0.0	2,476.9
LS	197.3	514.2	230.5	713.8	0.0	1,655.8
Hanwha	247.9	315.9	750.0	274.3	0.0	1,588.1
Hyundai Heavy Industries	146.8	177.9	344.3	902.6	—	1,571.6
GS	34.6	127.3	445.7	605.3	0.0	1,213.0
S-Oil	0.5	424.3	231.4	491.0	—	1,147.3
Total	₩2,359.3	₩8,453.6	₩9,214.7	₩5,983.9	₩0.1	₩26,011.5

Loan Concentration by Industry

The following table shows the aggregate balance of our corporate loans by industry concentration as of December 31, 2020.

Industry	As of December 31, 2020	
	Aggregate Loan Balance (In billions of Won)	Percentage of Total Corporate Loan Balance (Percentages)
Manufacturing	₩ 51,705	27.2%
Real estate, leasing and service	39,147	20.6
Retail and wholesale	23,379	12.3
Finance and insurance	21,529	11.3
Transportation, storage and communication	5,590	2.9
Hotel and leisure	9,254	4.9
Construction	4,036	2.1
Other service ⁽¹⁾	21,679	11.4
Other ⁽²⁾	13,936	7.3
Total	₩190,255	100.0%

Notes:

- (1) Includes other service industries such as publication, media and education.
- (2) Includes other industries such as agriculture, forestry, mining, electricity and gas.

Maturity Analysis

The following table sets out the scheduled maturities (presented in terms of time remaining until maturity) of our loan portfolio as of December 31, 2020. The amounts below are before allowance for credit losses on loans and deferred loan origination costs and fees. In the case of installment payment loans, maturities have been adjusted to take into account the timing of installment payments.

	As of December 31, 2020			Total
	1 Year or Less	Over 1 Year but Not More Than 5 Years	Over 5 Years ⁽¹⁾	
	(In billions of Won)			
Corporate:				
Corporate loans	₩109,499	₩ 64,774	₩ 4,982	₩179,255
Public and other	1,724	1,584	427	3,735
Loans to banks	4,907	515	70	5,492
Lease financing	578	1,186	9	1,773
Total corporate	₩116,708	₩ 68,059	₩ 5,488	₩190,255
Retail:				
Mortgage and home equity	₩ 13,457	₩ 22,579	₩37,152	₩ 73,188
Other retail	46,240	17,783	9,579	73,602
Total retail	₩ 59,697	₩ 40,362	₩46,731	₩146,790
Credit cards	₩ 20,678	₩ 2,878	₩ 203	₩ 23,759
Total loans	₩197,083	₩111,299	₩52,422	₩360,804

Note:

- (1) Includes overdue loans.

We may roll over our corporate loans (primarily consisting of working capital loans and facility loans) and retail loans (to the extent not payable in installments) after we conduct our standard loan reviews in accordance with our loan review procedures. Working capital loans may generally be extended on an annual basis for an aggregate term of up to five years. Facilities loans, which are generally secured, may generally be extended on an annual basis for a maximum of 15 years from the initial loan date. Retail loans may be extended for additional terms of up to 12 months for an aggregate term of ten years from the initial loan date for both unsecured loans and secured loans.

Interest Rate Sensitivity

The following table presents a breakdown of our loans in terms of interest rate sensitivity as of December 31, 2020.

	As of December 31, 2020		Total
	Due Within 1 Year	Due After 1 Year	
	(In billions of Won)		
Fixed rate loans ⁽¹⁾	₩ 57,600	₩ 39,480	₩ 97,080
Variable rate loans ⁽²⁾	139,483	124,241	263,724
Total loans	₩197,083	₩163,721	₩360,804

Notes:

- (1) Fixed rate loans are loans for which the interest rate is fixed for the entire term of the loan.
(2) Variable or adjustable rate loans are for which the interest rate is not fixed for the entire term of the loan.

For additional information regarding our management of interest rate risk, see “— Risk Management.”

Nonaccrual Loans and Past Due Accruing Loans

Except in the case of repurchased loans, we generally recognize interest income on nonaccrual loans using the rate of interest used to discount the future cash flows of such loans for the purpose of measuring impairment loss. Generally, we discontinue accruing of interest on loans (other than repurchased loans) when payment of interest and/or principal becomes past due by 90 days. Loans (other than repurchased loans) are not reclassified as accruing until interest and principal payments are brought current.

We generally do not request borrowers to make immediate repayment of the whole outstanding principal balances and related accrued interest on loans whose interest payments are past due for one to 14 days in the case of commercial loans and one to 30 days in the case of retail loans.

Interest foregone is interest due on nonaccrual loans that has not been accrued in our books of account. In 2016, 2017, 2018, 2019 and 2020, we would have recorded gross interest income of ₩91 billion, ₩96 billion, ₩66 billion, ₩64 billion and ₩ 59 billion, respectively, on loans accounted for on a nonaccrual basis throughout the respective years, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income in 2016, 2017, 2018, 2019 and 2020 were ₩38 billion, ₩42 billion, ₩36 billion, ₩38 billion and ₩33 billion, respectively.

The following table shows, at the dates indicated, the amount of loans that are placed on a nonaccrual basis and accruing loans which are past due one day or more. The term “accruing but past due one day” includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans where the total amount of loan outstanding, including accrued interest, is fully secured by cash on deposits.

	As of December 31,				
	2016	2017	2018	2019	2020
	(In billions of Won)				
Loans accounted for on a nonaccrual basis ⁽¹⁾					
Corporate	₩1,102	₩1,035	₩ 897	₩ 903	₩1,139
Retail	243	311	358	413	467
Credit cards	86	67	92	101	106
Sub-total	<u>1,431</u>	<u>1,413</u>	<u>1,347</u>	<u>1,417</u>	<u>1,712</u>
Accruing loans which are contractually past due one day or more as to principal or interest					
Corporate	234	199	199	258	329
Retail	313	440	706	874	661
Credit cards	369	509	558	545	431
Sub-total	<u>916</u>	<u>1,148</u>	<u>1,463</u>	<u>1,677</u>	<u>1,421</u>
Total	<u>₩2,347</u>	<u>₩2,561</u>	<u>₩2,810</u>	<u>₩3,094</u>	<u>₩3,133</u>

Note:

- (1) “Troubled debt restructuring” and loans for which payment of interest and/or principal became past due by 90 days or more (adjusting for any overlap due to loans that satisfy both prongs so as to avoid double counting) may be included in loans accounted for on a nonaccrual basis.

Troubled Debt Restructurings

The following table presents, at the dates indicated, our loans which are “troubled debt restructurings.” These loans mainly consist of corporate loans that have been restructured through the process of workout and recovery proceedings. See “— Credit Exposures to Companies in Workout and Recovery Proceedings.” These loans accrue interest at rates lower than the original contractual terms, or involve the extension of the original contractual maturity as a result of a variation of terms upon restructuring.

	<u>As of December 31,</u>				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(In billions of Won)				
Loans classified as “troubled debt restructurings” (excluding nonaccrual and past due loans)	₩133	₩ 10	₩ 12	₩ 89	₩ 96
Loans classified as “troubled debt restructurings” (including nonaccrual and past due loans)	₩526	₩502	₩440	₩425	₩290

The following table presents, for the periods indicated and with respect to the restructured loans, the amounts that would have been recorded as our interest income under the original contract terms of the restructured loans, and the amounts that were actually recorded as our interest income for such loans under the restructured contractual terms of such loans.

	<u>As of December 31,</u>				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(In billions of Won)				
Interest income under the original contractual terms of the restructured loans ⁽¹⁾	₩17	₩15	₩19	₩19	₩13
Interest income under the restructured contractual terms of the restructured loans ⁽¹⁾	₩ 8	₩11	₩ 7	₩ 6	₩ 3

Note:

(1) Includes nonaccrual and past due loans.

The following table presents a breakdown of the outstanding balance and specific allowance for credit losses on loans as of December 31, 2016, 2017, 2018, 2019 and 2020 of corporate loans classified as “troubled debt restructurings” (including nonaccrual and past due loans) by the type of restructuring to which such loans are subject.

	<u>As of December 31,</u>									
	<u>2016</u>		<u>2017</u>		<u>2018</u>		<u>2019</u>		<u>2020</u>	
	<u>Outstanding Balance</u>	<u>Allowance</u>	<u>Outstanding Balance</u>	<u>Allowance</u>	<u>Outstanding Balance</u>	<u>Allowance</u>	<u>Outstanding Balance</u>	<u>Allowance</u>	<u>Outstanding Balance</u>	<u>Allowance</u>
	(In billions of Won)									
Workout	₩410	₩214	₩387	₩275	₩331	₩237	₩292	₩140	₩190	₩ 86
Recovery										
Proceedings	113	32	109	36	98	34	121	32	95	28
Others ⁽¹⁾	3	2	6	5	11	5	12	8	5	5
Total	<u>₩526</u>	<u>₩248</u>	<u>₩502</u>	<u>₩316</u>	<u>₩440</u>	<u>₩276</u>	<u>₩425</u>	<u>₩180</u>	<u>₩290</u>	<u>₩119</u>

Note:

(1) Principally consists of loans subject to corporate turnaround or corporate reorganization pursuant to the Debtor Rehabilitation and Bankruptcy Act (also known as the Consolidated Insolvency Act).

The following table presents the outstanding balance and specific allowance for credit losses on loans as of December 31, 2016, 2017, 2018, 2019 and 2020 of retail loans (including nonaccrual and past due loans) subject

to credit rehabilitation programs for retail borrowers. All such loans became modified under credit rehabilitation programs and became beneficiaries of maturity extension and interest rate reductions, while a substantially limited portion of such loans also became beneficiaries of debt forgiveness and deferral. For more information on the credit rehabilitation program, see “— Credit Exposures to Companies in Workout and Recovery Proceedings — Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers.”

	As of December 31,									
	2016		2017		2018		2019		2020	
	Outstanding Balance	Allowance	Outstanding Balance	Allowance	Outstanding Balance	Allowance	Outstanding Balance	Allowance	Outstanding Balance	Allowance
	(In billions of Won)									
Retail loans subject to credit rehabilitation programs ⁽¹⁾ : . . .	₩84	₩49	₩118	₩70	₩84	₩46	₩126	₩73	₩148	₩81

Note:

(1) Includes nonaccrual and past due loans.

The following table presents, as of the dates indicated and with respect to corporate loans, the amounts of restructured loans that were considered impaired and classified as nonaccrual pursuant to our general interest accrual policy as described in “— Accrual Policy for Restructured Loans.” The table also presents, for the periods indicated and with respect to corporate loans, the amounts of total charge-off on restructured loans and the amounts of charge-off as part of debt-to-equity conversions.

	As of and for the year ended December 31,				
	2016	2017	2018	2019	2020
	(In billions of Won)				
Impaired and nonaccrual restructured loans	₩393	₩492	₩428	₩336	₩194
Total charge-off of restructured loans	₩118	₩ 89	₩ 59	₩138	₩ 80
Charge-off as part of debt-to-equity conversion	₩ 22	₩ 68	₩ 67	₩230	₩ 59

Credit Exposures to Companies in Workout and Recovery Proceedings

Our credit exposures to restructuring are monitored and managed by our Corporate Credit Support Department. As of December 31, 2020, 0.08% of our total loans, or ₩290 billion (of which ₩194 billion was classified as nonaccrual and ₩96 billion was classified as accruing), was under restructuring. Restructuring of our credit exposures generally takes the form of workout and recovery proceedings.

Workout

The original Corporate Restructuring Promotion Act (Act No. 6504) was enacted on August 14, 2001 in order to facilitate the out-of-court restructuring of insolvent companies. This law expired on December 31, 2005, and new Corporate Restructuring Promotion Acts were enacted on August 3, 2007 (expired on December 31, 2010), May 19, 2011 (expired on December 31, 2013), January 1, 2014 (expired on December 31, 2015), March 18, 2016 (expired on June 30, 2018) and October 16, 2018 (to be expired on October 15, 2023, the new CRPA enacted and implemented on October 16, 2018 is hereinafter referred to as the “CRPA”).

If the ‘main Creditor Financial Institution’ of a Failing Company provided notice of convening a Creditor Committee (defined below) on or before October 15, 2023, any proceedings commenced by such Creditor Committee will remain subject to the CRPA even after October 15, 2023 unless and until such proceedings are completed or discontinued.

The following is a summary of the key provisions of the CRPA. The CRPA applies to a financial creditor (the “Financial Creditor”) who has financial claims against a debtor company by ‘providing credit’ to such debtor company or other third parties. “Provision of Credit” is defined in the CRPA as any transaction determined by the Financial Supervisory Commission to fall under any of the following:

- loans;
- purchase of promissory notes and debentures or bonds;
- equipment leasing;
- payment guarantees;
- providing advance payments on acceptances and guarantees under a payment guarantee;
- any direct or indirect financial transaction which may cause a loss to a counterparty as a consequence of a payment failure by a debtor company; or
- any transaction other than the transactions set out above which may have in substance the same effect as the transactions set out above.

The “debtor company” is defined under the CRPA as a company established under the Korean Commercial Code or other person performing profit-making activities. The Failing Company means a debtor company deemed, through a credit evaluation carried out in the manner set out in the CRPA, by its ‘main Creditor Financial Institution’ as having difficulty to repay debts to its financial creditor without external financial support or an additional loan (excluding loans obtained in the course of conducting normal financial transactions).

Once the debtor company is notified by the main Creditor Financial Institution to fall under the definition of Failing Company, such company may submit its business restructuring plan and the list of its Financial Creditors, and apply to such main Creditor Financial Institution for commencement of the management procedure to be assumed by a committee of Financial Creditors (the “Creditor Committee”) or such main Creditor Financial Institution.

Under the CRPA, the main Creditor Financial Institution of a Failing Company is required to take or arrange one of the following actions if it determines that there is a possibility that the financial condition of the Failing Company may be rehabilitated or brought back to normal in accordance with its business restructuring plan:

- convocation of the first meeting of the Creditor Committee to decide whether to commence the management of the Failing Company by the Creditor Committee; or
- assumption of management of the Failing Company by the main Creditor Financial Institution.

Under the CRPA, in order to call for the first meeting of the Creditor Committee, the main Creditor Financial Institution is required to notify the Financial Creditors, the Failing Company and the Financial Supervisory Service. However, the main Creditor Financial Institution may omit the notification to some extent of the Financial Creditors who are set out in the CRPA such as a Financial Creditor who does not perform the financial business or a Financial Creditor who has only small claims against the Failing Company. The Financial Creditors who do not receive the notification from the main Creditor Financial Institution will be excluded from the Creditor Committee; provided that if they nevertheless want to attend the meeting, the main Creditor Financial Institution may not exclude such Financial Creditors. When the main Creditor Financial Institution calls for the first meeting of the Creditor Committee, it may require the Financial Creditors to grant a moratorium on the enforcement of claims (including the enforcement of security interests) until the end of the first meeting of the Creditor Committee. In addition, at the first meeting of the Creditor Committee, the Financial Creditors may resolve to declare a moratorium for up to one month (or three months if an investigation of the Failing Company’s financial status is necessary) from the commencement date of the management procedure (which may be extended by one additional month by resolutions of the Creditor Committee).

The Financial Creditors who attend the first meeting of the Creditor Committee may resolve, among other things: (i) commencement of the management procedure, (ii) composition of the Financial Creditors who will participate in such management procedure and (iii) declaration of moratorium mentioned above.

Once the management procedure commences, the main Creditor Financial Institution is required to prepare the corporate restructuring plan of the Failing Company considering the investigation results of the Failing Company's financial status and submit such plan to the Creditor Committee for approval thereof. The corporate restructuring plan may include, among other things, the matters regarding rescheduling of debt owed by the Failing Company, provision of new credit and the business restructuring plan of the Failing Company. If the corporate restructuring plan is not approved by the date the moratorium period ends, the Creditor Committee's management of the Failing Company shall be deemed to have terminated.

The resolution at the Creditor Committee is generally passed by an approval of the Financial Creditors representing at least 75% of the outstanding credit to the Failing Company of the Financial Creditors who constitute the Creditor Committee; provided that if a single Financial Creditor holds at least 75% of the outstanding credit, the resolution shall be passed by an approval of not less than 40% of the total number of the Financial Creditors who constitute the Creditor Committee, including such single Financial Creditor. An additional approval of the Financial Creditors holding interests in 75% or more of the total amount of the secured claims owned by the Financial Creditors constituting the Creditor Committee against the Failing Company is required with respect to the debt rescheduling of the Failing Company.

A Financial Creditor which has opposed the resolutions of the Creditor Committee in respect of the commencement of management of the Failing Company by the Creditor Committee, establishment of or amendment to the corporate restructuring plan, extension of management procedure, the rescheduling of claims or provision of new credit (the "Opposing Financial Creditor") may, within seven days of such resolutions, request the main Creditor Financial Institutions to purchase its outstanding claims against the Failing Company, stating the type and number of claims. The Financial Creditors that have approved such resolutions (the "Approving Financial Creditors") shall jointly purchase such claims within six months of such request.

The purchase price and terms of such purchase shall be determined by mutual agreement of the Approving Financial Creditors and the Opposing Financial Creditor. Pending the agreement of such matters, the payments shall be made at a provisional price, and adjusting payments made once an agreement has been reached. If no such agreement is reached, then such matters shall be determined by the coordination committee established under the CRPA.

Recovery Proceedings

Under the Debtor Rehabilitation and Bankruptcy Act, which took effect on April 1, 2006, court receiverships have been replaced with recovery proceedings. In a recovery proceeding, unlike court receivership proceedings where the management of the debtor company was vested in a court appointed receiver, the existing chief executive officer of the debtor company may continue to manage the debtor company, provided, that (i) neither fraudulent conveyance nor concealment of assets existed, (ii) the financial failure of the debtor company was not due to gross negligence of such chief executive officer, and (iii) no creditors' meeting was convened to request, based on reasonable cause, a court-appointed receiver to replace such chief executive officer. Recovery proceeding may be commenced by any insolvent debtor. Furthermore, in an effort to meet global standards, international bankruptcy procedures have been introduced in Korea under which a receiver of a foreign bankruptcy proceeding may, upon receiving Korean court approval of the ongoing foreign bankruptcy proceeding, apply for or participate in a Korean bankruptcy proceeding. Similarly, a receiver in a domestic recovery proceeding or a bankruptcy trustee is allowed to perform its duties in a foreign country where an asset of the debtor is located to the extent the applicable foreign law permits.

As of December 31, 2020, the total loan amount subject to recovery proceedings was ₩95 billion. No loan amount was subject to court receivership or composition proceedings.

Loans in the process of workout and recovery proceedings are reported as nonaccrual loans on our statements of financial position as described in “— Nonaccrual Loans and Past Due Accruing Loans” above since generally, they are past due by more than 90 days and interest does not accrue on such loans. Restructured loans that meet the definition of a troubled debt restructuring are reported as troubled debt restructurings as described above in “— Troubled Debt Restructurings.” Such restructured loans are reported as either loans or securities on our statements of financial position depending on the type of instrument we receive as a result of the restructuring.

Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers

In light of the gradual increase in delinquencies in credit card and other consumer credit, the Government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of our collections and recoveries on our delinquent consumer credits.

The Credit Counseling and Recovery Service offers two programs for individual debtors, the pre-workout program and the individual workout program, both of which are available to individuals with total debt amounts of ₩1.5 billion or less (secured debt amount of ₩1 billion or less and unsecured debt amount of ₩500 million or less). The pre-workout program is offered to individuals whose delinquency period is between 31 days and 89 days (including those whose delinquency period is between one day and 30 days but with annual income of ₩40 million or less and cumulative delinquency period of 30 days or more within the year immediately preceding the application date), and the individual workout program is offered to individuals whose delinquency period is three months or more. When an individual debtor applies for the pre-workout or individual workout program, the Credit Counseling and Recovery Service will deliberate and resolve on a debt restructuring plan, and once the creditor financial institution that is in a credit recovery support agreement with the Credit Counseling and Recovery Service and holding the majority of each of the unsecured claims and secured claims to the relevant individual debtor agrees to such debt restructuring plan, the plan will be finalized and debt restructuring measures, such as extension of maturity, adjustment of interest rates or reduction of debt, will be taken according to the pre-workout program or individual workout program applied for.

Under the Debtor Rehabilitation and Bankruptcy Act, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of ₩500 million of unsecured debt and/or ₩1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

Once a borrower is deemed to be eligible to participate in the pre-workout program, we promptly sell the collateral underlying such borrower’s secured loans to mitigate our losses, and we may restructure such borrower’s unsecured loans (regardless of their type) as follows:

- *Extension of maturity:* Based on considerations of the type of loan, the total loan amount, the repayment amount and the probability of repayment, the maturity of unsecured loans may be extended by up to 10 years and maturity of secured loans may be extended by up to 20 years with a grace period not exceeding three years.
- *Interest rate adjustment:* The interest rate of unsecured loans may be adjusted to 50% of the original interest rate within the range of the highest interest rate of 10% per annum and the lowest interest rate of 5% per annum; provided that if the original interest rate is less than 5% per annum, no adjustment applies. The adjusted interest rate applies to the principal amount following any adjustment thereto as part of the pre-workout program, and no interest accrues on the interest already accrued or fees payable.
- *Debt forgiveness:* Debt forgiveness under the pre-workout program is limited to the default interest.

- *Deferral*: If the foregoing three measures are deemed to be insufficient in terms of providing meaningful assistance to a qualifying borrower due to layoff, unemployment, business closure, disaster or earnings loss, loan repayment may be deferred for a maximum of three year, provided that the pre-workout committee may extend such deferral period every six months, for a period not to exceed six months, upon the borrower's application. The deferral period is not counted toward the repayment period, and interest accrues at 2% per annum during the deferral period.

In 2020, the aggregate amount of our retail credit (including credit card receivables) which became subject to the pre-workout program was ₩148 billion. We believe that our participation in such pre-workout program has not had a material impact on the overall asset quality of our retail loans and credit card portfolio or on our results of operations and financial condition to date.

Under the guidelines of the Financial Supervisory Commission, Korean banks, including Shinhan Bank, operated since 2008 a fast track program which was a liquidity support program for small- and medium-sized companies. As the fast track program ended as of December 31, 2016, the Financial Supervisory Service implemented a swift financial assistance program for small- and medium-sized companies for a period of five years beginning on January 1, 2017. Banks and other financial institutions participating in the program will, based on an evaluation of credit risks, provide financial assistance (including extension of maturity on existing obligations and lower interest rates) to small- and medium-sized companies that are experiencing temporary liquidity crises but have a credit rating exceeding a certain threshold. In principle, the application of the swift financial assistance program to companies will be limited to three years, but such application may be extended, in consultation with the creditor financial institutions concerned, one time for an additional period of up to one year.

Loan Modification Programs for Loans under Troubled Debt Restructuring

We generally offer the following types of concessions in relation to restructured loans: reduction of interest rate, forgiveness of overdue interest, extension of the term for repayment of principal, conversion of debt into equity or a combination of the foregoing. The nature and degree of such concessions vary depending on, among other things, the creditworthiness of the borrower, the size of loans being restructured, the existing terms of the loans and other factors deemed relevant by the relevant creditors' committee. We generally do not restructure an existing loan into multiple new loans. More recently, various Government-led financial support programs introduced in response to the COVID-19 pandemic, 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 SOHOs 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 are expected to continue through September 30, 2021. Our participation in such Government initiatives may lead us to extend credit to small- and medium-sized enterprises and SOHOs 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. We have classified the loans subject to loan rescheduling and principal and interest payment deferral under such financial support programs into stage 2 loans. For further details of our exposures due to such financial support programs, see Note 48 of the notes to our consolidated financial statements included in this annual report. For a discussion of expected credit losses related to the COVID-19 pandemic, see Note 4 of the notes to our consolidated financial statements included in this annual report.

The following table presents a breakdown of the gross amount of loans under restructuring as of December 31, 2016, 2017, 2018, 2019 and 2020 by our loan modification programs, as further categorized according to the loan category and performing versus non-performing status at each fiscal year end.

As of December 31, 2016			
<u>Modification Programs</u>	<u>Non-Performing</u>	<u>Performing</u>	<u>Total</u>
	(In billions of Won)		
Extension of due date for principal and interest	₩ —	₩ 92	₩ 92
Reduction of interest rate	3	234	237
Forgiveness of principal	—	—	—
Equity conversion	—	—	—
Additional lending ⁽¹⁾	—	37	37
Others ⁽²⁾	116	44	160
Total	<u>₩119</u>	<u>₩407</u>	<u>₩526</u>

As of December 31, 2017			
<u>Modification Programs</u>	<u>Non-Performing</u>	<u>Performing</u>	<u>Total</u>
	(In billions of Won)		
Extension of due date for principal and interest	₩ 3	₩ 82	₩ 85
Reduction of interest rate	9	299	308
Forgiveness of principal	—	—	—
Equity conversion	—	—	—
Additional lending ⁽¹⁾	—	—	—
Others ⁽²⁾	70	39	109
Total	<u>₩82</u>	<u>₩420</u>	<u>₩502</u>

As of December 31, 2018			
<u>Modification Programs</u>	<u>Non-Performing</u>	<u>Performing</u>	<u>Total</u>
	(In billions of Won)		
Extension of due date for principal and interest	₩ 3	₩ 79	₩ 82
Reduction of interest rate	8	250	258
Forgiveness of principal	—	—	—
Equity conversion	—	—	—
Additional lending ⁽¹⁾	—	—	—
Others ⁽²⁾	43	57	100
Total	<u>₩54</u>	<u>₩386</u>	<u>₩440</u>

As of December 31, 2019			
<u>Modification Programs</u>	<u>Non-Performing</u>	<u>Performing</u>	<u>Total</u>
	(In billions of Won)		
Extension of due date for principal and interest	₩ —	₩ 76	₩ 76
Reduction of interest rate	45	211	256
Forgiveness of principal	—	—	—
Equity conversion	—	—	—
Additional lending ⁽¹⁾	—	2	2
Others ⁽²⁾	56	35	91
Total	<u>₩101</u>	<u>₩324</u>	<u>₩425</u>

As of December 31, 2020

<u>Modification Programs</u>	<u>Non-Performing</u>	<u>Performing</u>	<u>Total</u>
	(In billions of Won)		
Extension of due date for principal and interest	₩ 3	₩ —	₩ 3
Reduction of interest rate	29	186	215
Forgiveness of principal	—	—	—
Equity conversion	—	—	—
Additional lending ⁽¹⁾	—	1	1
Others ⁽²⁾	35	36	71
Total	<u>₩67</u>	<u>₩223</u>	<u>₩290</u>

Notes:

- (1) Represents additional loans provided to the borrower at favorable terms as part of the restructuring package, which may include extension of the due date or reduction of interest rate, among others.
- (2) Principally consists of restructured loans whose restructuring terms were not determined as of the date indicated. A loan is deemed to be subject to restructuring upon the commencement of the recovery proceedings or when the relevant creditors' committee or our credit officer determines that the borrower will be subject to workout, and in many cases the restructuring terms for such loans are not determined at the time such loans are deemed to be subject to restructuring.

Debt-to-equity Conversion

We distinguish between loans that we consider to be collectible under modified terms and loans that we consider to be uncollectible regardless of any modification of terms. With respect to loans that are in the latter category, we convert a portion of such loans into equity securities following negotiation with the borrowers and charge off the remainder of such loans as further described below. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable. In 2020, our loans restructured into equity securities amounted to ₩33 billion, which was subsequently charged off.

Debt-to-equity conversion generally has two primary benefits. One, the debt-to-equity conversion reduces the amount of loans and related interest expenses of the borrower, resulting in lesser debt burden and greater liquidity for the borrower, a greater likelihood of its exit from restructuring and the repayment of its obligations to us. Two, in the case of a successful turnaround of the borrower, we are entitled to the upside gains from the increase in the value of the equity securities so converted. Notwithstanding these benefits, however, the resulting impact from the debt-to-equity conversion on our interest income is generally not material as the loans being converted as part of restructuring are generally deemed to be uncollectible regardless any modification of terms. As for the impact on our asset classification, we generally apply the same asset classification standards to both non-restructured and restructured loans. As for restructured loans, we also consider additional factors such as the borrower's adherence to its business plans and execution of the self-help measures, among others, to the extent applicable. In consideration of such criteria, we generally classify loans subject to workout as "precautionary." For a general discussion of our loan classifications, see "— Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Capital Adequacy."

Evaluation of Loan Modification Programs

We currently do not conduct a systematic or quantitative evaluation of the success of any particular concession by type, whether historically, relative to each other or relative to other financial institutions in Korea, although we do monitor on an individual basis the compliance by the borrower with the modified terms of the restructured loans. This is principally due to the following reasons.

One, in the case of large corporations subject to or about to be subject to restructuring, which represents the most significant restructuring cases in Korea, the restructuring process is generally not driven by us, but by a creditors' committee involving several large creditor financial institutions, and in the case of very large corporations or corporations that are members of large business conglomerates, the process frequently involves the guidance of the Government in light of the potential ripple effects of the restructuring on the general economy. Hence, it is difficult for us to collect data that would help us to evaluate the success of a particular concession based on the credit profile of the borrower and the type of concessions offered.

Two, the unavailability of systematic analysis notwithstanding, our general sense is that the restructuring cases in Korea have, to a large part, been successful as measured in terms of the ability of the borrowers to exit restructuring programs relatively quickly and further that the failed cases have not been particularly material. As a result, to date, we have not found it particularly necessary or helpful to expend the time and resources required to conduct a systematic analysis for purposes of evaluating the success of concessions by the type of a particular concession offered.

We do, however, measure the success of concessions in limited ways, that is, principally in terms of how well the borrower complies with the terms and conditions of the restructuring plan as agreed between the borrower and its creditor institutions. A restructuring plan typically includes a business plan and self-help measures to be undertaken by the borrower. We monitor the borrower's compliance with the restructuring plan on a periodic basis (namely, annual, semiannual or quarterly in accordance with the terms of the restructuring plan) and evaluate the success thereof principally in terms of three attributes: (i) the progress in the execution of the business plan, (ii) the progress in the execution of the self-help measures and (iii) other qualitative factors such as major developments in the general economy, the regulatory environment, the competitive landscape, the quality of senior management and personnel, and transparency in management. We also closely monitor the cash inflows and outflows of the borrower, and the creditors' committee typically has the right to participate in decision-making related to major spending and borrowings by the borrower.

Accrual Policy for Restructured Loans

For purposes of our accrual policy, we classify restructured loans principally into (i) loans subject to workout pursuant to the Corporate Restructuring Promotion Act and (ii) loans subject to recovery proceedings pursuant to the Debtor Rehabilitation and Bankruptcy Act, which is the comprehensive bankruptcy-related law in Korea. See “— Credit Exposures to Companies in Workout and Recovery Proceedings.” As for loans subject to workout, our general policy is to discontinue accruing interest on a loan when payment of principal and/or interest thereon becomes past due by 90 days or more, as described above in “— Nonaccrual Loans and Past Due Accruing Loans.” Interest is recognized on these loans on a cash basis (i.e., when collected) from the date such loan is reclassified as non-accruing, and such loans are not reclassified as accruing until the overdue principal and/or interest amounts are paid in full. This general policy also applies to loans subject to workout even if such loans are restructured loans. In the case of loans subject to recovery proceedings, we discontinue accruing interest immediately upon the borrowers becoming subject to recovery proceedings (even if such loans are not yet delinquent) in light of the heightened uncertainty regarding the borrower's ability to repay. Interest on such loans is recognized on a cash basis and such loans are not reclassified as accruing until the borrower exits recovery proceedings. Accordingly, under our accrual policy, the number of payments made on a nonaccrual restructured loan is not a relevant factor in determining whether to reinstate such loan to the accrual status.

Determination of Performance of Restructured Loans

In determining whether a borrower has satisfactorily performed its obligations under the existing loan terms, we principally review the payment history of the borrower, namely whether the borrower has been delinquent by one day or more pursuant to our general interest accrual policy. In determining whether a borrower has shown the capacity to continue to perform under the restructured terms, we primarily rely upon the assessment of our credit officers (or the creditors' committee in the case of large corporate borrowers with significant outstanding loans)

of the likelihood of the borrower's ability to repay under the restructured terms, which assessment takes into account the size of the loans in question, the credit profile of the borrower, the original terms of the loans and other factors deemed relevant by the relevant credit officers. Depending on various factors such as the size of the loans in question and the credit profile of the borrower, we or the relevant creditors' committee, as the case may be, sometimes engage an outside advisory firm to perform further due diligence in order to supplement the aforementioned assessment. In certain cases, the borrowers also submit self-help proposals to facilitate obtaining the approval for restructuring, which measures are then also taken into consideration by our credit officers or the relevant creditors' committees, as the case may be, in determining their future capacity to continue to perform under the restructured terms.

Charge-off of Restructured Loans

As for loans that we consider to be collectible under modified terms (for example, by extending the due date for the payment of principal and/or interest or reducing the interest rate below the applicable interest rate to a rate below the prevailing market rate, or a combination of the foregoing), we generally restructure such loans under the modified terms and do not charge off any portion of such loans.

As for loans that we consider to be uncollectible regardless of any modification of terms, we negotiate with the borrower to have a portion of such loans converted into equity securities (usually common stock) of the borrower in consideration, among others, of (i) the degree to which such conversion will alleviate the debt burdens and liquidity concerns of the borrower, (ii) our potential upside from the gain in the value of the equity securities compared to the likelihood of collection if the loans were not converted into equity securities, and (iii) the borrower's concerns regarding its shareholding structure subsequent to such conversion. We then charge off the remainder of the loans not converted into equity securities. The value of the equity securities so converted is recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

Since we generally do not accrue interest on loans subject to recovery proceedings while we generally accrue interest on loans subject to workout unless past due by 90 days or more, charge-off is not a relevant factor we consider when determining the accrual status of a particular restructured loan.

We continue to accrue interest on restructured loans if we conclude that repayment of interest and principal contractually due on the entire debt is reasonably assured. Such conclusion is reached only after we have carefully reviewed the borrower's ability to repay based on an assessment, among others, of various factors such as the size of the loans in question and the credit quality of the borrower by our credit officer or the relevant creditors' committee as supplemented by the due diligence by outside advisory firms, as the case may be.

Potential Problem Loans

We operate an "early warning system" in order to enable a more systematic and real-time monitoring of loans with significant potential of default. This system assists our management in making decisions by identifying loans which have serious doubt as to the ability of the borrowers to comply with their respective loan repayment terms as well as loans with significant potential of non-repayment.

We classify potential problem loans as loans that are designated as "early warning loans" and reported to the Financial Supervisory Service. The "early warning loans" designation applies to borrowers that have been (i) identified by our early warning system as exhibiting signs of credit risk based on the relevant borrower's financial data, credit information and/or transactions with banks and, following such identification and (ii) designated by our loan officers as potential problem loans on their evaluation of known information about such borrowers' possible credit problems. Such loans are required to be reported on a quarterly basis to the Financial Supervisory Service. If a borrower's loans are designated as "early warning loans" pursuant to the process described above and included in our quarterly report to the Financial Supervisory Service, we consider

this to be an indication of serious doubt as to such borrower’s ability to comply with repayment terms in the near future. As of December 31, 2020, we had ₩673 billion of potential problem loans.

Provisioning Policy

Loans

We conduct periodic and systematic detailed reviews of our loan portfolios to identify credit risks and to establish the overall allowance for credit losses on loans. Our management believes the allowance for credit losses on loans reflects the best estimate of the expected credit losses as of the date of each statement of financial position.

At each reporting date, we assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, we use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. Upon assessment, each asset is classified as in one of the following three stages, which is used as the basis of calculating the loss allowances at the 12-month expected credit losses (“ECL”) or the lifetime ECL, depending on the stage.

Category	Provision for credit loss allowance
Stage 1 When credit risk has not increased significantly since the initial recognition	12-months ECL: The ECL associated with the probability of default events occurring within the next 12 months
Stage 2 When credit risk has increased significantly since the initial recognition	Lifetime ECL: A lifetime ECL associated with the probability of default events occurring over the remaining lifetime
Stage 3 When assets are impaired	

To make that assessment, we compare the risk of default of the financial instrument as at the reporting date with such risk of default as at the date of initial recognition, taking into account reasonable supporting information that is available without undue cost or effort and is indicative of significant increases in credit risk since initial recognition. Supporting information also includes historical default data held by us and analysis conducted by internal credit risk rating specialists.

We assign an internal credit risk rating to each individual exposure based on observable data and historical experiences that have been found to have a reasonable correlation with the risk of default. The internal credit risk rating is determined by considering both qualitative and quantitative factors that indicate the risk of default, which may vary depending on the nature of the exposure and the type of borrower.

We accumulate information after analyzing the information regarding exposure to credit risk and default information by the type of product and borrower as well as results of internal credit risk assessment. For some portfolios, we use information obtained from external credit rating agencies when performing these analyses.

We apply statistical techniques to estimate (i) the probability of default for the remaining life of the exposure from the accumulated data and (ii) the changes in the estimated probability of default over time.

We use the indicators defined as per portfolio to determine the significant increase in credit risk. Such indicators generally consist of changes in the risk of default estimated from changes in the internal credit risk rating, qualitative factors, days of delinquency and others.

We consider a financial asset to be in default if it meets one or more of the following conditions:

- if a borrower is overdue 90 days or more from the contractual payment date, or

- if we determine that it is not possible to recover principal and interest without enforcing the collateral on a financial asset.

We use the following indicators when determining whether a borrower is in default:

- qualitative factors (e.g., breach of contract terms),
- quantitative factors (e.g., if the same borrower does not perform more than one payment obligations to us, the number of days past due per payment obligation. However, in the case of a specific portfolio, we use the number of days past due for each financial instrument), and
- internal and external data.

The definition of default applied by us generally conforms to the definition of default defined for regulatory capital management purposes. However, depending on the situation, the information used to determine whether default has incurred and the extent thereof may vary.

We measure expected credit losses on a forward-looking basis, and expected credit losses reflects information presented by internal experts based on a variety of sources. For purposes of estimating such forward-looking information, we utilize economic outlook and projections published by domestic and overseas research institutes or government and public agencies.

We reflect future macroeconomic conditions anticipated from a bias-free, neutral standpoint in measuring expected credit losses. Expected credit losses in this respect reflect conditions that are most likely to occur and are based on the same assumptions that we use in our business plan and management strategy.

Key variables used in measuring expected credit losses are as follows:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

These variables have been estimated from historical experience data by using statistical techniques developed internally by Shinhan Bank and have been adjusted to reflect forward-looking information. When measuring expected credit losses on financial assets, Shinhan Bank reflects a period of expected credit loss measurement based on a contractual maturity. The Bank takes into consideration the extension rights held by a borrower when deciding the contractual maturity.

Risk factors such as PD, LGD and EAD are collectively estimated according to the following criteria:

- Type of products,
- Internal credit risk rating,
- Type of collateral,
- Loan-to-value ratio,
- Industry that the borrower belongs to,
- Location of the borrower or collateral, and
- Days of delinquency.

The criteria for classification of groups are periodically reviewed to maintain homogeneity of the group and are adjusted if necessary. We use external benchmark information to supplement internal information for a

particular portfolio that does not have sufficient internal data accumulated from the past experience. See “Item 5.A. Operating Results — Critical Accounting Policies — Impairment of Financial Assets — Allowance for Credit Losses on Loans.”

Credit Cards

Prior to 2017, we established an allowance for the credit card portfolio using a roll-rate model. A roll-rate model is a statistical tool used to monitor the progression of loans based on aging of the balance and established loss rates. The actual loss rates derived from this model are used to project the percentage of losses within each aging category based on performance over a five-year look-back period. Basel II requires a minimum of nine years of data collection (consisting of a minimum five-year observation period for defaults and a minimum four-year observation period for post-default recoveries) as a necessary condition to using the internal model approach. After its merger with LG Card in 2007, Shinhan Card has worked to establish a risk management system and met the Basel II nine-year data collection requirement in October 2016. Through the operation of a credit review system and risk management system based on Basel II requirements, we have gained the necessary data to create internal models that can calculate PD/LGD and credit conversion factors for different groups of borrowers of financial assets.

At the end of December 2016, the Financial Supervisory Service granted Shinhan Card final approval to use the internal model approach. During the first quarter of 2017, Shinhan Card completed the establishment of the IFRS loan loss calculation system, for example, by replacing Basel II risk components with risk components for financial reporting in accordance with IAS 39, and Shinhan Card revised the calculation methodology of loan losses from a roll-rate model to an internal model approach.

The internal model approach calculates separate default rates and loss given default for different groups of customers, differentiated based on the characteristics of both the customers and the products that they use. The internal model approach disaggregates customers into more than twice the number of groups than does the roll-rate model. Whereas the roll-rate model does not distinguish between customers with high and low risks of default when calculating roll rates, the internal model approach allows for a more sophisticated calculation of loan loss that reflects the customers’ credit ratings.

Our general policy is to be proactive in our collection procedures, and we therefore emphasize collections at an early stage of delinquency, although we increase the level of collection efforts as the delinquency period increases with respect to the relevant account. Efforts to collect from cardholders whose account balances are up to 30 days past due are generally made by our credit support centers at Shinhan Card.

For credit card accounts with balances that are more than 30 days past due, we generally assign collection to collection companies such as Shinhan Credit Information, a subsidiary of ours, and Mirae Credit Information. For credit card accounts that are charged off, we outsource collection to collection companies such as Shinhan Credit Information, Mirae Credit Information Services Corp. and Koryo Credit Information.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) for all loans as of the dates indicated.

<u>As of December 31,</u>	<u>Current</u>		<u>Past Due Up to 3 Months</u>		<u>Past Due 3-6 Months</u>		<u>Past Due More Than 6 Months</u>		<u>Total</u>
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>
	(In billions of Won, except percentages)								
2016	258,650	99.10	1,180	0.45	643	0.25	531	0.20	261,004
2017	274,935	99.08	1,479	0.53	616	0.22	459	0.17	277,489
2018	300,324	99.09	1,656	0.55	684	0.23	406	0.13	303,070
2019	324,458	99.05	1,795	0.55	772	0.24	553	0.16	327,578
2020	357,729	99.15	1,386	0.38	769	0.21	920	0.26	360,804

Non-Performing Loans

Non-performing loans are defined as loans past due by more than 90 days. The following table shows, as of the dates indicated, the amount of the total non-performing loan portfolio and as a percentage of our total loans.

	<u>As of December 31,</u>				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(In billions of Won, except percentages)				
Total non-performing loans	₩1,174	₩1,075	₩1,090	₩1,325	₩1,689
As a percentage of total loans	0.45%	0.39%	0.36%	0.40%	0.47%

Analysis of Non-Performing Loans

The following table sets forth, for the periods indicated, the total non-performing loans by the borrower type.

	As of December 31,														
	2016			2017			2018			2019			2020		
	Total Loans	Non-Performing Loans ⁽¹⁾	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans ⁽¹⁾	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans ⁽¹⁾	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans ⁽¹⁾	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans ⁽¹⁾	Ratio of Non-Performing Loans
	(In billions of Won, except percentages)														
Corporate loans	₩128,672	₩ 480	0.37%	₩138,277	₩ 325	0.24%	₩151,647	₩ 278	0.18%	₩161,501	₩ 388	0.24%	₩179,255	₩ 716	0.40%
Public and other (2)	2,154	—	—	2,298	1	0.04	2,831	—	—	3,312	12	0.36	3,735	14	0.37
Loans to banks	4,730	—	—	2,970	—	—	3,586	—	—	2,634	—	—	5,492	—	—
Lease financing	1,814	20	1.10	1,713	15	0.88	1,726	16	0.93	1,683	17	1.01	1,773	13	0.73
Total corporate	137,370	500	0.36	145,258	341	0.23	159,790	294	0.18	169,130	417	0.25	190,255	743	0.39
Retail															
Mortgage and home equity	56,235	33	0.06	59,078	45	0.08	62,394	45	0.07	68,074	70	0.10	73,188	63	0.09
Other retail	47,949	222	0.46	52,512	296	0.56	58,438	332	0.57	66,350	385	0.58	73,602	421	0.57
Total retail	104,184	255	0.24	111,590	341	0.31	120,832	377	0.31	134,424	455	0.34	146,790	484	0.33
Credit cards	19,450	419	2.15	20,641	393	1.90	22,448	419	1.87	24,024	453	1.89	23,759	462	1.94
Total	₩ 261,004	₩1,174	0.45%	₩ 277,489	₩1,075	0.39%	₩ 303,070	₩1,090	0.36%	₩ 327,578	₩1,325	0.40%	₩ 360,804	₩1,689	0.47%

Notes:

- (1) The number of days past due of restructured credit card loans is calculated from the first date of non-payment regardless of subsequent modification of terms.
- (2) Includes debtors such as local and regional authorities, state-owned enterprises and non-profit organizations.

Non-Performing Loans by Industry

The following table sets forth a breakdown of our non-performing corporate loans by industry as of December 31, 2020.

<u>Industry</u>	<u>Aggregate Non-Performing Corporate Loan Balance</u>	<u>Percentage of Total Non-Performing Corporate Loan Balance</u>
	(In billions of Won)	(Percentages)
Construction	32	4.3%
Manufacturing	190	25.6
Real estate, leasing and service	29	3.9
Retail and wholesale	45	6.1
Finance and insurance	15	2.0
Hotel and leisure	14	1.9
Transportation, storage and communication	17	2.3
Other service ⁽¹⁾	66	8.9
Other ⁽²⁾	335	45.0
Total	<u>743</u>	<u>100.0%</u>

Notes:

- (1) Includes other service industries such as publication, media and education.
(2) Includes other industries such as agriculture, forestry, mining, electricity and gas.

Top 20 Non-Performing Loans

As of December 31, 2020, our 20 largest non-performing loans accounted 28.9% of our total non-performing loan portfolio. The following table shows, at the date indicated, certain information regarding our 20 largest non-performing loans.

			As of December 31, 2020	
<u>Industry</u>			<u>Gross Principal Outstanding</u>	<u>Allowance for credit losses on loans</u>
			(In billions of Won)	
1	Borrower A	Other service	148	—
2	Borrower B	Other service	109	21
3	Borrower C	Other service	58	58
4	Borrower D	Other service	57	—
5	Borrower E	Construction	16	8
6	Borrower F	Finance and insurance	15	13
7	Borrower G	Manufacturing	15	6
8	Borrower H	Manufacturing	14	7
9	Borrower I	Manufacturing	7	—
10	Borrower J	Manufacturing	7	1
11	Borrower K	Other service	5	4
12	Borrower L	Transportation, storage, and communication	5	5
13	Borrower M	Other service	5	2
14	Borrower N	Retail and wholesale	5	4
15	Borrower O	Other service	4	1
16	Borrower P	Manufacturing	4	—
17	Borrower Q	Manufacturing	4	1

As of December 31, 2020				
	Industry	Gross Principal Outstanding	Allowance for credit losses on loans	
(In billions of Won)				
18	Borrower R	Real estate, leasing and service	4	—
19	Borrower S	Real estate, leasing and service	3	2
20	Borrower T	Manufacturing	3	2
			<u>488</u>	<u>135</u>

Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating system, which is designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating, we seek to reduce credit risk related to future non-performing loans. Our early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of our loan officers, who then closely monitor such loans.

If a loan becomes non-performing notwithstanding such preventive mechanism, an officer at the branch level responsible for monitoring non-performing loans will commence due diligence on the borrower's assets, send a notice demanding payment or a notice that we will take or prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which includes:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;
- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- to a limited extent, identifying commercial loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. Actual recovery efforts for non-performing loans are handled by the relevant department, depending on the nature of such loans and the borrower, among others. The officers or agents of the responsible departments and units use a variety of methods to resolve non-performing loans, including:

- making phone calls and paying visits to the borrower to request payment;
- continuing to assess and evaluate assets of our borrowers; and
- if necessary, initiating legal action such as foreclosures, attachment and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, the branch responsible for handling these loans may transfer them to the relevant unit at headquarters.

Our policy is to commence legal action within one month after default on promissory notes and four months after delinquency of payment on other types of loans. For loans to insolvent or bankrupt borrowers or when we conclude that it is not possible to recover through normal procedures, we take prompt legal actions regardless of the grace period.

In addition to making efforts to collect on these non-performing loans, we take other measures to reduce the level of our non-performing loans, including:

- selling non-performing loans to third parties including the Korea Asset Management Corporation;

- entering into asset-backed securitization transactions with respect to non-performing loans;
- managing retail loans that are three months or more past due through Shinhan Credit Information under an agency agreement; and
- using third-party collection agencies including credit information companies.

In 2020, we sold non-performing loans in the amount of ₩74 billion to third parties, including ₩36 billion transferred to Woori Investment Bank Co., Ltd, an investment management company. Loans transferred to third parties meet the criteria of true sale and are derecognized accordingly.

The following table presents a roll-forward of our non-performing loans in 2020.

	(In billions of Won)
Non-performing loans as of December 31, 2019	<u>₩1,325</u>
Additional non-performing loans due to delinquency	1,022
Loans sold	(74)
Loans charged off	(409)
Loans modified and returned to performing	(69)
Other adjustments ⁽¹⁾	<u>(106)</u>
Non-performing loans as of December 31, 2020	<u>₩1,689</u>

Note:

- (1) Represents loans paid down or paid off and loans returned to performing other than as a result of modification. We do not separately collect and analyze data relating to non-performing loans other than those that were sold, charged off, modified and returned to performing, or transferred to held-for-sale investment portfolio.

Allocation of Allowance for Credit Losses on Loans

The following table presents, as of the dates indicated, the allocation of our allowance for credit losses on loans by loan type. The table as of December 31, 2018, 2019 and 2020 has been presented separately due to the adoption of IFRS 9 from January 1, 2018.

	As of December 31,														
	2018			2019			2020								
	12-month expected credit Losses	Lifetime expected credit losses	(In billions of Won, except percentages)	12-month expected credit Losses	Lifetime expected credit losses	(In billions of Won, except percentages)	12-month expected credit Losses	Lifetime expected credit losses	(In billions of Won, except percentages)						
	Not-impaired	Impaired	Total	% of Total Allowances	12-month expected credit Losses	Not-impaired	Impaired	Total	% of Total Allowances	12-month expected credit Losses	Not-impaired	Impaired	Total	% of Total Allowances	
Corporate															
Corporate loans	₩419	₩568	₩482	₩1,469	53.9%	₩393	₩511	₩435	₩1,339	49.9%	₩542	₩650	₩1,628	53.2%	
Public and other	4	5	10	19	0.7	4	8	2	14	0.5	6	10	6	22	0.7
Loan to banks	6	—	—	6	0.2	5	0	—	5	0.2	8	—	—	8	0.3
Lease financing	9	9	32	50	1.8	26	20	34	80	3.0	24	15	46	85	2.8
Total corporate	438	582	524	1,544	56.6	428	539	471	1,438	53.6	580	675	488	1,743	57.0
Retail															
Mortgages and home equity	2	6	2	10	0.4	2	5	4	11	0.4	3	6	22	31	1.0
Other retail	216	200	368	784	28.8	131	86	165	382	14.2	146	80	176	402	13.1
Total retail	218	206	370	794	29.2	133	91	169	393	14.6	149	86	198	433	14.1
Credit cards	76	240	71	387	14.2	174	365	315	854	31.8	204	374	307	885	28.9
Total allowance for credit losses on loans	₩732	₩1,028	₩965	₩2,725	100.0%	₩735	₩995	₩955	₩2,685	100.0%	₩933	₩1,135	₩993	₩3,061	100.0%

	As of December 31,			
	2016		2017	
	Amount	% of Total Allowances	Amount	% of Total Allowances
Corporate				
Corporate loans	₩1,312	55.7%	₩1,285	55.6%
Public and other	8	0.3	5	0.2
Loan to banks	8	0.3	9	0.4
Lease financing	34	1.4	50	2.2
Total corporate	1,362	57.7	1,349	58.4
Retail				
Mortgages and home equity	29	1.2	27	1.2
Other retail	267	11.3	331	14.3
Total retail	296	12.5	358	15.5
Credit cards	703	29.8	604	26.1
Total allowance for credit losses on loans	₩2,361	100.0%	₩2,311	100.0%

Our total allowance for credit losses on loans increased by ₩376 billion, or 14.0%, to ₩3,061 billion as of December 31, 2020 from ₩2,685 billion as of December 31, 2019, primarily due to the re-estimate of probability of default reflecting forward-looking information and the additional selection of borrowers subject to individual assessment in order to proactively responding to changes in the financial environment, such as the spread of COVID-19, as well as an increase in the proportion of unsecured corporate loans which are subject to higher loss given default rates compared to secured corporate loans.

Our total allowance for credit losses on loans decreased by ₩40 billion, or 1.5%, to ₩2,685 billion as of December 31, 2019 from ₩2,725 billion as of December 31, 2018, primarily due to an increase in the sale and transfer of debt securities as well as an increase in the sale, transfer and charge-offs of non-performing loans.

Analysis of Allowance for Credit Losses on Loans

The following tables present an analysis of our credit losses on loans experience for each of the years indicated. The table for 2018, 2019 and 2020 has been presented separately due to the adoption of IFRS 9 from January 1, 2018.

	As of December 31,								
	2018			2019			2020		
	12-month expected credit losses	Lifetime expected credit losses	12-month expected credit	12-month expected credit	Lifetime expected credit losses	12-month expected credit	Lifetime expected credit losses	12-month expected credit	Lifetime expected credit losses
Balance at the beginning of the period	₩ 731	₩1,088	₩ 732	₩ 732	₩1,028	₩ 735	₩ 995	₩ 955	₩ 2,685
Stage Transfer	52	(52)	56	—	14	33	(86)	53	—
Amounts charged against income	24	160	2	705	270	264	419	609	1,292
Gross charge-offs:									
Corporate:									
Corporate loans	(1)	(365)	—	(366)	—	(1)	—	(321)	(322)
Public and other	—	(5)	—	(5)	—	(10)	—	(3)	(3)
Loan to banks	—	—	—	—	—	—	—	—	—
Lease financing	—	(5)	—	(5)	—	(22)	—	(36)	(36)
Retail:									
Mortgage and home equity	—	(4)	—	(4)	—	(3)	—	(3)	(3)
Other retail	—	(361)	—	(361)	—	(277)	—	(276)	(276)
Credit cards	—	(192)	—	(192)	—	(338)	—	(580)	(580)
Total gross charge-offs	(1)	(932)	—	(933)	—	(937)	—	(1,219)	(1,220)
Recoveries:									
Corporate:									
Corporate loans	—	68	—	68	—	50	—	48	48
Public and other	—	1	—	1	—	2	—	—	—
Loan to banks	—	—	—	—	—	—	—	—	—
Lease financing	—	2	—	2	—	13	—	16	16
Retail:									
Mortgage and home equity	—	—	—	—	—	—	—	—	—
Other retail	—	130	—	130	—	70	—	85	85
Credit cards	—	110	—	110	—	191	—	201	201
Total recoveries	—	311	—	311	—	326	—	350	350
Other	(74)	(168)	(71)	(230)	(321)	(98)	(193)	245	(46)
Business combination	—	—	16	—	4	—	—	—	—
Net charge-offs	(75)	(168)	(55)	(852)	(317)	(99)	(193)	(624)	(916)
Balance at the end of the period	₩ 732	₩1,028	₩ 735	₩2,725	₩ 995	₩ 933	₩1,135	₩ 993	₩ 3,061
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02%	0.06%	0.02%	0.29%	0.10%	0.03%	0.06%	0.17%	0.26%

	<u>2016</u>	<u>2017</u>
	(In billions of Won, except percentages)	
Balance at the beginning of the period	₩ 2,318	₩ 2,361
Amounts charged against income	1,103	800
Gross charge-offs:		
Corporate:		
Corporate loans	(758)	(376)
Public and other	(1)	(1)
Loan to banks	—	—
Lease financing	(42)	(4)
Retail:		
Mortgage and home equity	—	(2)
Other retail	(130)	(137)
Credit cards	(462)	(540)
Total gross charge-offs	<u>(1,393)</u>	<u>(1,060)</u>
Recoveries:		
Corporate:		
Corporate loans	125	81
Public and other	—	—
Loan to banks	—	—
Lease financing	1	1
Retail:		
Mortgage and home equity	—	1
Other retail	35	43
Credit cards	176	185
Total recoveries	<u>337</u>	<u>311</u>
Other	(4)	(101)
Net charge-offs	<u>(1,060)</u>	<u>(850)</u>
Balance at the end of the period	<u>₩ 2,361</u>	<u>₩ 2,311</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	0.42%	0.32%

Loan Charge-offs

Our gross charge-offs increased by 30.2% from ₩937 billion in 2019 to ₩1,220 billion in 2020, primarily due to an increase in the amount of charge-offs for credit cards in 2020 compared to 2019. Our gross charge-offs increased by 0.4% from ₩933 billion in 2018 to ₩937 billion in 2019, primarily due to an increase in the amount of charge-offs for credit cards in 2019 compared to 2018. Our gross charge-offs decreased by 12.0% from ₩1,060 billion in 2017 to ₩933 billion in 2018, primarily due to a decrease in the amount of charge-offs for credit cards in 2018 compared to 2017.

In 2020, the charge-off on restructured loans amounted to ₩80 billion, of which ₩59 billion was related to loans converted into equity securities as part of restructuring. With respect to a loan that we consider to be uncollectible regardless of any modification of terms, we convert a portion of such loan into equity securities following negotiation with the borrower and charge off the remainder of such loan as previously discussed in “— Troubled Debt Restructurings — Charge-off of Loans Subject to Restructuring.” The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

We attempt to minimize loans to be charged off by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans. For charge-off of restructured loans, see “— Loan Modification Programs for Loans under Restructuring — Charge-off of Restructured Loans” above.

Loans to be Charged-off

Loans are charged off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency or bankruptcy, dissolution or the termination of the debtor’s business;
- loans for which collection is not foreseeable due to the death or disappearance of debtors;
- loans for which collection expenses exceed the collectible amount;
- loans for which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards that are overdue for more than six months;
- payments outstanding on unsecured retail loans that are overdue for more than 12 months;
- payments in arrears in respect of leases that are overdue for more than 12 months;
- the portion of loans classified as “estimated loss,” net of any recovery from collateral, which is deemed to be uncollectible; or
- domestic loans that are required by the Financial Supervisory Service to be charged-off, or loans held by our foreign subsidiaries or branches for which a charge-off or special provisioning is required by the relevant regulatory authority.

Timeline for Charge-off

Shinhan Bank’s loans to be charged-off must be charged-off within one year of the month they are deemed to be uncollectible. If such loans are not charged-off within one year, the reason for the delay must be reported to Shinhan Bank’s Audit Department.

Procedure for Charge-off Approval

An application for Shinhan Bank’s loans to be charged-off is submitted by the relevant branch or department to the Credit Collection Department. The Credit Collection Department refers the application to the Audit Department for their review to ensure compliance with Shinhan Bank’s internal procedures for charge-offs. The Credit Collection Department, after reviewing the application to confirm that it meets relevant requirements, seeks approval from the Financial Supervisory Service for the charge-offs, which is typically granted. Once the Financial Supervisory Service approves (except for household loans with estimated losses of ₩10 million or less, whose charge-off is considered automatically approved by the Financial Supervisory Service), loans are charged-off upon approval by the President of Shinhan Bank. As for Shinhan Card, it generally charges off receivables that are 180 days past due following internal review.

Treatment of Loans Charged-off

Once loans are charged off, they are derecognized from our statements of financial position and are classified as charged-off loans. We continue collection efforts in respect of these loans through third-party collection agencies, including the Korea Asset Management Corporation, and Shinhan Credit Information, which is our subsidiary. The General Manager of the Credit Collection Department must report to the Financial Supervisory Service the amounts of loans permanently written off or recovered during each reporting period.

Treatment of Collateral

When we determine that a loan collateralized by real estate cannot be recovered through normal collection channels, we generally petition a court to foreclose and sell the collateral through a court-supervised auction within one month after default and insolvency and within four months after delinquency. However, this procedure does not apply to companies under restructuring, recovery proceedings, workout or other court proceedings where there are restrictions on such auction procedures. Filing of such petition with the court generally encourages the debtor to repay the overdue loan. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we sell the collateral and recover the principal amount and interest accrued up to the sales price, net of expenses incurred from the auction. Foreclosure proceedings under the laws and regulations of Korea typically take seven months to one year from initiation to collection depending on the nature of the collateral.

Financial Statement Presentation

Our financial statements generally report as charge-offs all unsecured retail loans that are overdue for more than 12 months. Leases are charged off when past due for more than 12 months. For collateral dependent loans, we charge off the excess of the book value of the subject loan over the amount received or to be received from the sale of the underlying collateral when the collateral is sold as part of a foreclosure proceeding and its sale price becomes known through court publication as part of such proceeding.

Investment Portfolio

Investment Policy

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account in order to:

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

When making an investment decision with respect to particular securities, we consider macroeconomic trends, industry analysis and credit evaluation, among others.

Our securities investment activities are subject to a number of regulatory guidelines, including limitations prescribed under the Financial Holding Companies Act and the Banking Act. Generally, a financial holding company is prohibited from acquiring more than 5% of the total issued and outstanding shares of another finance-related company (other than its direct and indirect subsidiaries). Furthermore, under these regulations, Shinhan Bank must limit its investments in shares and securities with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 100.0% of the sum of Tier I and Tier II capital (less any deductions) of Shinhan Bank. Generally, Shinhan Bank is also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation (other than for the purpose of establishing or acquiring a subsidiary). Further information on the regulatory environment governing our investment activities is set out in “— Supervision and Regulation — Principal Regulations Applicable to Banks — Restrictions on Investments in Property,” “— Principal Regulations Applicable to Banks — Restrictions on Shareholdings in Other Companies,” “— Principal Regulations Applicable to Financial Holding Companies — Liquidity” and “— Principal Regulations Applicable to Financial Holding Companies — Restrictions on Shareholdings in Other Companies.”

Book Value and Fair Value

The following tables set out the book value and fair value of investments in our investment portfolio as of the dates indicated. The table as of December 31, 2018, 2019 and 2020 has been presented separately due to the adoption of IFRS 9 from January 1, 2018.

	As of December 31, 2018		As of December 31, 2019		As of December 31, 2020	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(In billions of Won)					
Securities at fair value through other comprehensive income						
Equity securities	₩ 636	₩ 636	₩ 808	₩ 808	₩ 907	₩ 907
Debt securities:						
Korean treasury and governmental agencies	7,756	7,756	15,701	15,701	17,834	17,834
Debt securities issued by financial institutions	17,341	17,341	21,527	21,527	20,054	20,054
Corporate debt securities	9,183	9,183	17,177	17,177	15,690	15,690
Debt securities issued by foreign government	1,220	1,220	1,897	1,897	1,536	1,536
Mortgage-backed and asset-backed securities	2,178	2,178	2,271	2,271	2,295	2,295
Total — Securities at fair value through other comprehensive income	<u>₩ 38,314</u>	<u>₩ 38,314</u>	<u>₩ 59,381</u>	<u>₩ 59,381</u>	<u>₩ 58,316</u>	<u>₩ 58,316</u>
Securities at amortized cost						
Debt securities:						
Korean treasury and governmental agencies	₩ 17,143	₩ 18,139	₩ 29,277	₩ 31,088	₩ 30,698	₩ 32,147
Debt securities issued by financial institutions	2,247	2,271	4,937	5,050	4,071	4,222
Corporate debt securities	3,955	4,108	5,308	5,732	5,065	5,467
Debt securities issued by foreign government	857	835	1,108	1,154	1,118	1,245
Mortgage-backed and asset-backed securities	4,276	4,324	4,952	4,979	6,331	6,373
Total — Securities at amortized cost	<u>₩ 28,478</u>	<u>₩ 29,677</u>	<u>₩ 45,582</u>	<u>₩ 48,003</u>	<u>₩ 47,283</u>	<u>₩ 49,454</u>
Financial assets at fair value through profit or loss						
Equity securities	₩ 1,165	₩ 1,165	₩ 1,598	₩ 1,598	₩ 1,736	₩ 1,736
Debt securities:						
Korean treasury and governmental agencies	2,734	2,734	2,742	2,742	4,038	4,038
Debt securities issued by financial institutions	9,593	9,593	12,849	12,849	14,013	14,013
Corporate debt securities	15,722	15,722	18,353	18,353	19,181	19,181
Debt securities issued by foreign governments	31	31	131	131	210	210
Mortgage-backed and asset-backed securities	435	435	380	380	595	595
Other debt securities ⁽¹⁾	11,620	11,620	13,946	13,946	17,050	17,050
Sub-total — Securities at fair value	<u>₩ 41,300</u>	<u>₩ 41,300</u>	<u>₩ 49,999</u>	<u>₩ 49,999</u>	<u>₩ 56,823</u>	<u>₩ 56,823</u>

	As of December 31, 2018		As of December 31, 2019		As of December 31, 2020	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
(In billions of Won)						
Others:						
Loans at fair value	1,209	1,209	2,155	2,155	2,017	2,017
Due from banks at fair value	871	871	897	897	63	63
Gold/Silver deposits	155	155	112	112	188	188
Total — Financial assets at fair value through profit or loss	<u>₩43,535</u>	<u>₩43,535</u>	<u>₩53,163</u>	<u>₩53,163</u>	<u>₩59,091</u>	<u>₩59,091</u>

Note:

- (1) Other debt securities included puttable equity investment, beneficiary certificates and restricted reserve for claims of customers' deposits (trusts) classified as debt instruments in accordance with IFRS 9.

Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2020.

	As of December 31, 2020									
	1 Year or Less		Over 1 but within 5 Years		Over 5 but within 10 Years		Over 10 Years		Total	
	Carrying Amount	Weighted Average Yield ⁽¹⁾	Carrying Amount	Weighted Average Yield ⁽¹⁾	Carrying Amount	Weighted Average Yield ⁽¹⁾	Carrying Amount	Weighted Average Yield ⁽¹⁾	Carrying Amount	Weighted Average Yield ⁽¹⁾
(In billions of Won, except percentages)										
Securities at fair value through other comprehensive income:										
Korean treasury securities and government agencies	₩ 883	1.50%	₩ 7,519	1.20%	₩1,851	1.59%	₩ 7,581	7.31%	₩17,834	3.85%
Debt securities issued by financial institutions	6,124	1.22	11,653	1.19	152	2.96	2,125	13.95	20,054	2.56
Corporate debt securities	2,594	1.85	6,172	1.69	737	2.25	6,187	3.96	15,690	2.64
Debt securities issued by foreign governments	896	1.58	276	3.56	232	1.95	132	2.72	1,536	2.09
Mortgage-backed securities and asset-backed securities	517	1.83	1,347	1.46	71	1.98	360	2.02	2,295	1.65
Total	<u>₩11,014</u>	<u>1.45%</u>	<u>₩26,967</u>	<u>1.35%</u>	<u>₩3,043</u>	<u>1.85%</u>	<u>₩16,385</u>	<u>6.75%</u>	<u>₩57,409</u>	<u>2.93%</u>
Securities at amortized cost:										
Korean treasury securities and government agencies	₩ 3,401	1.16%	₩ 9,740	1.96%	₩1,793	3.33%	₩15,764	4.29%	₩30,698	3.15%
Debt securities issued by financial institutions	943	2.57	2,030	2.46	135	3.28	963	5.66	4,071	3.27
Corporate debt securities	360	1.01	854	2.89	342	3.25	3,509	5.00	5,065	4.24
Debt securities issued by foreign governments	74	3.47	435	2.71	82	6.13	527	3.48	1,118	3.37
Mortgage-backed securities and asset-backed securities	308	1.74	3,452	2.04	1,250	2.09	1,321	2.22	6,331	2.07
Total	<u>₩ 5,086</u>	<u>1.48%</u>	<u>₩16,511</u>	<u>2.11%</u>	<u>₩3,602</u>	<u>2.95%</u>	<u>₩22,084</u>	<u>4.32%</u>	<u>₩47,283</u>	<u>3.14%</u>
Financial assets at fair value through profit or loss:										
Korean treasury securities and government agencies	₩ 284	1.08%	₩ 627	1.36%	₩ 815	1.77%	₩ 2,312	1.27%	₩ 4,038	1.37%
Debt securities issued by financial institutions	3,010	1.39	1,478	1.30	62	4.54	9,463	1.02	14,013	1.15

As of December 31, 2020

	1 Year or Less		Over 1 but within 5 Years		Over 5 but within 10 Years		Over 10 Years		Total	
	Carrying Amount	Weighted Average Yield ⁽¹⁾	Carrying Amount	Weighted Average Yield ⁽¹⁾	Carrying Amount	Weighted Average Yield ⁽¹⁾	Carrying Amount	Weighted Average Yield ⁽¹⁾	Carrying Amount	Weighted Average Yield ⁽¹⁾
	(In billions of Won, except percentages)									
Corporate debt securities	9,897	1.16	1,549	2.17	432	3.25	7,303	1.56	19,181	1.44
Debt securities issued by foreign governments	—	—	—	—	—	—	210	0.20	210	0.20
Mortgage-backed securities and asset-backed securities	344	1.30	40	1.43	1	—	210	1.54	595	1.39
Other debt securities	17,047	—	—	—	—	—	3	—	17,050	—
Total	<u>₩30,582</u>	<u>0.54%</u>	<u>₩ 3,694</u>	<u>1.68%</u>	<u>₩1,310</u>	<u>2.39%</u>	<u>₩19,501</u>	<u>1.25%</u>	<u>₩ 55,087</u>	<u>0.91%</u>
Total	<u>₩46,682</u>		<u>₩47,172</u>		<u>₩7,955</u>		<u>₩57,970</u>		<u>₩159,779</u>	

Note:

- (1) The weighted-average yield for the portfolio represents the yield to maturity for each individual security, weighted using its amortized cost.

Concentrations of Risk

The following table presents securities held by us whose aggregate book value exceeded 10% of our stockholders' equity as of December 31, 2020. As of December 31, 2020, 10% of our stockholders' equity was ₩4,636 billion.

Name of issuer:	As of December 31, 2020	
	Book Value	Fair Value
	(In billions of Won)	
Ministry of Strategy and Finance	₩49,676	₩52,408
The Korea Development Bank	₩ 6,144	₩ 6,189
The Bank of Korea	₩ 7,975	₩ 7,975
The Korea Housing Finance Corp	₩ 9,147	₩ 9,240
Industrial Bank of Korea	₩ 5,587	₩ 5,591

All of the above entities are either an agency of the Government or an entity controlled by the Government.

Credit-Related Commitments and Guarantees

In the normal course of our operations, we make various commitments and guarantees to meet the financing and other business needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letters of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account party draws down the commitment or we should fulfill our obligation under the guarantee and the account party fails to perform under the contract.

The following table sets forth our credit-related commitments and guarantees as of the dates indicated.

	As of December 31,		
	2018	2019	2020
	(In billions of Won)		
Commitments to extend credit	₩ 89,873	₩ 96,936	₩ 99,512
Commercial letters of credit	3,162	2,760	2,700
Others ⁽¹⁾	93,960	100,484	108,040
Total	<u>₩186,995</u>	<u>₩200,180</u>	<u>₩210,252</u>

Note:

- (1) Consists of financial guarantees, performance guarantees, liquidity facilities to special purpose entities, acceptances, guarantee on trust accounts, endorsed bills and unused credit limits on credit cards.

We have credit-related commitments that are not reflected in our statements of financial position, which primarily consist of commitments to extend credit and commercial letters of credit. Commitments to extend credit, including credit lines, represent unfunded portions of authorizations to extend credit in the form of loans. These commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments. Commercial letters of credit are undertakings on behalf of customers authorizing third parties to make drawdowns up to a stipulated amount under specific terms and conditions. They are generally short-term and collateralized by the underlying shipments of goods to which they relate.

We also have guarantees that are recorded on our statements of financial position at their fair value at inception which are amortized over the life of the guarantees. Such guarantees generally include standby letters of credit, other financial and performance guarantees and liquidity facilities to special purpose entities. Standby letters of credit are irrevocable obligations to pay third-party beneficiaries when our customers fail to repay loans or debt instruments, which are generally in foreign currencies. A substantial portion of these standby letters of credit is secured by collateral, including trade-related documents. Other financial and performance guarantees are irrevocable assurances that we will pay beneficiaries if our customers fail to perform their obligations under certain contracts. Liquidity facilities to special purpose entities are irrevocable commitments to provide contingent liquidity credit lines to special purpose entities established by our customers in the event that a triggering event such as shortage of cash occurs.

The commitments and guarantees do not necessarily represent our exposure since they often expire unused.

Derivatives

As discussed under “— Our Principal Activities — Other Banking Services — Derivatives Trading” above, we engage in derivatives trading activities primarily on behalf of our customers so that they may hedge their risks and also enter into back-to-back derivatives with other financial institutions to cover exposures arising from such transactions. In addition, we enter into derivatives transactions to hedge against risk exposures arising from our own assets and liabilities, some of which are non-trading derivatives that do not qualify for hedge accounting treatment.

The following table shows, as of December 31, 2020, the gross notional or contractual amounts of derivatives held or issued for (i) trading and (ii) non-trading that qualify for hedge accounting.

	As of December 31, 2020		
	Underlying Notional Amount ⁽¹⁾	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(In billions of Won)		
Trading:			
Foreign exchange derivatives:			
Future and forward contracts	₩118,669	₩3,135	₩3,021
Swaps	33,562	1,146	979
Options	2,502	33	32
Sub-total	<u>154,733</u>	<u>4,314</u>	<u>4,032</u>
Interest rate derivatives:			
Future and forward contracts	2,465	1	1
Swaps	104,682	311	363
Options	324	2	2
Sub-total	<u>107,471</u>	<u>314</u>	<u>366</u>
Credit derivatives:			
Swaps	4,537	274	30
Sub-total	<u>4,537</u>	<u>274</u>	<u>30</u>
Equity derivatives:			
Swaps and forward contracts	2,629	122	48
Options	4,786	81	163
Future contracts	1,638	35	8
Sub-total	<u>9,053</u>	<u>238</u>	<u>219</u>
Commodity derivatives:			
Swaps and forward contracts	537	6	33
Future contracts	264	12	—
Sub-total	<u>801</u>	<u>18</u>	<u>33</u>
Total	<u>₩276,595</u>	<u>₩5,158</u>	<u>₩4,680</u>
Non-trading:			
Hedge accounting:			
Foreign exchange derivatives:			
Swaps	₩ 4,328	₩ 65	₩ 186
Future and forward contracts	1,282	92	11
Interest rate derivatives:			
Swaps	7,845	319	140
Total	<u>₩ 13,455</u>	<u>₩ 476</u>	<u>₩ 337</u>

Note:

- (1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2020.

Funding

We obtain funding from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits obtained from our banking operations, and we from time to time issue equity and debt securities, including preferred shares. In addition, our subsidiaries acquire funding through call money,

borrowings from the Bank of Korea, other short-term borrowings, corporate debentures and other long-term debt, including debt and equity securities issuances, asset-backed securitizations and repurchase transactions, to complement, or if necessary, replace funding through customer deposits. For further details relating to funding by us and our subsidiaries, see “Item 5.B. Liquidity and Capital Resources.”

Deposits

Although the majority of our bank deposits are short-term, the majority of our depositors have historically rolled over their deposits at maturity, providing our banking operation with a stable source of funding.

The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated.

	2018		2019		2020	
	Average Balance ⁽¹⁾	Average Rate Paid	Average Balance ⁽¹⁾	Average Rate Paid	Average Balance ⁽¹⁾	Average Rate Paid
	(In billions of Won, except percentages)					
Interest-bearing deposits:						
Demand deposits	₩ 37,714	0.39 %	₩ 40,379	0.42%	₩ 50,751	0.33%
Savings deposits	74,467	0.56	77,652	0.58	91,474	0.32
Time deposits	130,846	1.81	147,479	1.92	154,516	1.46
Other deposits	8,525	1.96	9,297	2.07	8,482	1.42
Total interest-bearing deposits	<u>₩251,552</u>	<u>1.23 %</u>	<u>₩274,807</u>	<u>1.33%</u>	<u>₩305,223</u>	<u>0.93%</u>

Note:

(1) Average balances are based on (a) daily balances of Shinhan Bank and (b) quarterly balances for other subsidiaries.

For a breakdown of deposit products, see “— Our Principal Activities — Deposit-taking Activities,” except that cover bills sold are recorded on short-term borrowings and securities sold under repurchase agreements are recorded as secured borrowings.

Certificates of Deposit and Other Time Deposits

The following table presents the certificates of deposit and other time deposits in excess of ₩100 million by remaining maturities as of December 31, 2020.

	As of December 31, 2020		
	Certificates of Deposit	Other Time Deposits	Total
	(In billions of Won)		
Maturing within three months	₩2,944	₩ 38,844	₩ 41,788
After three but within six months	1,139	25,173	26,312
After six but within 12 months	1,477	41,562	43,039
After 12 months	215	5,684	5,899
Total	<u>₩5,775</u>	<u>₩111,263</u>	<u>₩117,038</u>

A majority of our certificates of deposit accounts and other time deposits issued by our foreign offices is in the amount of US\$100,000 or more.

Short-term Borrowings

The following table presents information regarding our short-term borrowings (borrowings with a maturity of one year or less) for the periods indicated.

	2018			2019			2020		
	Balance Outstanding	Average Balance Outstanding ⁽¹⁾	Weighted Average Interest Rate ⁽²⁾	Balance Outstanding	Average Balance Outstanding ⁽¹⁾	Weighted Average Interest Rate ⁽²⁾	Balance Outstanding	Average Balance Outstanding ⁽¹⁾	Weighted Average Interest Rate ⁽²⁾
Borrowings from									
The Bank of Korea ⁽³⁾	₩ 2,330	₩ 2,603	0.66%	₩ 2,429	₩ 2,312	0.63%	₩ 5,351	₩ 3,479	0.30%
Call money	1,425	1,977	2.29	712	1,414	2.08	1,760	1,221	1.60
Other short-term borrowings ⁽⁴⁾	21,884	18,900	1.23	25,861	23,700	1.36	24,360	25,401	1.05
	₩25,639	₩23,480	₩29,992	₩29,002	₩27,426	₩29,994	₩31,471	₩30,101	₩34,458
			1.26%			1.33%			0.98%

(In billions of Won, except for percentages)

Notes:

- (1) Average balances are based on (a) daily balances of Shinhan Bank and (b) quarterly balances for other subsidiaries.
- (2) Weighted-average interest rates are calculated by dividing the total interest expenses by the average amount borrowed.
- (3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
- (4) Other short-term borrowings included borrowings from trust accounts, bills sold, and borrowings in domestic and foreign currencies.

Our short-term borrowings have maturities of less than one year and are generally unsecured with the exception of borrowings from the Bank of Korea, which are generally secured with securities at fair value through other comprehensive income or at amortized cost (previously classified as available-for-sale or held-to-maturity securities under IAS 39) held by us.

Risk Management

Overview

As a financial services provider, we are exposed to various risks relating to our lending, credit card, insurance, securities investment, trading and leasing businesses, our deposit taking and borrowing activities and our operating environment. The principal risks to which we are exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at our holding company level and implemented at the subsidiary level through a carefully stratified checks-and-balances system.

We believe that our risk management system has been instrumental to building our reputation as a well-managed and prudent financial service provider and withstanding various external shocks. In particular, during the global financial crisis of 2008 and 2009, we believe our risk management provided effective early warning signals which helped us to proactively reconfigure our asset portfolio and substantially reduce our exposure to troubled debtors and thereby avoid what could have been a substantially greater credit loss during such crisis, and we are carefully upgrading and refining our risk management system in the face of current and potential economic difficulties at global, regional and domestic levels.

Our group-wide risk management philosophy is to instill a culture of effective risk management and awareness at all levels of our organization and pursue a proper balance between risk and return in our business activities in order to achieve a sustainable growth. In particular, our group-wide risk management is guided by the following core principles:

- carrying out all business activities within prescribed risk tolerance levels and prudently balancing profitability and risk management;
- standardizing the risk management process and monitoring compliance at a group-wide level;
- operating a prudent risk management decision making system backed by active participation by management;
- creating and operating a risk management organization independent of business activities;
- operating a performance management system that enhances clear and prompt identification of risks when making business decisions;
- aiming to achieve preemptive and practical risk management; and
- prudent preparation for known and unknown contingencies.

We take the following steps to implement the foregoing risk management principles:

- *risk capital management* – Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite for our total assets so that we can maintain an appropriate level of risk capital. As part of our risk capital management, we and our subsidiaries have adopted and maintain various risk planning processes and reflect such risk planning in our business and financial planning. We also maintain a risk limit management system to ensure that risks in our business do not exceed prescribed limits.
- *risk monitoring* – We proactively, preemptively and periodically review risks that may impact our overall operations, including through a multidimensional risk monitoring system. Currently, each of our subsidiaries is required to report to the holding company any factors that could have a material impact on group-wide risk management, and the holding company reports to our chief risk officer and other members of our senior management the results of risk monitoring weekly, monthly and on an *ad hoc* basis as needed. In addition, we perform preemptive risk management through a “risk dashboard

system” under which we closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of our subsidiaries, and to the extent such monitoring yields any warning signals, we promptly analyze the causes and, if necessary, formulate and implement actions in response thereto.

- *risk review* – Prior to entering any new business, offering any new products or changing any major policies, we review any relevant risk factors based on a prescribed risk management checklist and, in the case of changes for which assessment of risk factors is difficult, perform reasonable decision-making in order to avoid taking any unduly risky action. The risk management departments of all our subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the holding company level prior to making any independent risk reviews.
- *crisis management* – We maintain a group-wide risk management system to detect the early warning signals of any crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure our survival as a going concern. Each of our subsidiaries maintains crisis planning for three levels of contingencies, namely, “alert,” “imminent crisis” and “crisis,” determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the occurrence of any such contingency, is required to respond according to a prescribed contingency plan. At the holding company level, we maintain and install a crisis detection and response system which is applied consistently group-wide, and upon the occurrence of an “imminent crisis” or “crisis” event at a subsidiary level, we directly take charge of the situation at the holding company level so that we manage it on a concerted group-wide basis.

Organization

Our risk management system is organized along the following hierarchy (from top to bottom): at the holding company level, the Group Risk Management Committee, the Group Risk Management Council, the Group Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committee, the Chief Risk Officer and the Risk Management Team of the relevant subsidiary. The Group Risk Management Committee, which is under the supervision of our holding company’s board of directors, sets the basic group-wide risk management policies and strategies. Our Group Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council coordinates the risk management policies and strategies at the group level as well as at the subsidiary level among each of our subsidiaries. Each of our subsidiaries also has a separate Risk Management Committee, Risk Management Working Committee and Risk Management Team, whose tasks are to implement the group-wide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the group-wide guidelines. We also have the Group Risk Management Team, which supports our Chief Risk Officer in his or her risk management and supervisory role.

In order to maintain the group-wide risk at an appropriate level, we use a hierarchical risk limit system under which the Group Risk Management Committee assigns reasonable risk limits for the entire group and each of our subsidiaries, and the Risk Management Committee and the Risk Management Working Committee of each of our subsidiaries manage the subsidiary-specific risks by establishing and managing risk limits in more detail by type of risk and type of product for each department and division within such subsidiary. Further details follow.

At the holding company level:

- *Group Risk Management Committee* — The Group Risk Management Committee consists of four outside directors of our holding company. The Group Risk Management Committee convenes at least quarterly and on an *ad hoc* basis as needed. Specifically, the Group Risk Management Committee does

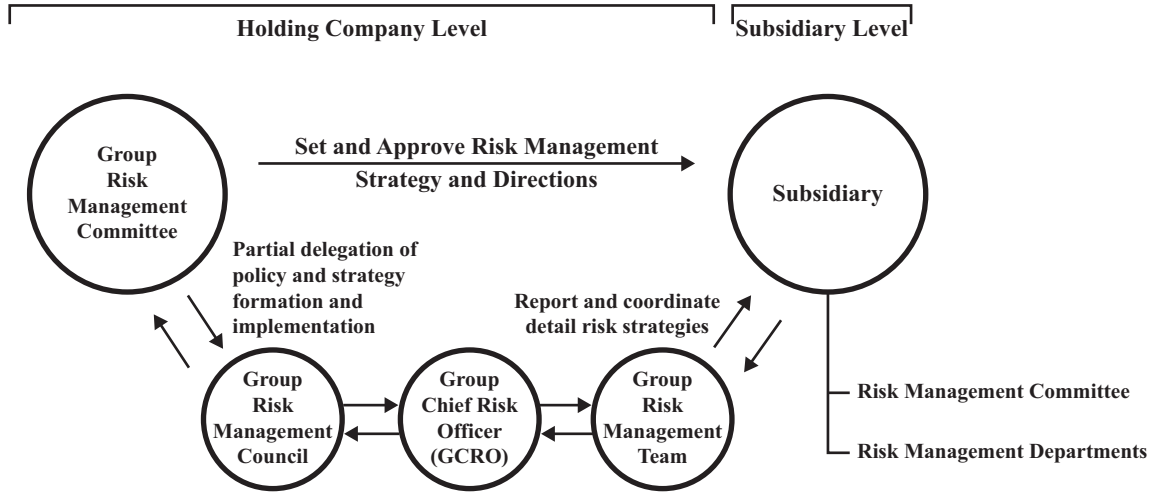
the following: (i) establish the overall risk management policies consistent with management strategies, (ii) set reasonable risk limits for the entire group and each of our subsidiaries, (iii) approve appropriate investment limits or permissible loss limits, (iv) enact and amend risk management regulations, and (v) decide other risk management-related issues the board of directors or the Group Risk Management Committee sees fit to discuss. The results of the Group Risk Management Committee meetings are reported to the board of directors of our holding company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

- *Group Risk Management Council* — Comprised of the Group Chief Risk Officer and Chief Risk Officers of each of our subsidiaries, the Group Risk Management Council provides a forum for risk management executives from each subsidiary to discuss our group-wide risk management guidelines and strategy in order to maintain consistency in the group-wide risk policies and strategies.
- *Group Chief Risk Officer* — The Group Chief Risk Officer assists the Group Risk Management Committee by implementing the risk policies and strategies as well as ensuring consistency in the risk management systems of our subsidiaries. Furthermore, the Group Chief Risk Officer evaluates the Chief Risk Officer of each subsidiary in addition to monitoring the risk management practices of each subsidiary.
- *Group Risk Management Team* — This team provides support and assistance to the Group Chief Risk Officer in carrying out his or her responsibilities.

At the subsidiary level:

- *Risk Management Committee* — In order to maintain group-wide risk at an appropriate level, we have established a hierarchical risk limit system where the Group Risk Management Committee establishes risk limits for us and our subsidiaries, and each of our subsidiaries establishes and manages risk limits in more detail by type of risk and type of product for each department and division within such subsidiary. In accordance with the group risk management policies and strategies, the Risk Management Committee at the subsidiary level establishes its own risk management policies and strategies in more detail and the respective risk management department implements those policies and strategies.
- *Risk Management Team* — The Risk Management Team, operating independently from the business units of each of our subsidiaries, monitors, assesses, manages and controls the overall risk of its operations and reports all major risk-related issues to the Group Risk Management Team at the holding company level, which then reports to the Group Chief Risk Officer.

The following is a flowchart of our risk management system at the holding company level and the subsidiary level.



Credit Risk Management

Credit risk, which is the risk of loss from default by borrowers, other obligors or other counterparties to the transactions that we have entered into, is the greatest risk we face. Our credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on our balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivatives transactions. A substantial majority of our credit risk relates to the operations of Shinhan Bank and Shinhan Card.

Credit Risk Management of Shinhan Bank

Shinhan Bank’s credit risk management is guided by the following principles:

- achieve a profit level corresponding to the level of risks involved;
- improve asset quality and achieve an optimal mix of asset portfolios;
- avoid excessive loan concentration in a particular borrower or sector;
- closely monitor the borrower’s ability to repay the debt; and
- provide financial support to advance the growth of select customers.

Major policies for Shinhan Bank’s credit risk management, including Shinhan Bank’s overall credit risk management plan and credit policy guidelines, are determined by the Risk Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Risk Policy Committee is headed by the Chief Risk Officer, and also comprises of the Chief Credit Officer and the heads of each business unit. In order to separate the loan approval functions from credit policy decision-making, Shinhan Bank has a Credit Review Committee that performs credit review evaluations with a focus on improving the asset quality of and profitability from the loans being made and operates separately from the Risk Policy Committee. Both the Risk Policy Committee and the Credit Review Committee make decisions by a vote of two-thirds or more of the attending members of the respective committees, which must constitute at least two-thirds of the respective committee members to satisfy the respective quorum.

Shinhan Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

- credit evaluation and approval;
- credit review and monitoring; and
- credit risk assessment and control.

Credit Evaluation and Approval

All loan applicants and guarantors are subject to credit evaluation before approval of any loans. Credit evaluation of loan applicants is carried out by senior officers of Shinhan Bank specifically charged with granting loan approvals. Loan evaluation is carried out by a group rather than by an individual reviewer through an objective and deliberative process. Credit ratings of loan applicants and guarantors influence loan interest rates, the level of internal approval required, credit exposure limits, calculation of potential losses and estimated cost of capital, and therefore are determined objectively and independently by the relevant business unit. Shinhan Bank uses a credit scoring system for retail loans and a credit-risk rating system for corporate loans.

Each of Shinhan Bank's borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into account the borrower's biographic details, past dealings with Shinhan Bank and external credit rating information, among other things. For corporate borrowers, the credit rating takes into account financial indicators as well as non-financial indicators such as industry risk, operational risk and management risk, among other things. The credit rating, once assigned, serves as the fundamental instrument for Shinhan Bank's credit risk management, and is applied to a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for credit losses on loans. Shinhan Bank has separate credit evaluation systems for retail customers, SOHO customers and corporate customers, which are further segmented and refined to meet Basel II requirements, which requirements have not changed under Basel III. See "Item 5.A. Operating Results — Critical Accounting Policies — Impairment of Financial Assets — Allowance for Credit Losses on Loans."

Retail Loans

Loan applications for retail loans are reviewed in accordance with Shinhan Bank's credit scoring system and the objective statistics models for secured and unsecured loans maintained and operated by Shinhan Bank's Retail Banking Division. Shinhan Bank's credit scoring system is an automated credit approval system used to evaluate loan applications and determine the appropriate pricing for the loan, and takes into account factors such as a borrower's personal information, transaction history with Shinhan Bank and other financial institutions and other relevant credit information. The applicant is assigned a score, which is used to determine (i) whether to approve the applicant's loan, (ii) the amount of loan to be granted, and (iii) the interest rates thereon. The applicant's score also determines whether the applicant is approved for credit, conditionally approved, subject to further assessment, or denied. If the applicant becomes subject to further assessment, the appropriate discretionary body, either at the branch level or at the headquarter level, makes a reassessment based on qualitative as well as quantitative factors, such as credit history, occupation and past relationship with Shinhan Bank.

For mortgage and home equity loans and loans secured by real estate, Shinhan Bank evaluates the value of the real estate offered as collateral using a proprietary database, which contains information about real estate values throughout Korea. In addition, Shinhan Bank uses up-to-date information provided by third parties regarding the real estate market and property values in Korea. While Shinhan Bank uses internal staff from the processing centers to appraise the value of the real estate collateral, Shinhan Bank also hires certified appraisers to review and co-sign the appraisal value of real estate collateral that have an appraisal value exceeding ₩3 billion, as initially determined by the processing centers. Shinhan Bank also reevaluates internally, on a summary basis, the appraisal value of collateral at least every year.

For loans secured by securities, deposits or other assets other than real estate, Shinhan Bank requires borrowers to observe specified collateral ratios in respect of secured obligations.

Corporate Loans

Shinhan Bank rates all of its corporate borrowers using internally developed credit evaluation systems. These systems consider a variety of criteria (quantitative, qualitative, financial and non-financial) in order to standardize credit decisions and focus on the quality of borrowers rather than the size of loans. The quantitative considerations include the borrower's financial and other data, while the qualitative considerations are based on the judgment of Shinhan Bank's credit officers as to the borrower's ability to repay. Financial considerations include financial variables and ratios based on customer's financial statements, such as return on assets and cash flow to total debt ratios, and non-financial considerations include, among other things, the industry to which the borrower's businesses belong, the borrower's competitive position in its industry, its operating and funding capabilities, the quality of its management and controlling stockholders (based in part on interviews with its officers and employees), technological capabilities and labor relations.

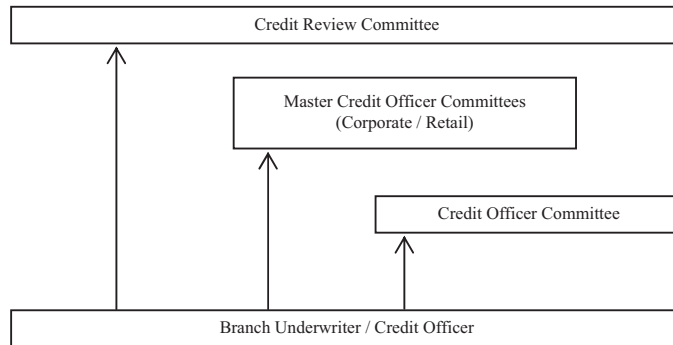
In addition, in order to enhance the accuracy of its internal credit reviews, Shinhan Bank also considers reports prepared by external credit rating services, such as Nice Information Service and Korea Enterprise Data, and monitors and improves the effectiveness of the credit risk-rating systems using a database that it updates continually with actual default records.

Based on the scores calculated under the credit rating system, which takes into account the evaluation criteria described above and the probability of default, Shinhan Bank assigns the borrower one of 23 grades (from the highest of AAA to the lowest of D3). Grades AA through B are further broken down into "+", "0" or "-." Grades AAA through B- are classified as normal, grade CCC precautionary, and grades CC through D3 non-performing. The credit risk-rating model is further differentiated by the size of the corporate borrower and the type of credit facilities.

Loan Approval Process

Loans are generally approved after evaluations and approvals by the relationship manager at the branch level as well as the committee of the applicable business unit at Shinhan Bank. The approval limit for retail loans is made based on Shinhan Bank's automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarter level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Master Credit Officer Committee. If the loan is considered significant or the amount exceeds the discretion limit of the Master Credit Officer Committee, further evaluation is made by the Credit Review Committee, which is Shinhan Bank's highest decision-making body in relation to credit approval. The Credit Review Committee's evaluation and approval of loan limits vary depending on the credit ratings of the borrowers as determined by Shinhan Bank's internal credit rating system. For example, for borrowers with a credit rating of B-, the Credit Review Committee evaluates and approves unsecured loans in excess of ₩10 billion and secured loans in excess of ₩15 billion, whereas for borrowers with a credit rating of AAA, the Credit Review Committee evaluates and approves unsecured loans in excess of ₩40 billion and secured loans in excess of ₩90 billion. The Credit Review Committee holds at least two meetings a week to approve applications for large-sized loans whose principal amounts exceed prescribed levels set by it.

The chart below summarizes the credit approval process of our banking operation. The Master Credit Officer and the Head of Business Division do not make individual decisions on loan approval, but are part of the decision-making process at the group level.



The reviewer at each level of the review process may in its discretion approve loans up to a maximum amount per loan assigned to such level. The discretionary loan approval limit for each level of the loan approval process takes into account the total amount of loans extended to the borrower, the credit level of the applicant based on credit review, the existence and value of collateral and the level of credit risk established by the credit rating system. The discretionary loan amount approval limit ranges from ₩15 million for unsecured retail loans with a credit rating of B-, which are subject to approvals by the retail branch manager, to ₩90 billion for secured loans with a credit rating of AAA, which are subject to approvals by the Master Credit Officer Committee. Any loans exceeding the maximum discretionary loan amount approval limit must be approved by the Credit Review Committee.

Credit Review and Monitoring

Shinhan Bank continually reviews and monitors credit risks primarily with respect to borrowers. In particular, Shinhan Bank’s automated early warning system conducts daily examination for borrowers using financial and non-financial factors, and the branch manager and the credit officer must conduct periodic loan monitoring and report to an independent Credit Review Department which analyzes the results in detail and adjusts monitoring grades and credit ratings accordingly. Based on these reviews, Shinhan Bank adjusts a borrower’s credit rating, credit limit and credit policies. In addition, the group credit ratings of the main debtor groups, if applicable, may be adjusted followed by a periodic review of the main debtor groups, as identified by the Governor of the Financial Supervisory Service based on their outstanding credit exposures. Shinhan Bank also continually reviews other factors, such as industry-specific conditions for the borrower’s business and its domestic and overseas asset base and operations, in order to ensure that the assigned ratings are appropriate. The Credit Review Department provides credit review reports, independent of underwriting, to the Chief Risk Officer on a monthly basis.

The early warning system performs automatic daily checks for borrowers to whom Shinhan Bank has credit exposure (which represents the total outstanding amount due from a borrower, net of collateral for deposit, installment savings, guarantees and import guarantee money) or ₩500 million of exception for credit exposure (which represents total exposure net of effective collateral). When the early warning systems detect warning signals, such signals and other findings from the loan monitoring are reviewed by the Credit Review Department. In addition, Shinhan Bank carries out credit review in a timely manner on each borrower in accordance with changes in credit risk factors based on changes in the economic environment. The results of such credit review are continually reported to the Chief Risk Officer of Shinhan Bank.

Depending on the nature of the signals detected by the early warning system, a borrower may be classified as “worsening credit” and become subject to evaluation for a possible downgrade in credit rating, or may be initially classified as “showing early warning signs” or become reinstated to the “normal borrower” status. For

borrowers classified as “showing early warning signs,” the relevant branch manager gathers information and conducts a review of the borrower to determine whether the borrower should be classified as a worsening credit or whether to impose management improvement warnings or implement joint creditors’ management. If the borrower becomes non-performing, Shinhan Bank’s collection department directly manages such borrower’s account in order to maximize recovery rate, and conducts auctions, court proceedings, sale of assets or corporate restructuring as needed.

Pursuant to the foregoing credit review and monitoring procedures and in order to promptly prevent deterioration of loan qualities, Shinhan Bank classifies potentially problematic borrowers into (i) borrowers that show early warning signals, (ii) borrowers that require precaution, (iii) borrowers that require observation and (iv) normal borrowers, and treats them differentially accordingly.

In order to curtail delinquency among its corporate customers, Shinhan Bank takes primarily the following measures: (i) systematic monitoring of borrowers with outstanding loans, (ii) heightened monitoring of borrowers with bad credit history and/or belonged or belonging to troubled industries and (iii) assignment of industry-specific lending caps, as adjusted for whether specific industries are particularly sensitive to general business cycles and/or are troubled at a given time.

Systematic monitoring of borrowers with outstanding loans. Shinhan Bank currently applies a heightened monitoring system to corporate borrowers with outstanding loans (other than guaranteed loans and loans secured by specified types of collaterals such as deposits with us or letters of credit). Under this monitoring system, each borrower is assigned to one of the following ratings:

- “Normal Company” — a borrower who is determined to have a low probability of insolvency with a credit rating above CCC (sub-borrower rating applicable);
- “Observation Company” — a borrower that carries some risk of affecting the corporate insolvency in the future and is subject to consistent observation to detect any change of such risk;
- “Precaution Company” — a borrower with a possibility of insolvency due to an increase in risk of default and therefore requires detailed inspection of the credit quality of such borrower and precaution in extending any further loans;
- “Early Warning Company” — a borrower with a high possibility of insolvency; and
- “Problematic Reorganized Company” — a borrower currently undergoing rehabilitation procedures, such as management improvement plans, workout or corporate recovery or showing no signs of recovery.

Shinhan Bank conducts systematic monitoring of the foregoing borrowers at intervals depending on the borrower’s monitoring grade determined by the early warning system (for example, every 3 or 6 months for an “Observation Company”, and 3 months for borrowers with a monitoring grade below “Precaution Company” or borrowers with a credit rating below CCC, and no regular monitoring for a “Normal Company.” In addition, the Review Credit Officer may request more frequent monitoring if the borrower is showing signs of deteriorated credit quality. For borrowers with outstanding loan amounts of ₩2 billion or more, Shinhan Bank also monitors the revenues and earnings of such borrower on a quarterly basis within seven weeks following the end of each quarter.

Heightened monitoring of borrowers with bad credit history and/or belonged or belonging to troubled industries. In addition to the systematic monitoring discussed above, Shinhan Bank also carries out additional monitoring for borrowers that, among others, (i) are rated as “requiring observation,” “requiring precaution” or “with early warning signs” as noted above, (ii) have prior history of delinquency or restructuring or (iii) have borrowings that are classified as substandard or below. Based on the heightened monitoring of these borrowers, Shinhan Bank adjusts contingency planning as to how the overall asset quality of a specific industry should be managed for each phase of the business cycle, how Shinhan Bank should limit or reduce its credit exposure to such borrowers, and how our group-wide delinquency and non-performing ratio would be changed, among other things.

Credit Risk Assessment and Control

In order to assess credit risk in a systematic manner, Shinhan Bank has developed and upgraded systems designed to quantify credit risk based on selection and monitoring of various statistics, including delinquency rate, non-performing loan ratio, expected credit losses on loans and weighted average risk rating.

Shinhan Bank controls loan concentration by monitoring and managing loans at two levels: portfolio level and individual loan account level. In order to maintain portfolio-level credit risk at an appropriate level, Shinhan Bank manages its loans using value-at-risk (“VaR”) limits for the entire bank as well as for each of its business units. In order to prevent concentration of risk in a particular borrower or borrower class, Shinhan Bank also manages credit risk by borrower, industry, country and other detailed categories.

Shinhan Bank measures credit risk using internally accumulated data. Shinhan Bank measures expected and unexpected losses with respect to total assets monthly, which Shinhan Bank refers to when setting risk limits for, and allocating capital to, its business groups. Expected loss is calculated based on the probability of default, the loss given default, the exposure at default and the past bankruptcy rate and recovery rate, and Shinhan Bank provides allowance for credit losses on loans accordingly. Shinhan Bank makes provisioning at a level which is the higher of the Financial Supervisory Service requirement or Shinhan Bank’s internal calculation. Unexpected loss is predicted based on VaR, which is used to determine compliance with the aggregate credit risk limit for Shinhan Bank as well as the credit risk limit for the relevant department within Shinhan Bank. Shinhan Bank uses the AIRB method as proposed by the Basel Committee to compute VaR at the account-specific level as well as to measure risk adjusted performance.

Credit Risk Management of Shinhan Card

Major policies for Shinhan Card’s credit risk management are determined by Shinhan Card’s Risk Management Council, and Shinhan Card’s Risk Management Committee is responsible for approving them. Shinhan Card’s Risk Management Council is headed by the Chief Risk Officer, and also comprises of the heads of each business unit, supporting unit and relevant department at Shinhan Card. Shinhan Card’s Risk Management Council convenes at least once every month and may also convene on an *ad hoc* basis as needed. Shinhan Card’s Risk Management Committee is comprised of three Non-Standing Directors. Shinhan Card’s Risk Management Committee convenes at least once every quarter and may also convene on an *ad hoc* basis as needed.

The risk of loss from default by the cardholders or credit card loan borrowers is Shinhan Card’s greatest credit risk. Shinhan Card manages its credit risk based on the following principles:

- achieve profit at a level corresponding to the level of risks involved;
- improve asset quality and achieve an optimal mix of asset portfolios; and
- closely monitor borrower’s ability to repay the debt.

Credit Card Approval Process

Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the behavior scoring system and the application scoring system. The behavior scoring system is based largely on the credit history of the cardholder or borrower, and the application scoring system is based largely on personal information of the applicant. For credit card applicants with whom we have an existing relationship, Shinhan Card’s credit scoring system considers internally gathered information such as the ability to repay, total assets, the length of the existing relationship and the applicant’s contribution to Shinhan Card’s profitability. The credit scoring system also automatically conducts credit checks on all credit card applicants. Shinhan Card gathers information about the applicant’s transaction history with financial institutions, including banks and credit card companies, from a number of third party credit reporting agencies including, among others, National Information & Credit Evaluation Inc. and Korea Credit Bureau. These credit checks reveal a list of the delinquent customers of all credit card issuers in Korea.

If a credit score assigned to an applicant is above the minimum threshold, the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies. For a credit card application by a long-standing customer with a good credit history, Shinhan Card may, on a discretionary basis, approve the application notwithstanding the assigned credit score unless overridden by other considerations. All of these factors also serve as the basis for setting a credit limit for approved applications.

The following describes the process of how Shinhan Card sets credit limits for credit cards, cash advances and card loans:

- *Credit purchase and cash advance limits* — These limits are set based on the applicant's limit request and Shinhan Card's credit screening criteria. Unless a cardholder requests a reduction in the credit purchase and/or cash advance limit, Shinhan Card is required to provide prior notice to the cardholder for any reduction in such cardholder's limit. However, if the account holder defaults or the cardholder's credit limit is reduced according to the terms of the card agreement, Shinhan Card may lower the credit limit before notifying the account holder.
- *Card loan limit* — This limit is set monthly by Shinhan Card based on the cardholder's credit rating and transaction history. The card loan limit can be adjusted monthly based on the cardholder's credit standing without prior notification.

Monitoring

Shinhan Card continually monitors all cardholders and accounts using a behavior scoring system. The behavior scoring system predicts a cardholder's payment pattern by evaluating the cardholder's credit history, card usage and amounts, payment status and other relevant data. The behavior score is recalculated each month and is used to manage the accounts and approval of additional loans and other products to the cardholder. Shinhan Card also uses the scoring system to monitor its overall risk exposure and to modify its credit risk management strategy.

Loan Application Review and On-going Credit Review

When reviewing new applications and conducting an ongoing credit review for retail loans, installment purchase loans and personal leases, Shinhan Card uses criteria substantially similar to those used in the credit underwriting system and the credit review system for cardholders. For retail loans, installment purchase loans and personal leases to existing cardholders, Shinhan Card reviews their card usage history in addition to other factors such as their income, occupation and assets.

Fraud Loss Prevention

Shinhan Card seeks to minimize losses from the fraudulent use of credit cards issued by it. Shinhan Card focuses on preventing fraudulent uses and, following the occurrence of a fraudulent use, makes investigations in order to make the responsible party bear the losses. Misuses of lost credit cards account for a substantial majority of Shinhan Card's fraud-related losses. Through its fraud loss prevention system, Shinhan Card seeks to detect, on a real-time basis, transactions that are unusual or inconsistent with prior usage history and calls are made to the relevant cardholders to confirm their purchases. A team at Shinhan Card dedicated to investigating fraud losses also examines whether the cardholder was at fault by, for example, not reporting a lost card or failing to endorse the card, or whether the relevant merchant was negligent in checking the identity of the user. Fault may also lie with delivery companies that fail to deliver credit cards to the relevant applicant. In such instances, Shinhan Card attempts to recover fraud losses from the responsible party. To prevent misuse of a card as well as to manage credit risk, Shinhan Card's information technology system will automatically suspend the use of a card (i) when, as a result of ongoing monitoring, fraudulent use or loss of the card is suspected based on the account holder's credit score, or (ii) at the request of the account holder.

Approximately 94% of Shinhan Card's cardholders consent to Shinhan Card's accessing their travel records to detect any misuse of credit cards while they are traveling abroad. Shinhan Card also offers cardholders additional fraud protection through a fee-based texting service. At the cardholder's option, Shinhan Card notifies the cardholder of any credit card activity in his or her account by sending a text message to his or her mobile phone. This notification service allows customers to quickly and easily identify any fraudulent use of their credit cards.

Credit Risk Management of Shinhan Investment

In accordance with the guidelines of the Financial Supervisory Service, Shinhan Investment assesses its credit risks (including through VaR analyses) and allocates the maximum limit for the credit amount at risk by department. Shinhan Investment also assesses the counterparty risks in all credit-related transactions, such as loans, acquisition financings and derivative transactions and takes corresponding risk management measures. In assessing the credit risk of a corporate counterparty, Shinhan Investment considers such counterparty's corporate credit rating obtained from Shinhan Group Corporate Credit Rating System. Through its risk management system, Shinhan Investment also closely monitors credit risk exposures by counterparty, industry, conglomerates, credit ratings and country. Shinhan Investment conducts credit risk stress tests on a daily basis based on probability of default and also conducts more advanced stress tests from time to time, the results of which are then reported to its management as well as the Group Chief Risk Officer to support group-wide credit risk management.

Credit Risk Management of Shinhan Life Insurance

Shinhan Life Insurance also assesses credit risks for all of its credit-related transactions, including provision of loans and acquisitions of financial instruments. Shinhan Life Insurance conducts additional risk reviews for new types of investments and financial instruments, such as those denominated in currencies it previously did not deal with. In assessing the credit risk of corporate customers, Shinhan Life Insurance considers such corporation's credit rating obtained from Shinhan Group Corporate Credit Rating System. Through its risk management system Shinhan Life Insurance conducts credit risk monitoring based on the credit history of debtors. To closely monitor credit risk, Shinhan Life Insurance's loan review department performs periodic loan review of its loan assets and plans on-site inspections where necessary. Furthermore, in the retail business, Shinhan Life Insurance operates its own credit-scoring system to assess credit risk and update customers' behavior scores.

Credit Risk Management of Orange Life Insurance

Orange Life Insurance evaluates and manages risk for all credit-related transactions, including transactions related to deposits, bonds, loans and over-the-counter derivatives. In addition, in order to manage counterparty credit risk, Orange Life Insurance sets limits on credit ratings of counterparties and also sets transaction limits per counterparty in order to prevent risk concentration on any particular counterparty. In addition, different measurement criteria for asset quality are used depending on the creditworthiness of the lender, and asset quality is continuously monitored and managed accordingly. In order to preemptively manage and prevent significant credit risks, Orange Life Insurance establishes loan loss reserves when appropriate based on its assessment of asset quality and recognizes impairment loss on assets that are likely to incur significant loss or become difficult to collect.

Market Risk Management

Market risk is the risk of loss generated by fluctuations in market prices such as interest rates, foreign exchange rates and equity prices. The principal market risks to which we are exposed are interest rate risk and, to a lesser extent, foreign exchange and equity price risk. These risks stem from our trading and non-trading activities relating to financial instruments such as loans, deposits, securities and financial derivatives. We divide market risk into risks arising from trading activities and risks arising from non-trading activities.

Our market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, our securities trading and brokerage subsidiary, which faces market risk relating to its trading activities.

Shinhan Bank's Risk Management Committee establishes overall market risk management principles for both the trading and non-trading activities of Shinhan Bank. Based on these principles, the Risk Policy Committee acts as the executive decision-making body in relation to Shinhan Bank's market risks in terms of setting its risk management policies and risk limits in relation to market risks and assets and controlling market risks arising from trading and non-trading activities of Shinhan Bank. The Risk Policy Committee consists of deputy presidents in charge of Shinhan Bank's seven business groups and Shinhan Bank's Chief Risk Officer and the Chief Financial Officer. At least on a monthly basis, the Risk Policy Committee reviews and approves reports relating to, among others, the position and VaR with respect to Shinhan Bank's trading activities and the position, VaR, duration gap and market value analysis and net interest income simulation with respect to its non-trading activities. In addition, Shinhan Bank's Risk Engineering Department comprehensively manages market risks on an independent basis from Shinhan Bank's operating departments, and functions as the middle office of Shinhan Bank. Shinhan Bank measures market risk with respect to all assets and liabilities in bank accounts and trust accounts in accordance with the regulations promulgated by the Financial Services Commission.

Shinhan Investment manages its market risk based on its overall risk limit established by its risk management committee as well as the risk limits and detailed risk management guidelines for each product and department established by its Risk Management Working Committee. Shinhan Investment's Risk Management Working Committee is the executive decision-making body for managing market risks related to Shinhan Investment, and determines, among other things, Shinhan Investment's overall market risk management policies and strategies, and assesses and approves trading activities and limits. In addition, Shinhan Investment's Risk Management Department manages various market risk limits and monitors operating conditions on an independent basis from Shinhan Investment's operating departments. Shinhan Investment assesses the adequacy of these limits at least annually. In addition, Shinhan Investment assesses the market risks of its trading assets. The assessment procedure is based on the standard procedures set by the Financial Supervisory Service as well as an internally developed model. Shinhan Investment assesses the risk amount and VaR, and manages the risk by setting a risk limit per sector as well as a VaR limit.

Shinhan Life Insurance manages its market risk based on its overall risk limit established by its risk management committee. Shinhan Life Insurance manages market risk in regard to assets that are subject to trading activities and foreign exchange positions. Shinhan Life Insurance assesses the market risk amount and the 10-day VaR, a procedure based on the delta-normal method, and manages market risk by setting a 10-day VaR limit. Shinhan Life Insurance assessed the adequacy of these limits at least annually and implements back tests on market risk determinations by comparing daily profit and loss against one-day VaR in 2017.

Orange Life Insurance manages its foreign exchange risk resulting from the difference in its foreign currency assets and liabilities risk by setting risk limits on the amounts of foreign currency assets and monitoring compliance with such limits on a daily basis, with such monitoring results submitted to the Bank of Korea. Orange Life Insurance does not face significant market risk from trading activities.

Shinhan Card does not have any assets with significant exposure to market risks and therefore does not maintain a risk management policy with respect to market risks.

We use financial information prepared on a separate basis according to IFRS for the market risk management of our subsidiaries and, unless otherwise specified herein, financial information in this annual report presented for quantitative market risk disclosure relating to our subsidiaries have been prepared in accordance with IFRS on a separate basis.

Market Risk Exposure from Trading Activities

Shinhan Bank's trading activities principally consist of:

- trading activities to realize short-term profits from trading in the equity and debt securities markets and the foreign currency exchange markets based on Shinhan Bank's short-term forecast of changes in market situation and customer demand, for its own account as well as for the trust accounts of Shinhan Bank's customers; and
- trading activities primarily to realize profits from arbitrage transactions involving derivatives such as swaps, forwards, futures and options, and, to a lesser extent, to sell derivative products to Shinhan Bank's customers and to cover market risk associated with those trading activities.

Shinhan Investment's trading activities principally consist of trading for customers and for proprietary accounts equity and debt securities and derivatives based on stock prices, stock indexes, interest rates, foreign currency exchange rates and commodity prices.

As a result of these trading activities, Shinhan Bank is exposed principally to interest rate risk, foreign currency exchange rate risk and equity risk, and Shinhan Investment is exposed principally to equity risk and interest rate risk.

Interest Rate Risk

Shinhan Bank's exposure to interest rate risk arises primarily from Won-denominated debt securities, directly held or indirectly held through beneficiary certificates, and, to a lesser extent, from interest rate derivatives. Shinhan Bank's exposure to interest rate risk arising from foreign currency-denominated trading debt securities is minimal since its net position in those securities is not significant. As Shinhan Bank's trading accounts are marked-to-market daily, it manages the interest rate risk related to its trading accounts using VaR, a market value-based tool.

Shinhan Investment's interest rate risk arises primarily from management of its interest rate-sensitive asset portfolio, which mainly consists of debt securities, interest rate swaps and government bond futures, and the level of such risk exposure depends largely on the variance between the interest rate movement assumptions built into the asset portfolio and the actual interest rate movements and the spread between a derivative product and its underlying assets. Shinhan Investment quantifies and manages the interest rate-related exposure by daily conducting VaR and stress tests on a marked-to-market basis.

Foreign Currency Exchange Rate Risk

Shinhan Bank's exposure to foreign currency exchange rate risk mainly relates to its assets and liabilities, including derivatives such as foreign currency forwards and futures and currency swaps, which are denominated in currencies other than the Won. Shinhan Bank manages foreign currency exchange rate risk, including the corresponding risks faced by its overseas branches, on a consolidated basis by covering all of its foreign exchange spot and forward positions in both trading and non-trading accounts.

Shinhan Bank's net foreign currency open position represents the difference between its foreign currency assets and liabilities as offset against forward foreign currency positions, and is Shinhan Bank's principal exposure to foreign currency exchange rate risk. The Risk Policy Committee oversees Shinhan Bank's foreign currency exposure for both trading and non-trading activities by establishing limits for the net foreign currency open position, loss limits and VaR limits. Shinhan Bank centrally monitors and manages its foreign exchange positions through its Financial Engineering Center. Dealers in the Financial Engineering Center manage Shinhan Bank's consolidated position within preset limits through spot trading, forward contracts, currency options, futures and swaps and foreign currency swaps. Shinhan Bank sets a limit for net open positions by currency. The limits for currencies other than the U.S. Dollar, Japanese Yen, Euro and Chinese Yuan are set in a conservative manner in order to minimize trading in such currencies.

Shinhan Investment faces foreign currency exchange rate risk in relation to the following product offerings: currency forwards, currency swaps and currency futures. Shinhan Investment centrally monitors and manages transactions involving such products through its Fixed Income, Currency & Commodities Departments. Shinhan Investment's Risk Management Working Committee, which is delegated with the authority to approve foreign currency-related transactions and limits on the related open positions, manages the related foreign exchange risk by setting nominal limits on the amounts of foreign exchange-related products and monitoring compliance with such limits on a daily basis. As of December 31, 2020, Shinhan Investment's net open position related to foreign currency-related products was US\$970 million, and its open positions related to the sale of Won-U.S. Dollar forwards and Won-U.S. Dollar futures were US\$754 million and US\$534 million, respectively.

Shinhan Capital manages its foreign exchange risk resulting from the difference in its foreign currency assets and liabilities through derivative transactions such as forwards or swaps and maintains its net exposure at US\$26.9 million.

The net open foreign currency positions held by our other subsidiaries are insignificant.

The following table shows Shinhan Bank's net foreign currency open positions as of December 31, 2018, 2019 and 2020. Positive amounts represent long exposures and negative amounts represent short exposures.

<u>Currency</u>	<u>As of December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(In millions of US\$)		
U.S. Dollars	\$ 38.9	\$ (147.4)	\$ (299.4)
Japanese Yen	(9.6)	(14.1)	3.9
Euro	0.9	12.1	12.4
Others	1,104.1	1,169.2	1,201.2
Total	<u>\$1,134.3</u>	<u>\$1,019.9</u>	<u>\$ 918.0</u>

Equity Risk

Shinhan Bank's equity risk related to trading activities mainly involves trading equity portfolios of Korean companies and Korea Stock Price Index futures and options. The trading equity portfolio consists of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and nearest-month or second nearest-month futures contracts under strict limits on diversification as well as limits on positions. Shinhan Bank maintains strict scrutiny of these activities in light of the volatility in the Korean stock market and closely monitors the loss limits and the observance thereof. Although Shinhan Bank holds a substantially smaller amount of equity securities than debt securities in its trading accounts, the VaR of trading account equity risk is generally higher than that of trading account interest rate risk due to high volatility in the value of equity securities. As of December 31, 2018, 2019 and 2020, Shinhan Bank held ₩184.2 billion, ₩126.3 billion and ₩13.7 billion, respectively, of equity securities in its trading accounts (including the trust accounts).

Shinhan Investment's equity risk related to trading activities also mainly involves the trading of equity portfolio of Korean companies and Korea Stock Price Index futures and options. As of December 31, 2018, 2019 and 2020, the total amount of equity securities at risk held by Shinhan Investment was ₩31.3 billion, ₩27.8 billion and ₩53.8 billion, respectively.

Equity positions held by our other subsidiaries are insignificant.

Management of Market Risk from Trading Activities

The following table presents an overview of market risk, measured by VaR, from trading activities of Shinhan Bank and Shinhan Investment, respectively, as of and for the year ended December 31, 2020. For market risk management purposes, Shinhan Bank includes in the computation of total VaR its trading portfolio in bank accounts and assets in trust accounts, in each case, for which it guarantees principal or fixed return in accordance with the Financial Services Commission regulations.

	Trading Portfolio VaR for the Year 2020			
	Average	Minimum	Maximum	As of December 31, 2020
	(In billions of Won)			
Shinhan Bank: ⁽¹⁾				
Interest rate	₩ 41.2	₩ 28.3	₩ 56.9	₩ 42.9
Foreign exchange ⁽²⁾	65.3	27.7	83.3	69.0
Equities	27.1	7.5	66.3	7.9
Option volatility ⁽³⁾	0.3	0.1	1.1	0.1
Commodity	0.0	0.0	0.2	0.0
Less: portfolio diversification ⁽⁴⁾	(27.8)	(14.2)	(53.3)	(25.3)
Total VaR ⁽⁵⁾	<u>₩ 106.0</u>	<u>₩ 49.5</u>	<u>₩ 154.5</u>	<u>₩ 94.6</u>
Shinhan Investment: ⁽¹⁾				
Interest rate	₩ 20.51	₩ 12.08	₩ 30.90	₩ 23.55
Equities	26.14	2.41	51.51	36.57
Foreign exchange	12.48	0.63	46.97	15.56
Option volatility ⁽³⁾	43.32	2.89	162.01	57.92
Less: portfolio diversification ⁽⁴⁾	(27.22)	1.65	(61.01)	(38.40)
Total VaR	<u>₩ 75.23</u>	<u>₩ 18.65</u>	<u>₩ 187.98</u>	<u>₩ 95.21</u>

Notes:

- (1) Shinhan Bank and Shinhan Investment's 10-day VaR is based on a 99.9% confidence level.
- (2) Includes both trading and non-trading accounts as Shinhan Bank and Shinhan Investment manage foreign exchange risk on a total position basis.
- (3) Volatility implied from the option price using the Black-Scholes or a similar model.
- (4) Calculation of portfolio diversification effects is conducted on different days' scenarios for different risk components. Total VaRs are less than the simple sum of the risk component VaRs due to offsets resulting from portfolio diversification.
- (5) Includes trading portfolios in Shinhan Bank's bank accounts and assets in trust accounts, in each case, for which it guarantees principal or fixed return.

Shinhan Bank generally manages its market risk from the trading activities of its portfolios on an aggregated basis. To control its trading portfolio market risk, Shinhan Bank uses position limits, VaR limits, stop loss limits, Greek limits and stressed loss limits. In addition, it establishes separate limits for investment securities. Shinhan Bank maintains risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the Financial Services Commission, and measures market risk from trading activities to monitor and control the risk of its operating divisions and teams that perform trading activities. Shinhan Bank manages VaR measurements and limits on a daily basis based on automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank presets limits on loss, sensitivity, investment and stress for its trading departments and desks and monitors such limits and observance thereof on a daily basis.

Value-at-risk analysis. Shinhan Bank uses 10-day and one-day VaRs to measure its market risk. Shinhan Bank calculates (i) 10-day VaRs on a daily basis based on data for the previous 12 months for the holding periods of 10 days and (ii) one-day VaRs on a daily basis based on data for the previous 12 months for the holding periods of one day. A 10-day VaR and one-day VaR are statistically estimated maximum amounts of loss that can occur for 10 days and one day, respectively, under normal market conditions. If a VaR is measured using a 99% confidence level, the actual amount of loss may exceed the expected VaR, on average, once out of every 100 business days, while if a VaR is measured using a 99.9% confidence level, the actual amount of loss may exceed the expected VaR, on average, once out of 1,000 business days.

Shinhan Bank currently uses the 10-day 99% confidence level-based VaR and stressed VaR for purposes of calculating the regulatory capital used in reporting to the Financial Supervisory Service. Stressed VaR reflects the potential significant loss in the current trading portfolio based on scenarios derived from a crisis simulation during the preceding 12 months. Shinhan Bank also uses the more conservative 10-day 99.9% confidence level-based VaR for purposes of calculating its “economic” capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank’s requisite capital in light of the market risk. In addition, Shinhan Bank uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. For Shinhan Bank, the amount of losses (either actual or virtual) exceeded the one-day 99% confidence level-based VaR amount zero times in 2018, five times in 2019 and two times in 2020. Most recently, losses exceeded the one-day 99% confidence level-based VaR amount by 184.7% on March 20, 2020. The increased frequency of instances in which the amount of losses exceeded the VaR amount in 2019 was primarily because the foreign currency exchange market experienced unusually high volatility. The VaR exceptions referred to above were all due to the amount of virtual losses exceeding the VaR amount. Virtual losses represent the potential changes in the value of a portfolio when simulating the same portfolio with market variables of the next trading day.

Shinhan Investment currently uses the same 10-day 99.9% confidence level-based historical VaR for purposes of calculating its “economic” capital used for internal management purposes, although such model is not subject to regulatory review or reporting requirements. In addition, Shinhan Investment applies this VaR as a risk limit for the entire company as well as individual departments and products, and the adequacy of such VaR is reviewed by way of daily back-testing. When computing VaR, Shinhan Investment does not assume any particular probability distribution and calculates it through a simulation of the “full valuation” method based on changes of market variables such as stock prices, interest rates and foreign exchange rates in the past one year. For Shinhan Investment, the amount of losses (either actual or virtual) exceeded the one-day 99% confidence level-based VaR amount zero times in 2018 and 2019 and four times in 2020. The VaR exceptions referred to above were all due to the amount of virtual losses exceeding the VaR amount.

Value-at-risk is a commonly used market risk management technique. However, VaR models have the following shortcomings:

- VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a reliable indicator of future events, particularly those that are extreme in nature;
- VaR may underestimate the probability of extreme market movements;
- Shinhan Bank’s VaR models assume that a holding period of generally one to 10 days is sufficient prior to liquidating the underlying positions, but such assumption regarding the length of the holding period may actually prove to be inadequate;
- The 99.9% confidence level does not take into account or provide indication of any losses that might occur beyond this confidence level; and
- VaR does not capture all complex effects of various risk factors on the value of positions and portfolios and could underestimate potential losses.

Currently, Shinhan Bank and Shinhan Investment conduct back-testing of VaR results against actual outcomes on a daily basis.

Shinhan Bank operates an integrated market risk management system which manages Shinhan Bank's Won-denominated and foreign-denominated accounts. This system uses historical simulation to measure both linear risks arising from products such as equity and debt securities and nonlinear risks arising from other products including options. We believe that this system enables Shinhan Bank to generate elaborate and consistent VaR information and to perform sensitivity analysis and back testing in order to check the validity of the models on a daily basis. Shinhan Life Insurance also measures market risks based on a VaR analysis.

Stress test. In addition to VaR, Shinhan Bank performs stress tests to measure market risk. As VaR assumes normal market situations, Shinhan Bank assesses its market risk exposure to unlikely abnormal market fluctuations through the stress test. Stress test is a valuable supplement to VaR since VaR does not cover potential loss if the market moves in a manner which is outside Shinhan Bank's normal expectations. Stress test projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio.

Shinhan Bank uses seven relatively simple but fundamental scenarios for stress test by taking into account four market risk components: foreign currency exchange rates, stock prices, and Won-denominated interest rates and foreign currency-denominated interest rates. For the worst case scenario, Shinhan Bank assumes instantaneous and simultaneous movements in four market risk components: appreciation of Won by 20%, a decrease in Korea Exchange Composite Index by 30% and increases in Won-denominated and U.S. Dollar-denominated interest rates by 200 basis points each, respectively. Under this worst-case scenario, the market value of Shinhan Bank's trading portfolio would have declined by ₩398 billion as of December 31, 2020. Shinhan Bank performs stress test on a daily basis and reports the results to its Risk Policy Committee on a monthly basis and its Risk Management Committee on a quarterly basis.

Shinhan Investment uses nine scenarios for stress tests by taking into account four market risk components: stock prices (both in terms of stock market indices and β -based individual stock prices), interest rates for Won-denominated loans, foreign currency exchange rates and historical volatility. As of December 31, 2020, under the worst case scenario assuming a 20% decline in stock prices (both in terms of stock market indices and β -based individual stock prices), the market value of Shinhan Investment's trading portfolio would have fluctuated by ₩157 billion for one day.

Shinhan Bank sets limits on stress testing for its overall operations. Shinhan Investment sets limits on stress testing for its overall operations as well as at its department level. Although Shinhan Life Insurance does not set any limits on stress testing, it monitors the impact of market turmoil or other abnormalities. In the case of Shinhan Bank, Shinhan Investment and Shinhan Life Insurance, if the potential impact is large, their respective head of Risk Management will notify such impact and may request a portfolio restructuring or other proper action.

Hedging and Derivative Market Risk

The principal objective of our group-wide hedging strategy is to manage market risk within established limits. We use derivative instruments to hedge our market risk as well as to make profits by trading derivative products within preset risk limits. Our derivative trading includes interest rate and cross-currency swaps, foreign currency forwards and futures, stock index and interest rate futures, and stock index and currency options.

While we use derivatives for hedging purposes, derivative transactions by nature involve market risk since we take trading positions for the purpose of making profits. These activities consist primarily of the following:

- arbitrage transactions to make profits from short-term discrepancies between the spot and derivative markets or within the derivative markets;

- sales of tailor-made derivative products that meet various needs of our corporate customers, principally of Shinhan Bank and Shinhan Investment, and related transactions to reduce their exposure resulting from those sales;
- taking positions in limited cases when we expect short-swing profits based on our market forecasts; and
- trading to hedge our interest rate and foreign currency risk exposure as described above.

In accordance with accounting requirements under IFRS 9, “Financial instruments”, which has replaced IAS 39, “*Financial Instruments: Recognition and Measurement*” since January 1, 2018, we have implemented internal processes which include a number of key controls designed to ensure that fair value is measured appropriately, particularly where a fair value model is internally developed and used to price a significant product.

Shinhan Bank assesses the adequacy of the fair market value of a new product derived from its internal model prior to the launch of such product. The assessment process involves the following:

- computation of an internal dealing system market value (based on assessment by the quantitative analysis team of the adequacy of the formula and the model used to compute the market value as derived from the dealing system);
- computation of the market value as obtained from an outside credit evaluation company; and
- following comparison of the market value derived from an internal dealing system to that obtained from outside credit evaluation companies, determination as to whether to use the internally developed market value based on inter-departmental consensus.

The dealing system market value, which is used officially by Shinhan Bank after undergoing the assessment process above, does not undergo a sampling process that confirms the value based on review of individual transactions, but is subject to an additional assessment procedure of comparing such value against the profits derived from the dealing systems based on the deal portfolio sensitivity.

Shinhan Investment follows an internal policy as set by its Fair Value Evaluation Committee for computing and assessing the adequacy of fair value of all of its over-the-counter derivative products. Shinhan Investment computes the fair value based on an internal model and internal risk management systems and assesses the adequacy of the fair value through cross-departmental checks as well as comparison against fair values obtained from outside credit evaluation companies.

See “Item 5.A. Operating Results — Critical Accounting Policies” and Note 3 of the notes to our consolidated financial statements included in this annual report.

Market risk from derivatives is not significant since derivative trading activities of Shinhan Bank and Shinhan Investment are primarily driven by arbitrage and customer deals with highly limited open trading positions. Market risk from derivatives is also not significant for Shinhan Life Insurance as its derivative trading activities are limited to those within preset risk limits and are subject to heavy regulations imposed on the insurance industry. Market risk from derivatives is not significant for our other subsidiaries since the amount of such positions by our other subsidiaries is insignificant.

Market Risk Management for Non-trading Activities

Interest Rate Risk

Interest rate risk represents Shinhan Bank’s principal market risk from non-trading activities. Interest rate risk is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of Shinhan Bank. Shinhan Bank’s interest rate risk primarily relates to the differences between the timing of rate changes for interest-earning assets and that for interest-bearing liabilities.

Interest rate risk affects Shinhan Bank's earnings and the economic value of Shinhan Bank's net assets as follows:

- *Earnings*: interest rate fluctuations have an effect on Shinhan Bank's net interest income by affecting its interest-sensitive operating income and expenses.
- *Economic value of net assets*: interest rate fluctuations influence Shinhan Bank's net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of Shinhan Bank.

Accordingly, Shinhan Bank measures and manages interest rate risk for non-trading activities by taking into account the effects of interest rate changes on both its income and net asset value. Shinhan Bank measures and manages interest rate risk on a daily and monthly basis with respect to all interest-earning assets and interest-bearing liabilities in Shinhan Bank's bank accounts (including derivatives denominated in Won which are principally interest rate swaps entered into for the purpose of hedging) and in trust accounts, except that Shinhan Bank measures VaRs on a monthly basis. Most of Shinhan Bank's interest-earning assets and interest-bearing liabilities are denominated in Won.

Interest Rate Risk Management

The principal objectives of Shinhan Bank's interest rate risk management are to generate stable net interest income and to protect Shinhan Bank's net asset value against interest rate fluctuations. Through its asset and liability management system, Shinhan Bank monitors and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk ("EaR") limits and interest rate gap ratio limits. Shinhan Bank measures its interest rate VaR and interest rate EaR based on interest rate risk in the banking book standardized approach presented by the Bank for International Settlements (the "IRRBB standardized approach"). IRRBB, which is part of the Basel capital framework's Pillar 2 and subject to the Committee's guidance set out in the 2004 revised principles for the management and supervision of interest rate risk, refers to current or prospective risk to a bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book position. Interest rate risk is managed by reflecting possible future interest rate environments and customer behavior based on the IRRBB standardized approach. Interest rate VaR is measured by the change in economic value of equity under six types of scenarios (parallel up, parallel down, stiffer, flatter, short-term interest rate-up and short-term interest rate-down). Interest rate EaR is measured by the largest loss amount based on two types of scenarios (parallel up and parallel down). The Risk Policy Committee sets the interest rate risk limits for Shinhan Bank's Won-denominated and foreign currency-denominated non-trading accounts and trust accounts, and the Risk Management Committee sets Shinhan Bank's overall interest rate risk limit, in both cases, at least annually. The Risk Management Department monitors Shinhan Bank's compliance with these limits and reports the monitoring results to the Risk Policy Committee on a monthly basis and the Risk Management Committee on a quarterly basis. Shinhan Bank uses interest rate swaps to control its interest rate exposure limits.

Interest rate VaR represents the maximum anticipated loss in a net present value calculation (computed as the present value of interest-earning assets minus the present value of interest-bearing liabilities), whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation (computed as interest income minus interest expenses) for the immediately following one-year period, in each case, as a result of negative movements in interest rates. Therefore, interest rate VaR is a more expansive concept than interest rate EaR in that the former covers all interest-earning assets and all interest-bearing liabilities, whereas the latter covers only those interest-earning assets and interest-bearing liabilities that are exposed to interest rate volatility for a one-year period.

Hence, for interest rate VaRs, the duration gap (namely, the weighted average duration of all interest-earning assets minus the weighted average duration of all interest-bearing liabilities) can be a more critical factor than the relative sizes of the relevant assets and liabilities in influencing interest rate VaRs. In comparison, for interest rate EaRs, the relative sizes of the relevant assets and liabilities in the form of the "one year or less

interest rate” gap (namely, the volume of interest-earning assets with maturities of less than one year minus the volume of interest-bearing liabilities with maturities of less than one year) are the most critical factor in influencing the interest rate EaRs.

On a monthly basis, we monitor whether the non-trading positions for interest rate VaR and EaR exceed their respective limits as described above.

Interest rate VaR cannot be meaningfully compared to the 10-day 99% confidence level based VaR (“market risk VaR”) for managing trading risk principally because (i) the underlying assets are different (namely, non-trading interest-bearing assets as well as liabilities in the case of the interest rate VaR, compared to trading assets only in the case of the market risk VaR), and (ii) interest rate VaR is sensitive to interest rate movements only while the market risk VaR is sensitive to interest rate movements as well as other factors such as foreign currency exchange rates, stock market prices and option volatility.

Even if comparison were to be made between the interest rate VaR and the interest rate portion only of the market risk VaR, we do not believe such comparison would be meaningful since the interest rate VaR examines the impact of interest rate movements on both assets and liabilities (which will likely have offsetting effects), whereas the interest rate portion of the market VaR examines the impact of interest rate movements on assets only.

Shinhan Bank uses various analytical methodologies to measure and manage its interest rate risk for non-trading activities on a daily and monthly basis, including the following analyses:

- Interest rate gap analysis;
- Duration gap analysis;
- Market value analysis; and
- Net interest income simulation analysis.

Interest Rate Gap Analysis

Shinhan Bank performs an interest gap analysis to measure the difference between the amount of interest-earning assets and that of interest-bearing liabilities at each maturity and re-pricing date for specific time intervals by preparing interest rate gap tables in which Shinhan Bank’s interest-earning assets and interest-bearing liabilities are allocated to the applicable time intervals based on the expected cash flows and re-pricing dates.

On a daily basis, Shinhan Bank performs interest rate gap analysis for Won- and foreign currency-denominated assets and liabilities in its bank and trust accounts. Shinhan Bank’s gap analysis includes Won-denominated derivatives (which are interest rate swaps for the purpose of hedging) and foreign currency-denominated derivatives (which are currency swaps for the purpose of hedging), which are managed centrally at the Financial Engineering Center. Through the interest rate gap analysis that measures interest rate sensitivity gaps, cumulative gaps and gap ratios, Shinhan Bank assesses its exposure to future interest risk fluctuations. For interest rate gap analysis, Shinhan Bank assumes and uses the following maturities for different types of assets and liabilities:

- With respect to the maturities and re-pricing dates of Shinhan Bank’s assets, Shinhan Bank assumes that the maturity of Shinhan Bank’s prime rate-linked loans is the same as that of its fixed-rate loans. Shinhan Bank excludes equity securities from interest-earning assets.
- With respect to the maturities and re-pricing of Shinhan Bank’s liabilities, Shinhan Bank assumes that money market deposit accounts and “non-core” demand deposits under the Financial Services Commission guidelines have a maturity of one month or less for both Won-denominated accounts and foreign currency-denominated accounts.

- With respect to “core” demand deposits under the Financial Services Commission guidelines, Shinhan Bank assumes that they have maturities of eight different intervals ranging from one month to five years.

The following tables show Shinhan Bank’s interest rate gaps as of December 31, 2020 for (i) Won-denominated non-trading bank accounts, including derivatives entered into for the purpose of hedging and (ii) foreign currency-denominated non-trading bank accounts, including derivatives entered into for the purpose of hedging.

Won-denominated non-trading bank accounts⁽¹⁾

	As of December 31, 2020						Total
	0-3 Months	3-6 Months	6-12 Months	1-2 Years	2-3 Years	Over 3 Years	
	(In billions of Won, except percentages)						
Interest-earning assets	₩136,062	₩64,927	₩ 32,514	₩ 30,327	₩ 18,990	₩ 31,736	₩314,558
Fixed rates	17,256	15,098	18,097	25,774	15,709	17,709	109,643
Floating rates	117,837	49,039	13,688	4,513	3,281	13,977	202,335
Interest rate swaps	970	790	730	40	0	50	2,580
Interest-bearing liabilities	₩137,571	₩45,897	₩ 70,344	₩ 27,040	₩ 15,773	₩ 29,684	₩326,310
Fixed liabilities	56,521	32,467	56,411	13,966	2,304	2,817	164,485
Floating liabilities	78,470	13,430	13,933	13,075	13,469	26,867	159,245
Interest rate swaps	2,580	0	0	0	0	0	2,580
Sensitivity gap	(1,509)	19,030	(37,830)	3,287	3,217	2,052	(11,752)
Cumulative gap	(1,509)	17,521	(20,308)	(17,021)	(13,804)	(11,752)	(11,752)
% of total assets	(0.48)%	5.57%	(6.46)%	(5.41)%	(4.39)%	(3.74)%	(3.74)%

Foreign currency-denominated non-trading bank accounts⁽¹⁾

	As of December 31, 2020						Total
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years		
	(In millions of US\$, except percentages)						
Interest-earning assets	\$29,444	\$8,266	\$ 3,878	\$ 4,619	\$ 4,762	\$50,970	
Interest-bearing liabilities	27,440	5,774	7,748	6,914	6,895	54,771	
Sensitivity gap	2,004	2,492	(3,869)	(2,295)	(2,133)	(3,801)	
Cumulative gap	2,004	4,496	627	(1,668)	(3,801)	(3,801)	
% of total assets	3.93%	8.82%	1.23%	(3.27)%	(7.46)%	(7.46)%	

Note:

(1) Includes merchant banking accounts.

Duration Gap Analysis

Shinhan Bank performs a duration gap analysis to measure the differential effects of interest rate risk on the market value of its assets and liabilities by examining the difference between the durations of Shinhan Bank’s interest-earning assets and those of its interest-bearing liabilities, which durations represent their respective weighted average maturities calculated based on their respective discounted cash flows using applicable yield curves. These measurements are done on a daily basis and for each operating department, account, product and currency, the respective durations of interest-earning assets and interest-bearing liabilities.

The following tables show duration gaps and market values of Shinhan Bank's Won-denominated interest-earning assets and interest-bearing liabilities in its non-trading accounts as of December 31, 2020 and changes in these market values when interest rate increases by one percentage point

Duration as of December 31, 2020 (for non-trading Won-denominated bank accounts⁽¹⁾)

	Duration as of December 31, 2020
	(In months)
Interest-earning assets	12.30
Interest-bearing liabilities	10.48
Gap	1.83

Note:

(1) Includes merchant banking accounts and derivatives for the purpose of hedging.

Market Value Analysis

Shinhan Bank performs a market value analysis to measure changes in the market value of Shinhan Bank's interest-earning assets compared to that of its interest-bearing liabilities based on the assumption of parallel shifts in interest rates. These measurements are done on a monthly basis.

Market Value as of December 31, 2020 (for non-trading Won-denominated bank accounts⁽¹⁾)

	Market Value as of December 31, 2020		
	Actual	1% Point Increase	Changes
	(In billions of Won)		
Interest-earning assets	₩ 343,750	₩ 340,526	₩ (3,225)
Interest-bearing liabilities	336,655	333,848	(2,807)
Gap	7,096	6,678	(418)

Note:

(1) Includes merchant banking accounts and derivatives for the purpose of hedging.

Net Interest Income Simulation

Shinhan Bank performs net interest income simulation to measure the effects of the change in interest rate on its results of operations. Such simulation uses the deterministic analysis methodology to measure the estimated changes in Shinhan Bank's annual net interest income (interest income less interest expenses) under the current maturity structure, using different scenarios for interest rates (assuming parallel shifts) and funding requirements. For simulations involving interest rate changes, based on the assumption that there is no change in funding requirements, Shinhan Bank applies three scenarios of parallel shifts in interest rate: (1) no change, (2) a 1% point increase in interest rates and (3) a 1% point decrease in interest rates.

The following table illustrates by way of an example the simulated changes in Shinhan Bank's annual net interest income for 2019 with respect to Won-denominated interest-earning assets and interest-bearing liabilities, using Shinhan Bank's net interest income simulation model, assuming (a) the maturity structure and funding requirement of Shinhan Bank as of December 31, 2020 and (b) the same interest rates as of December 31, 2020 and a 1% point increase or decrease in the interest rates.

Simulated Net Interest Income for 2020 (For Non-Trading Won-Denominated Bank Accounts ⁽¹⁾)							
	Assumed Interest Rates			Change in Net Interest Income		Change in Net Interest Income	
	No Change	1% Point Increase	1% Point Decrease	Amount (1% Point Increase)	% Change (1% Point Increase)	Amount (1% Point Decrease)	% Change (1% Point Decrease)
(In billions of Won, except percentages)							
Simulated interest income	₩7,693	₩9,335	₩6,051	₩1,642	21.34%	₩(1,642)	(21.34)%
Simulated interest expense	2,674	3,835	1,512	1,161	43.43%	(1,161)	(43.43)%
Net interest income	5,019	5,500	4,538	481	9.58%	(481)	(9.58)%

Note:

(1) Includes merchant banking accounts and derivatives entered into for the purpose of hedging.

Shinhan Bank's Won-denominated interest-earning assets and interest-bearing liabilities in non-trading accounts have a maturity structure that benefits from an increase in interest rates, because the re-pricing periods for interest-earning assets in Shinhan Bank's non-trading accounts are, on average, shorter than those of the interest-bearing liabilities in these accounts. This is primarily due to a sustained low interest rate environment in the recent years in Korea, which resulted in a significant increase in demand for floating rate loans (which tend to have shorter maturities or re-pricing periods than fixed rate loans) as a portion of Shinhan Bank's overall loans, which in turn led to the shortening, on average, of the maturities or re-pricing periods of Shinhan Bank's loans on an aggregate basis. As a result, Shinhan Bank's net interest income tends to decrease during times of a decrease in the market interest rates while the opposite is generally true during times of an increase in the market interest rates.

Interest Rate VaRs for Non-trading Assets and Liabilities

Shinhan Bank measures VaRs for interest rate risk from non-trading activities on a monthly basis. The following table shows, as of and for the year ended December 31, 2020, the VaRs of interest rate mismatch risk for other assets and liabilities, which arises from mismatches between the re-pricing dates for Shinhan Bank's non-trading interest-earning assets (including available-for-sale investment securities) and those for its interest-bearing liabilities. Under the regulations of the Financial Services Commission, Shinhan Bank includes in calculation of these VaRs interest-earning assets and interest-bearing liabilities in its bank accounts and its merchant banking accounts.

	VaR for the Year 2020 ⁽¹⁾			
	Average	Minimum	Maximum	As of December 31
(In billions of Won)				
Interest rate mismatch — non-trading assets and liabilities	₩290	₩199	₩446	₩446

Note:

(1) One-year VaR results computed based on the interest rate risk in the banking book standardized approach presented by the Bank for International Settlements. See “— Interest Rate Risk Management.”

Interest Rate Risk for Other Subsidiaries

Shinhan Card monitors and manages its interest rate risk for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of the impact on its earnings and net asset value from changes in interest rates. Shinhan Card primarily uses interest rate VaR and EaR analyses to measure its interest rate risk.

The interest rate VaR analysis used by Shinhan Card principally focuses on the maximum impact on its net asset value from adverse movements in interest rates and consists of (i) historical interest rate VaR analysis and (ii) interest rate gap analysis. The historical interest rate VaR analysis is made through simulation of net asset value based on the interest rate volatility over a fixed past period to produce expected future interest rate scenarios and computes the maximum value at risk at a 99.9% confidence level by analyzing the net present value distribution under each such scenario. As for interest rate gap analysis, Shinhan Card computes the value at risk based on the duration proxies and interest rate shocks for each time interval as recommended under the Basel Accord.

The interest rate EaR analysis used by Shinhan Card computes the maximum loss in net interest income for a one-year period following adverse movements in interest rates, based on an interest rate gap analysis using the time intervals and the “middle of time band” as recommended under the Basel Accord.

Shinhan Investment uses historical interest rate VaR analysis based on its internal model to monitor and manage its interest rate risk. The historical interest rate VaR analysis is made through simulation of net asset value based on the interest rate volatility over the past three years to compute the maximum value at risk at a 99.9% confidence level. Shinhan Investment also measures its level of IRRBB exposure.

Shinhan Life Insurance monitors and manages its interest rate risk for its investment assets and liabilities based on simulations of its asset-liability management system. These simulations typically involve subjecting Shinhan Life Insurance’s current and future assets and liabilities to more than 2,000 market scenarios based on varying assumptions, such as new debt purchases and current investment portfolios, so as to derive its net asset value forecast for the next one year at a 99.9% confidence level.

Orange Life Insurance monitors and manages its interest rate risk based on net asset value and net interest income using a stochastic cash flow model. In addition, Orange Life Insurance establishes its asset management guideline reflecting strategic asset allocation strategies which in turn are based on interest rates and maturities of insurance liabilities.

Interest rate risk for our other subsidiaries is insignificant.

Equity Risk

Substantially all of Shinhan Bank’s equity risk relates to its portfolio of common stock in Korean companies. As of December 31, 2020, Shinhan Bank held an aggregate amount of ₩233.4 billion of equity interest in unlisted foreign companies (including ₩1.6 billion invested in unlisted private equity funds).

The equity securities in Won held in Shinhan Bank’s investment portfolio consist of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and certain non-listed stocks. Shinhan Bank sets exposure limits for most of these equity securities to manage their related risk. As of December 31, 2020, Shinhan Bank held equity securities in an aggregate amount of ₩756.4 billion in its non-trading accounts, including equity securities in the amount of ₩179.3 billion that it held, among other reasons, for management control purposes and as a result of debt-to-equity conversion as a part of reorganization proceedings of the companies to which it had extended loans.

As of December 31, 2020, Shinhan Bank held Won-denominated convertible bonds in an aggregate amount of ₩136.4 billion and did not hold any Won-denominated exchangeable bonds or Won-denominated bonds with warrants, in each case, in its non-trading accounts. Shinhan Bank does not measure equity risk with respect to convertible bonds, exchangeable bonds or bonds with warrants, and the interest rate risk of these equity-linked securities are measured together with the other debt securities. As such, Shinhan Bank measures interest rate risk VaRs but not equity risk VaRs for these equity-linked securities.

Liquidity Risk Management

Liquidity risk is the risk of insolvency, default or loss due to disparity between inflow and outflow of funds, including the risk of having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds. Each of our subsidiaries seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funds that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the group-wide level, we manage our liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, our group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. In addition, in order to preemptively and comprehensively manage liquidity risk, we measure and monitor liquidity risk management using various indices, including the “limit management index,” “early warning index” and “monitoring index.”

Shinhan Bank applies the following basic principles for liquidity risk management:

- raise funds in sufficient amounts, at the optimal time at reasonable costs;
- maintain liquidity risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management based on diversified sources of funding with varying maturities;
- monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;
- conduct periodic liquidity stress test in anticipation of any potential liquidity crisis and establish and implement contingency funding plans in case of an actual crisis; and
- consider liquidity-related costs, benefits of and risks in determining the pricing of our products and services, performance evaluations and approval of launching of new products and services.

Each of our subsidiaries manages liquidity risk in accordance with the risk limits and guidelines established internally and by the relevant regulatory authorities. Pursuant to principal regulations applicable to financial holding companies and banks as promulgated by the Financial Services Commission, we, at the holding company level, are required to maintain a liquidity coverage ratio and a foreign currency liquidity coverage ratio. These ratios require us to maintain the relevant ratios above certain minimum levels.

Shinhan Bank manages its liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Services Commission. The Financial Services Commission implemented a minimum liquidity coverage ratio requirement for Korean banks, including Shinhan Bank, of at least 90.0% as of January 1, 2017, 95.0% as of January 1, 2018 and 100.0% starting January 1, 2019. Financial Services Commission defines liquidity coverage ratio as high quality liquid assets that can be immediately converted into cash with little or no loss in value, as divided by the net amount of cash outflow for the next 30 day period, under the stress level established according to the liquidity coverage ratio, pursuant to the Regulation on the Supervision of the Banking Business, which was amended as of June 28, 2016 to implement the liquidity coverage ratio requirements under Basel III. In addition to the liquidity coverage ratio, the Financial Supervisory Commission introduced the net stable funding ratio into the Regulation on the Supervision of the Banking

Business that came in effect in January 2018. Whereas liquidity coverage ratio is aimed at measuring liquidity for the next 30-day period, net stable funding ratio, calculated as the ratio of available stable funding to required stable funding, is aimed at measuring liquidity for the next one-year period. A bank's available stable funding is the portion of its capital and liabilities that are safely expected to remain with the bank for more than one year. A bank's required stable funding is the amount of stable funding that it is required to hold given the liquidity characteristics and residual maturities of its assets and the contingent liquidity risk arising from its off-balance sheet exposures. Shinhan Bank is required by the Financial Services Commission to maintain a net stable funding ratio of at least 100%.

With respect to foreign currency liquidity coverage ratio, the Regulation on the Supervision of the Banking Business requires that financial institutions dealing with foreign exchange affairs (i.e., banks) whose foreign-currency denominated liabilities are equal to or greater than US\$500 million or 5% of its total liabilities, as of the end of the immediately preceding half-year period, maintain a foreign currency liquidity coverage ratio of 60% or higher beginning January 1, 2017, 70% or higher beginning January 1, 2018 and 80% or higher beginning January 1, 2019. The term "foreign currency liquidity coverage ratio" means the ratio of high quality liquidity assets to the net cash outflow in respect of foreign-currency denominated assets and liabilities for the next 30 days. In the case of financial institutions dealing with foreign exchange affairs whose foreign-currency denominated liabilities are less than US\$500 million and less than 5% of its total liabilities, as of the end of the immediately preceding half-year period, the following ratios shall be maintained and foreign-currency denominated assets and liabilities shall be categorized and managed according to such different remaining maturities: (i) the ratio of assets for which remaining maturities are less than three months to liabilities for which remaining maturities are less than three months shall be at least 85%, and (ii) the assets for which remaining maturities are less than one month shall not exceeded liabilities for which the remaining maturities are less than one month by more than 10%.

In April 2020, in response to the COVID-19 pandemic, the Financial Supervisory Service temporarily lowered the liquidity coverage ratio requirement from 100% to 85% and the foreign currency liquidity coverage ratio requirement from 80% to 70%. These temporary lower ratio requirements will apply through September 2021.

Shinhan Bank's Treasury Department is in charge of liquidity risk management with respect to Shinhan Bank's Won and foreign currency funds. The Treasury Department submits Shinhan Bank's monthly funding and asset management plans to Shinhan Bank's Asset and Liability Committee for approval, based on the analysis of various factors, including macroeconomic indices, interest rate and foreign exchange movements and maturity structures of Shinhan Bank's assets and liabilities. Shinhan Bank's Risk Engineering Department measures Shinhan Bank's liquidity coverage ratio on a daily basis and net stable funding ratio on a monthly basis and reports whether they are in compliance with the respective limits to Shinhan Bank's Risk Policy Committee, which sets and monitors Shinhan Bank's liquidity coverage ratio and net stable funding ratio on a monthly basis.

The following tables show Shinhan Bank's (i) average liquidity coverage ratio, (ii) average foreign currency liquidity coverage ratio, and (iii) net stable funding ratio, each for the month of December 2020 in accordance with the regulations of the Financial Services Commission.

Shinhan Bank's Average Liquidity Coverage Ratio for the Month of December 2020

	For the Month of December 2020
	(in billions of Won, except percentages)
High quality liquid assets (A)	₩64,044
Net cash outflows over the next 30 days (B)	71,154
Cash outflow	94,008
Cash inflow	22,854
Liquidity coverage ratio (A/B)	90.01%

Shinhan Bank's Average Foreign Currency Liquidity Coverage Ratio for the Month of December 2020

	<u>For the Month of December 2020</u> (in millions of US\$, except percentages)
High quality liquid assets (A)	\$ 4,726
Net cash outflows over the next 30 days (B)	4,513
Cash outflow	13,940
Cash inflow	9,427
Liquidity coverage ratio (A/B)	104.73%

Shinhan Bank's Net Stable Funding Ratio for the Month of December 2020

	<u>For the Month of December 2020</u> (in billions of Won, except percentages)
Available stable funding (A)	₩260,763
Required stable funding (B)	232,880
Net stable funding ratio (A/B)	111.97%

Shinhan Bank maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. Shinhan Bank funds its operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), issuing debentures and borrowing from the Bank of Korea. Shinhan Bank uses the funds primarily to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

Shinhan Card manages its liquidity risk according to the following principles: (i) provide a sufficient volume of necessary funding in a timely manner at a reasonable cost, (ii) establish an overall liquidity risk management strategy, including in respect of liquidity management targets, policy and internal control systems, and (iii) manage its liquidity risk in conjunction with other risks based on a comprehensive understanding of the interaction among the various risks. As for any potential liquidity shortage at or near the end of each month, Shinhan Card maintains liquidity at a level sufficient to withstand credit shortage for three months.

In addition, Shinhan Card manages liquidity risk by setting and complying with specific guidelines for various measures of liquidity, including the breakdown of contractual payment obligations by maturity, overseas funding, the ratio of asset-backed securitized borrowings to the total borrowing, the ratio of requisite liquidity to reserve liquidity, and the ratio of fixed interest rate borrowings to floating interest rate borrowings. Furthermore, Shinhan Card closely monitors various indicators of a potential liquidity crisis, such as the actual liquidity gap ratio (in relation to the different maturities for assets as compared to liabilities), the liquidity buffer ratio. Shinhan Card also has contingency plans in place in case of any emergency or crisis. In managing its liquidity risk, Shinhan Card focuses on a prompt response system based on periodic monitoring of the relevant early signals, stress testing and contingency plan formulations. Shinhan Card identifies its funding needs on a daily, monthly, quarterly and annual basis based on the maturity schedule of its liabilities as well as short-term liquidity needs, based upon which it formulates its funding plans using diverse sources such as corporate debentures, commercial papers, asset-backed securitizations and credit line facilities. When entering into asset-backed securitizations, Shinhan Card provides sufficient credit enhancements to avoid triggering early amortization events. In addition, prior to entering into any funding transaction and related derivative transaction, Shinhan Card conducts pre-transaction risk analyses, including in respect of counterparty credit risk and its total exposure limit by country and by financial institution.

Shinhan Card also manages its liquidity risk within the limits set on Won accounts in accordance with the regulations of the Financial Services Commission. Under the Specialized Credit Financial Business Act and the regulations thereunder, credit card companies in Korea are required to maintain a Won liquidity ratio of at least 100.0%.

The following tables show Shinhan Card's liquidity status and limits for Won-denominated accounts as of December 31, 2020 in accordance with the regulations of the Financial Services Commission.

Shinhan Card's Won-denominated accounts

Won-Denominated Accounts	As of December 31, 2020						Total
	7 Days or Less	1 Month or Less	3 Months or Less	6 Months or Less	1 Year or Less	Over 1 Year	
	(In billions of Won, except percentages)						
Assets	₩2,679	₩11,863	₩17,596	₩21,392	₩26,048	₩ 9,251	₩35,298
Liabilities	860	3,807	4,659	6,186	8,804	18,181	26,985
Liquidity ratio			377.7%				

Shinhan Investment manages its liquidity risk for its Won-denominated accounts by setting a limit of ₩300 billion on each of its seven-day and one-month liquidity gap, a limit of 110% on its one-month and three-months liquidity ratios and a limit of ₩10 billion on its liquidity VaR. As for its foreign currency-denominated accounts, Shinhan Investment manages the liquidity risk on a quarterly basis in compliance with the guidelines of the Financial Supervisory Service, which requires the one-week and one-month maturity mismatch ratios to be 0% and -10% or less, respectively, and the three months liquidity ratio to be 80% or higher.

Our other subsidiaries fund their operations primarily through call money, bank loans, commercial paper, corporate debentures and asset-backed securities. Our holding company acts as a funding vehicle for long-term financing of our subsidiaries whose credit ratings are lower than the holding company, including Shinhan Card and Shinhan Capital, to lower the overall funding costs within regulatory limitations. Under the Monopoly Regulations and Fair Trade Act, however, a financial holding company is prohibited from borrowing funds in excess of 200% of its total stockholders' equity.

In addition to liquidity risk management under the normal market situations, we have contingency plans to effectively cope with possible liquidity crisis. Liquidity crisis arises when we would not be able to effectively manage the situations with our normal liquidity management measures due to, among other reasons, inability to access our normal sources of funds or epidemic withdrawals of deposits as a result of various external or internal factors, including a collapse in the financial markets or abrupt deterioration of our credit. We have contingency plans corresponding to different stages of liquidity crisis: namely, "alert stage," "imminent-crisis stage" and "crisis stage," based on the following liquidity indices:

- indices that reflect the market movements such as interest rates and stock prices;
- indices that reflect financial market sentiments, an example being the size of money market funds; and
- indices that reflect our internal liquidity condition.

Operational Risk Management

Operational risk is difficult to quantify and subject to different definitions. The Basel Committee defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from other external events. Similarly, we define operational risk as the risks related to our overall management other than credit risk, market risk, interest rate risk and liquidity risk. These include risks arising from system failure, human error, non-adherence to policy and procedures, fraud, inadequate internal controls and procedures or environmental changes and resulting in financial and non-financial loss. We monitor and assess operational risks related to our business operations, including administrative risk, information technology risk (including cyber security risk), managerial risk and legal risk, with a view to minimizing such losses. As Basel III requirements relating to operational risk are expected to be implemented from January 2023, we and our subsidiaries have formed a task force team and are currently developing necessary systems to calculate group-wide risk-weighted assets and develop an operational risk management system.

Our holding company's Audit Committee, which consists of three outside directors, one of whom is an accounting or financial expert as required by internal control regulations under the Act on Corporate Governance of Financial Companies, oversees and monitors our operational compliance with legal and regulatory requirements. The Audit Committee also oversees management's operations and may, at any time it deems appropriate, demand additional operations-related reporting from management and inspects our asset condition. At the holding company level, we define each subsidiary's operational process and establish an internal review system applicable to each subsidiary. Each subsidiary's operational risk is internally monitored and managed at the subsidiary level and the Group Internal Audit Department at our holding company, which reports to our Audit Committee, continuously monitors the integrity of our subsidiaries' operational risk management system. Our holding company's board of directors and the Group Risk Management Committee establish our basic policies for operational risk management at the group level. The Group Internal Audit Department at our holding company is directly responsible for overseeing our operational risk management with a focus on legal, regulatory, operational and reputational risks. The Group Internal Audit Department audits both our and our subsidiaries' operations and asset condition in accordance with our annual audit plan, which is approved by the Audit Committee, and submits regular reports to the Audit Committee pursuant to our internal reporting system. If the Group Internal Audit Department discovers any non-compliance with operational risk procedures or areas of weaknesses, it promptly alerts the business department in respect of which such non-compliance was discovered and demands implementation of corrective measures. Implementation of such corrective measures is subsequently reviewed by the Group Internal Audit Department.

To monitor and manage operational risk, Shinhan Bank maintains a system of comprehensive policies and has in place a control framework designed to provide a stable and well-managed operational environment throughout the organization. Currently, the primary responsibility for ensuring compliance with our banking operational risk procedures remains with each of the business units and operational teams. In addition, the Audit Department, the Risk Management Department and the Compliance Department of Shinhan Bank also play important roles in reviewing and maintaining the integrity of Shinhan Bank's internal control environment.

The operational risk management system of Shinhan Bank is managed by the operational risk team under the Risk Management Department. The current system principally consists of risk control self-assessment, risk quantification using key risk indicators, loss data collection, scenario analysis and operational risk capital measurement. Shinhan Bank operates several educational and awareness programs designed to have all of its employees to be familiar with this system. In addition, Shinhan Bank has a designated operational risk manager at each of its departments and branch offices, who serves as a coordinator between the operational risk team at the headquarters and the employees in the front office and seeking to provide centralized feedback to further improve the operational risk management system.

As of December 31, 2020, Shinhan Bank has conducted risk control self-assessments on its departments as well as domestic and overseas branch offices, from which it collects systematized data on all of its branch offices, and uses the findings from such self-assessments to improve the procedures and processes for the relevant departments or branch offices. In addition, Shinhan Bank has accumulated risk-related data since 2003, improved the procedures for monitoring operational losses and is developing risk simulation models. In addition, Shinhan Bank selects and monitors, at the department level, approximately 185 key risk indicators.

The Audit Committee of Shinhan Bank, which consists of one standing director and two outside directors, is an independent inspection authority that supervises Shinhan Bank's internal controls and compliance with established ethical and legal principles. The Audit Committee performs internal audits of, among other matters, Shinhan Bank's overall management and accounting, and supervises its Audit Department, which assists Shinhan Bank's Audit Committee. Shinhan Bank's Audit Committee also reviews and evaluates Shinhan Bank's accounting policies and their changes, financial and accounting matters and fairness of financial reporting.

Shinhan Bank's Audit Committee, Audit Department and Compliance Department supervise and perform the following duties:

- general audits, including full-scale audits performed annually for the overall operations, sectional audits of selected operations performed as needed, and periodic and irregular spot audits;
- special audits, performed when the Audit Committee deems it necessary or pursuant to requests by the chief executive officer or supervisory authorities such as the Financial Supervisory Service;
- day-to-day audits, performed by Shinhan Bank's Compliance Department for material transactions or operations that are subject to approval by the heads of Shinhan Bank's operational departments or senior executives;
- real-time monitoring audits, performed by the computerized audit system to identify any irregular transactions and take any necessary actions; and
- self-audits as a self-check by each operational department to ensure its compliance with our business regulations and policies, which include daily audits, monthly audits and special audits.

In addition to these audits and compliance activities, Shinhan Bank's Audit Department designates operational risk management examiners to monitor the appropriateness of operational risk management frameworks and the functions and activities of the board of directors, relevant departments and business units, and conducts periodic checks on the operational risk and reports such findings. Shinhan Bank's Risk Management Department also reviews in advance proposed banking products or other business or service plans with a view to minimizing operational risk.

As for Shinhan Investment, its audit department conducts an annual inspection as to whether the internal policy and procedures of Shinhan Investment relating to its overall operational risk management are being effectively complied. The inspection has a particular focus on the appropriateness of the scope of operational risks and the collection, maintenance and processing of relevant operating data. Shinhan Investment, through its operational risk management system, also conducts self-assessments of risks, collects loss data and manages key risk indicators. The operational risk management system is supervised by its audit department, compliance department and risk management department, as well as a risk management officer in each of Shinhan Investment's departments.

Shinhan Card's audit committee reviews whether the internal policy and procedures of Shinhan Card are effective and implements measures to improve such policies as needed. Shinhan Card's audit committee also contributes to work efficiency, financial risk minimization and management rationalization. Shinhan Card is developing an operational risk management system in accordance with the Financial Supervisory Service's oversight guidelines regarding operational risk measurement.

Shinhan Life Insurance's Risk Management Department and Compliance Department reviews whether the internal policy and procedures of Shinhan Life Insurance are being effectively complied with. Shinhan Life Insurance implemented an operational risk management process in 2018 by setting up key risk indicators in each department and utilizes it to assess operational risk, collect data and manage key indicators. Furthermore, Shinhan Life Insurance established a standard roadmap to improve its operational risk assessment capabilities. Shinhan Life Insurance established an Operational Risk Management Team in an effort to improve its operational risk assessment capabilities and implement operational risk management systems.

Orange Life Insurance has implemented an operational risk management system, including a series of processes for setting targets and assessing, monitoring and responding to operational risks. To this end, Orange Life Insurance regularly assesses risks relating to major products, projects, outsourcing, sales channels and control environment and analyzes and monitors sales activities by channel and product. Orange Life Insurance also has firm-wide control systems to maintain business continuity and for financial reporting, which are operated in coordination with the operational risk management system.

In addition to internal audits and inspections, the Financial Supervisory Service conducts general annual audits of our and our subsidiaries' operations. The Financial Supervisory Service also performs special audits as the need arises on particular aspects of our and our subsidiaries' operations such as risk management, credit monitoring and liquidity. In the ordinary course of these audits, the Financial Supervisory Service routinely issues warning notices where it determines that a regulated financial institution or such institution's employees have failed to comply with the applicable laws or rules, regulations and guidelines of the Financial Supervisory Service. We and our subsidiaries have in the past received, and expect in the future to receive, such notices and we have taken and will continue to take appropriate actions in response to such notices. For example, in October 2018, the Financial Supervisory Service requested Shinhan Bank to submit supporting documents in connection with allegations of inadequate compliance controls. In November 2018, the Financial Supervisory Service notified Shinhan Bank of an institutional caution for alleged deficiencies in its customer due diligence and imposed administrative fine of ₩100 million citing negligence in carrying out its customer verification obligations. In August 2019, the Financial Supervisory Service imposed an administrative fine of ₩1.9 billion on Orange Life Insurance citing failure to report changes in its form agreements. In December 2019, the Financial Supervisory Service notified Shinhan Bank of an institutional caution and imposed an administrative fine of ₩3 billion for alleged prohibited activities, including promotional activities for specified money trusts, investment solicitation for derivatives and management of trust properties. In July 2018, the Financial Supervisory Service notified Shinhan Investment of an institutional warning and imposed an administrative fine of ₩852 million for alleged prohibited trading of entrusted properties. In January 2020, the Financial Supervisory Service notified Shinhan Life Insurance of an institutional caution and imposed an administrative fine of ₩266 million for allegedly omitting certain information regarding the level of expenses deducted from premiums paid when selling savings insurance products over the telephone. In February 2021, the Financial Supervisory Service notified Shinhan Bank of an institutional warning and imposed an administrative fine of ₩2.1 billion for alleged violation of internal regulations and reporting procedures in connection with Shinhan Bank's designation as the primary bank for Seoul Metropolitan Government in 2018.

We consider legal risk as a part of operational risk. The uncertainty of the enforceability of obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts although legal risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea changes and many new laws and regulations governing the banking industry remain untested. We seek to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. The Compliance Department operates Shinhan Financial Group's compliance system. This system is designed to ensure that all employees of Shinhan Financial Group and its subsidiaries comply with the relevant laws and regulations. The compliance system's main function is to monitor the degree of improvement in compliance with the relevant laws and regulations, maintain internal controls (including ensuring that each department has established proper internal policies and that it complies with those policies) and educate employees about observance of the relevant laws and regulations. The Compliance Department also supervises the management, execution and performance of self-audits.

Upgrades to Risk Management Systems

Our recent material upgrades in relation to risk management systems are as follows.

Shinhan Financial Group

In May 2015, we developed and implemented a credit review system to unify our corporate credit review and risk measurements, allowing us and our subsidiaries to utilize a uniform and consistent credit review system with respect to each borrower. In addition, in preparation of full implementation of Basel III requirements relating to liquidity coverage ratios for bank holding companies and to enhance our liquidity risk management capabilities, we have implemented a Basel III liquidity coverage ratio risk management system by which we calculate our liquidity coverage ratio each month.

Shinhan Bank

In order to strengthen risk management of its overseas subsidiaries and effectively comply with local and domestic regulations, Shinhan Bank is in the process of laying out a global risk management system network, which records the risk data of its overseas subsidiaries. Shinhan Bank seeks to leverage the development of this system for further overseas expansion and stable growth of existing overseas subsidiaries. To date, Shinhan Bank has completed the development of such system for its subsidiaries in China, Japan, Vietnam, the United States, Canada, India, Europe and Mexico. Shinhan Bank also plans to expand the application of this system to its other overseas subsidiaries.

Shinhan Bank has also completed development of a system to calculate stressed VaR based on Basel II standards in order to prepare for stress situations such as the global financial crisis in 2008. Shinhan Bank has received approval for such system from the Financial Supervisory Service and has been implemented since 2012.

In 2012, Shinhan Bank developed a system for improving collection and recovery of bad assets through enhanced loss given default data processing. In addition, in 2012, Shinhan Bank received approvals from the Financial Supervisory Service for upgrades to its credit evaluation modeling for risk assessment of small- to medium-sized enterprises that are not required to be audited by outside accounting firms and for SOHOs, which upgrades related to factoring in the credit profile of the head of such enterprises and SOHOs. In 2014, Shinhan Bank further upgraded the credit evaluation modeling for risk assessment of small- and medium-size enterprises that are not required to be audited by outside accounting firms by entirely revamping the modeling for enterprises subject to outside audits, enterprises that are not subject to outside auditors and enterprise heads. Such upgraded modeling was approved by the Financial Supervisory Service, and Shinhan Bank began implementation of the upgraded system since 2014. In 2014, Shinhan Bank reclassified its credit evaluation models for risk assessment of enterprises into the following four categories: (i) IFRS (enterprises subject to external audits under Korean IFRS), (ii) GAAP (enterprises subject to external audits under Generally Accepted Accounting Principles), (iii) small- and medium-size enterprises and (iv) SOHO. Such reclassification was approved by the Financial Supervisory Service, and Shinhan Bank began to implement the system in 2015.

In addition, in 2013, Shinhan Bank obtained approval from the Financial Supervisory Service to use an internal evaluation model with respect to Basel II credit risks related to Shinhan Bank's retail SOHO exposures. In 2016, Shinhan Bank developed a new internal evaluation model and obtained approval from the Financial Supervisory Service to use the new model with respect to Basel II credit risks related to Shinhan Bank's retail exposures. In addition, Shinhan Bank received another approval in 2016 for loss given default data processing using the AIRB approach in order to reflect changes in economic conditions such as prolonged recovery periods and low interest rates, and the newly approved loss given default data processing will replace existing loss given default data processing for both retail and SOHO exposures.

Shinhan Bank also upgraded the asset and liability management system in 2012 in order to timely comply with Basel III, IFRS and other regulatory requirements as well as to upgrade the quality of risk-related data. In 2014, Shinhan Bank upgraded the liquidity coverage ratio and net stable funding ratio systems under Basel III in order to facilitate daily measurement and efficient management.

Following the approval by the Financial Supervisory Service of the advanced measurement approach for risk management, Shinhan Bank has re-established the operational risk management system in order to further enhance its operational risk management capabilities.

Shinhan Card

In 2012, Shinhan Card completed further upgrades to its credit risk measurement system in satisfaction of the Basel II standards, as well as other regulatory requirements and internal needs in order to address the ongoing volatility in the economic and regulatory environment. In December 2016, Shinhan Card obtained approval from the Financial Supervisory Service to use a new internal evaluation model with respect to Basel III credit risks related to its retail and SOHO exposures.

Shinhan Investment

In 2016, Shinhan Investment established a Risk Engineering Team and updated its market risk management system to increase its value assessment capabilities for over-the-counter derivatives, strengthen its VaR risk analysis capabilities and improve various simulation functions. Beginning in 2017, the Risk Engineering Team conducts value assessment and reviews over-the-counter derivatives directly using various enhanced simulation functions such as updated stress tests in order to stabilize financial accounting prices and enhance the risk management of over-the-counter derivatives. In January 2019, the Risk Engineering Team was elevated to a department, becoming the Risk Engineering Department, expanding the scope of products reviewed by the department and strengthening its simulation analysis capabilities.

Shinhan Life Insurance

In 2017, Shinhan Life Insurance updated its interest rate risk measurement system, called the ALM system, in anticipation of Korea-ICS, a new insurance liability market valuation system designed to replace the existing risk based capital system, and IFRS 17. In 2018, the new asset liability management system implemented an interest rate risk management system based on the Europe Solvency II standard. The asset liability management system can measure both asset and liability based on marking to market valuation. Shinhan Life Insurance also updated its interest rate risk management system to control net income margin volatility resulting from market interest rate changes and has tailored its business scheme to this system in order to better manage risk and profits and match the duration of its assets and liabilities. In 2019, Shinhan Life Insurance further upgraded its insurance risk measurement system in anticipation of Korea-ICS, which is expected to become effective beginning 2022. However, on March 17, 2020, the IASB announced deferral of the effective date for IFRS 17 from 2022 to 2023, and it is likely that Korea-ICS will correspondingly also become effective beginning 2023. The upgraded system can more elaborately measure insurance risk associated with mortality, longevity, morbidity, disability, lapse and expenses. Shinhan Life Insurance measures its insurance risk using shock scenarios and parameters calibration based on internal statistical estimates.

Orange Life Insurance

Orange Life Insurance operates a risk management system based on the Europe Solvency II standard. In 2014, Orange Life Insurance transitioned from an available financial resources at risk (AFRaR) model to the economic value at risk (EVaR) model, assessing risk through changes in net asset value resulting from shock scenarios reflecting volatility of cash flow due to from changes in insurance and interest rates. In anticipation of the merger between Shinhan Life Insurance and Orange Life Insurance, we are building an enhanced risk management system. The new system will be able to assess the required capital under the Korean Insurance Capital Standards (K-ICS) regulations expected to be implemented by 2023 as well as calculate required risk capital and adjust and monitor such risk limits.

Supervision and Regulation

Principal Regulations Applicable to Financial Holding Companies

General

The Korean financial holding companies and their subsidiaries are regulated by the Financial Holding Companies Act (last amended on December 31, 2018, Law No. 16182). In addition, Korean financial holding companies and their subsidiaries are subject to the regulations and supervision of the Financial Services Commission and the Financial Supervisory Service.

Pursuant to the Financial Holding Companies Act, the Financial Services Commission regulates various activities of financial holding companies. For instance, it approves the application for setting up a new financial holding company and promulgates regulations on the capital adequacy of financial holding companies and their subsidiaries and other regulations relating to the supervision of financial holding companies.

The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of financial holding companies and their subsidiaries. In particular, the Financial Supervisory Service sets forth liquidity and capital adequacy requirements for financial holding companies and reporting requirements pursuant to the authority delegated to the Financial Supervisory Service under the Financial Services Commission regulations, pursuant to which financial holding companies are required to submit quarterly reports on business performance, financial status and other matters prescribed in the Presidential Decree of the Financial Holding Companies Act.

Under the Financial Holding Companies Act, the establishment of a financial holding company must be approved by the Financial Services Commission. A financial holding company is required to be mainly engaged in controlling its subsidiaries by holding the shares or equities of the subsidiaries in the amount of not less than 50% of aggregate amount of such financial holding company's assets based on the latest balance sheet. A financial holding company is prohibited from engaging in any profit-making businesses other than controlling the management of its subsidiaries and certain ancillary businesses as prescribed in the Presidential Decree of the Financial Holding Companies Act which includes the following businesses:

- financially supporting its subsidiaries and the subsidiaries of its subsidiaries (the "direct and indirect subsidiaries"), including lending properties with economic values such as monies and securities, guaranteeing obligation performance and other direct or indirect transactions involving transactional credit risk;
- raising capital necessary for the investment in subsidiaries or providing financial support to its direct and indirect subsidiaries;
- supporting the business of its direct and indirect subsidiaries for the joint development and marketing of new products;
- supporting the operations of its direct and indirect subsidiaries by providing access to data processing, legal and accounting resources; and
- pursuing any other activities exempted from authorization, permission or approval under the applicable laws and regulations.

The Financial Holding Companies Act requires every financial holding company (other than any financial holding company that is controlled by any other financial holding company) or its subsidiaries to obtain the prior approval from the Financial Services Commission before acquiring control of another company or to file with the Financial Services Commission a report within thirty days after acquiring such control. Permission to liquidate or to merge with any other company must be obtained in advance from the Financial Services Commission. A financial holding company must report to the Financial Services Commission regarding certain events including:

- when there is a change of its largest shareholder;

- when there is a change of principal shareholders of a bank holding company;
- when the shareholding of the largest shareholder or a principal shareholder as prescribed under the Financial Holding Companies Act or a person who is in a special relationship with such largest or principal shareholder (as defined under the Presidential Decree of the Financial Holding Companies Act) changes by 1% or more of the total issued and outstanding voting shares of the financial holding company;
- when there is a change of its name;
- when there is a cause for dissolution; and
- when it or its subsidiary ceases to control any of its respective direct and indirect subsidiaries by disposing of the shares of such direct and indirect subsidiaries.

Capital Adequacy

The Financial Holding Companies Act does not provide for a minimum paid-in capital of financial holding companies. All financial holding companies, however, are required to maintain a specified level of solvency. In addition, in its allocation of the net profit earned in a fiscal term, a financial holding company is required to set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

A financial holding company controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act (hereinafter, the “bank holding company”) is required to maintain a minimum consolidated equity capital ratio of 8.0%. “Consolidated equity capital ratio” is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on the Bank of International Settlements standards. “Equity capital,” as applicable to bank holding companies, is defined as the sum of Tier I capital, Tier II capital, and Tier III capital less any deductible items, each as defined under the Regulation on the Supervision of Financial Holding Companies. “Risk-weighted assets” is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

For regulatory reporting purposes, we maintain allowances for credit losses on the following loan classifications that classify corporate and retail loans as required by the Financial Services Commission. In making these classifications, we take into account a number of factors, including the financial position, profitability and transaction history of the borrower, the value of any collateral or guarantee taken as security for the extension of credit, probability of default and loss amount in the event of default. This classification method, and our related provisioning policy, is intended to reflect the borrower’s capacity to repay. To the extent there is any conflict between the Financial Services Commission guidelines and our internal analysis in such classifications, we adopt whichever is more conservative.

The following table sets forth loan classifications according to the guidelines of the Financial Services Commission.

<u>Loan Classification</u>	<u>Loan Characteristics</u>
Normal	Loans extended to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the loans.
Precautionary	Loans extended to customers that (i) based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the loans, although showing no immediate default risk or (ii) are in arrears for one month or more but less than three months.
Substandard	(i) Loans extended to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or (ii) the portion that we expect to collect of total loans (a) extended to customers that have been in arrears for three months or more, (b) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings or closure of their businesses, or (c) extended to customers who have outstanding loans that are classified as “doubtful” or “estimated loss.”
Doubtful	Loans exceeding the amount that we expect to collect of total loans to customers that: (i) based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or (ii) have been in arrears for three months or more but less than 12 months.
Estimated loss	Loans exceeding the amount that we expect to collect of total loans to customers that: (i) based on our consideration of their business, financial position and future cash flows, are judged to be accounted as a loss because the inability to repay became certain due to serious deterioration in their ability to repay; (ii) have been in arrears for 12 months or more; or (iii) have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

In accordance with the Regulations for the Supervision of Financial Institutions, we establish regulatory reserve for loan loss in the amount of the difference between allowance for credit losses as calculated pursuant to our provisioning policy in accordance with IFRS and allowance for credit losses based on the loan classifications set forth above as required by the Financial Services Commission. In determining consolidated equity capital ratio, we deduct regulatory reserve for loan loss from equity capital.

Liquidity

All financial holding companies are required to match the maturities of their assets to those of liabilities in accordance with the Financial Holding Companies Act in order to ensure liquidity. Financial holding companies are required to submit quarterly reports regarding their liquidity to the Financial Supervisory Service and must:

- maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within three months) of not less than 100%;
- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 80% except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%;
- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days divided by total foreign currency assets of not less than 0%, except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%; and
- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month divided by total foreign currency assets of not less than negative 10% except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%.

Financial Exposure to Any Single Customer and Major Shareholders

Subject to certain exceptions, the total sum of credit (as defined in the Presidential Decree of the Financial Holding Companies Act, the Bank Act, the Presidential Decree of the Financial Investment Services and Capital Markets Act, the Insurance Act, the Mutual Savings Bank Act and the Specialized Credit Financial Business Act, respectively) of a financial holding company and its direct and indirect subsidiaries which are banks, merchant banks or securities companies (“Financial Holding Company Total Credit”) extended to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act will not be permitted to exceed 25% of the Net Total Equity Capital.

“*Net Total Equity Capital*” for the purpose of the calculation of financial exposure to any single customer and Major Shareholder (as defined below) as applicable to us and our subsidiaries is defined under the Presidential Decree of the Financial Holding Companies Act as

- (a) the sum of:
 - (i) in the case of a financial holding company, the shareholders’ equity as defined under Article 24-3, Section 7(2) of the Presidential Decree of the Financial Holding Companies Act, which represents the difference between the total assets less total liabilities on the balance sheet as of the end of the most recent quarter;
 - (ii) in the case of a bank, the shareholders’ equity as defined under Article 2, Section 1(5) of the Bank Act, which represents the sum of Tier I and Tier II capital amounts determined according to the standards set by the BIS;
 - (iii) in the case of a merchant bank, the capital amount as defined in Article 342, Section (1) of the Financial Investment Services and Capital Markets Act;
 - (iv) in the case of a financial investment company, the shareholders’ equity as defined under Article 37, Section 3 of the Presidential Decree of the Financial Investment Services and Capital Markets Act, which represents the total shareholders’ equity as adjusted as determined by the Financial Services Commission, such as the amount of increase or decrease in paid-in capital after the end of the most recent fiscal year;

- (v) in the case of an insurance company, the shareholders' equity as defined under Article 2, Section 15 of the Insurance Act, which represents the sum of items designated by the Presidential Decree, such as paid-in-capital, capital surplus, earned surplus and any equivalent items, less the value of good will and other equivalent items;
 - (vi) in the case of a mutual savings bank, the shareholders' equity as defined under Article 2, Section 4 of the Mutual Savings Bank Act, which represents the sum of Tier I and Tier II capital amounts determined in accordance with the standards set by the Bank for International Settlements; and
 - (vii) in the case of a credit card company or a specialty credit provider, the shareholders' equity as defined under Article 2, Section 19 of the Specialized Credit Financial Business Act, which represents the sum of the items designated by the Presidential Decree, such as paid-in-capital, capital surplus, earned surplus and any equivalent items;
- (b) less the sum of:
- (i) the amount of shares in direct and indirect subsidiaries held by the financial holding company;
 - (ii) the amount of shares in the direct and indirect subsidiaries that are cross-held by such subsidiaries; and
 - (iii) the amount of shares in the financial holding company held by its direct and indirect subsidiaries.

The Financial Holding Company Total Credit to a single individual or legal entity may not exceed 20% of the Net Total Equity Capital.

Furthermore, the total sum of credits (as defined under the Financial Holding Companies Act, the Banking Act and the Financial Investment Services and Capital Markets Act, respectively) of a bank holding company and its direct and indirect subsidiaries ("Bank Holding Company Total Credit") extended to a "Major Shareholder" (together with the persons who have special relationship with such Major Shareholder) (as defined below) generally may not exceed the smaller of (x) 25% of the Net Total Equity Capital and (y) the amount of the equity capital of the financial holding company multiplied by the shareholding ratio of such Major Shareholder, subject to certain exceptions.

"Major Shareholder" is defined under the Financial Holding Companies Act as follows:

(a) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) in excess of 10% (or in the case of a financial holding company controlling regional banks only, 15%) in the aggregate of the financial holding company's total issued and outstanding voting shares; or

(b) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) more than 4% in the aggregate of the total issued and outstanding voting shares of the financial holding company controlling national banks (other than a financial holding company controlling regional banks only), excluding shares related to the shareholding restrictions on non-financial business group companies as described below, where such shareholder is the largest shareholder or has actual control over the major business affairs of the financial holding company through, for example, appointment and dismissal of the officers pursuant to the Presidential Decree of the Financial Holding Companies Act.

In addition, the total sum of the Bank Holding Company Total Credit extended to all of a bank holding company's Major Shareholder may not exceed 25% of the Net Total Equity Capital. Furthermore, the bank holding company and its direct and indirect subsidiaries that intend to extend the Bank Holding Company Total Credit to the bank holding company's Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Net Total Equity Capital or (ii) ₩5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then, immediately after the completion of the transaction, must file a report with the Financial Services Commission and publicly disclose the filing of such report (for example, through a website).

Restrictions on Transactions among Direct and Indirect Subsidiaries and Financial Holding Company

Generally, a direct or indirect subsidiary of a financial holding company may not extend credit to the financial holding company which directly or indirectly controls such subsidiary. In addition, a direct or indirect subsidiary of a financial holding company may not extend credit to any other single direct or indirect subsidiary of the financial holding company in excess of 10% of its stockholders' equity and to any other direct and indirect subsidiaries of the financial holding company in excess of 20% of its stockholders' equity in the aggregate. The direct or indirect subsidiaries of a financial holding company must obtain an appropriate level of collateral for the credits extended to the other direct and indirect subsidiaries unless otherwise approved by the Financial Services Commission. The appropriate level of collateral for each type of such collateral is as follows:

- (i) For deposits and installment savings, obligations of the Government or the Bank of Korea, obligations guaranteed by the Government or the Bank of Korea, obligations secured by securities issued or guaranteed by the Government or the Bank of Korea: 100% of the amount of the credit extended;
- (ii) (a) For obligations of local governments under the Local Autonomy Act, local public enterprises under the Local Public Enterprises Act, and investment institutions and other quasi-investment institutions under the Basic Act on the Management of Government-Invested Institution (hereinafter, the "public institutions and others"); (b) obligations guaranteed by the public institutions and others; and (c) obligations secured by the securities issued or guaranteed by public institutions and others: 110% of the amount of the credit extended; and
- (iii) For any property other than those set forth in the above (i) and (ii): 130% of the amount of the credit extended.

Subject to certain exceptions, a direct or indirect subsidiary of a financial holding company is prohibited from owning the shares of any other direct or indirect subsidiaries (other than those directly controlled by the direct and indirect subsidiaries in question) in common control by the financial holding company. However, a direct or indirect subsidiary of a financial holding company may invest as a limited partner in a private equity fund that is a direct or indirect subsidiary of the same financial holding company. The transfer of certain assets subject to or below the precautionary criteria between the financial holding company and its direct or indirect subsidiary or between the direct and indirect subsidiaries of a financial holding company is prohibited except for (i) the transfer to an asset-backed securitization company, typically a special purpose entity, or the entrustment with a trust company, under the Asset-Backed Securitization Act, (ii) the transfer to a mortgage-backed securitization company under the Mortgage-Backed Securitization Company Act, (iii) the transfer or in-kind contribution to a corporate restructuring vehicle under the Corporate Restructuring Investment Company Act or (iv) the acquisition by a corporate restructuring company under the Industrial Development Act.

Disclosure of Management Performance

For the purpose of protecting the depositors and investors in the subsidiaries of the financial holding companies, the Financial Services Commission requires financial holding companies to disclose certain material matters including (i) financial condition and profit and loss of the financial holding company and its direct and indirect subsidiaries, (ii) how capital was raised by the financial holding company and its direct and indirect subsidiaries and how such capital was used, (iii) any sanctions levied on the financial holding company and its direct and indirect subsidiaries under the Financial Holding Companies Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry or (iv) occurrence of any non-performing assets or financial incident which may have a material adverse effect.

Restrictions on Shareholdings in Other Companies

Subject to certain exceptions, a bank holding company may not own more than 5% of the total issued and outstanding shares of another company (other than its direct and indirect subsidiaries). If the financial holding company owns shares of another company (other than its direct and indirect subsidiaries) which is not a finance-

related company, the financial holding company is required to exercise its voting rights in the same manner and same proportion as the other shareholders of the company exercise their voting rights in favor of or against any resolutions under consideration at the shareholders' meeting of the company.

Restrictions on Shareholdings by Direct and Indirect Subsidiaries

Generally, a direct subsidiary of a financial holding company is prohibited from controlling any other company; *provided* that a direct subsidiary of a financial holding company may control (as an indirect subsidiary of the financial holding company): (i) subsidiaries in foreign jurisdiction which are engaged in a financial business, (ii) certain financial institutions which are engaged in the business that the direct subsidiary may conduct without any licenses or permits, (iii) certain financial institutions whose business is related to the business of the direct subsidiary as prescribed under the Presidential Decree of the Financial Holding Companies Act (for example, the companies which a bank subsidiary may control are limited to credit information companies, credit card companies, trust business companies, securities investment management companies, investment advisory companies, futures business companies, and asset management companies), (iv) certain financial institutions whose business is related to financial business as prescribed by the regulations of the Ministry of Strategy and Finance, and (v) certain companies which are not financial institutions but whose business is related to the financial business of the financial holding company as prescribed by the Presidential Decree of the Financial Holding Companies Act (e.g. finance-related research company, finance-related information technology company, etc.). Acquisition by the direct subsidiaries of such indirect subsidiaries requires a prior permission from the Financial Services Commission or a report to be submitted to the Financial Services Commission, depending on the types of the indirect subsidiaries and the amount of total assets of the indirect subsidiaries.

An indirect subsidiary of a financial holding company is prohibited from controlling any other company, provided, however, that in the case where a company held control over another company at the time such company initially became an indirect subsidiary of a financial holding company, such indirect subsidiary shall be required to dispose of its interest in such other company within two years after becoming an indirect subsidiary of a financial holding company.

A subsidiary of a financial holding company may invest in a special purpose company as its largest shareholder for purposes of making investments under the Act on Private Investment in Social Infrastructure without being deemed as controlling such special purpose company.

In addition, a private equity fund established in accordance with the Financial Investment Services and Capital Markets Act is not considered to be a subsidiary of a financial holding company even if the financial holding company is the largest investor in the private equity fund unless the financial holding company is the asset management company for the private equity fund.

Restrictions on Transactions Between a Financial Holding Company and its Major Shareholder

A bank holding company and its direct and indirect subsidiaries are prohibited from acquiring (including acquisition by a trust account of its subsidiary bank) shares issued by such bank holding company's Major Shareholder in excess of 1% of the Net Total Equity Capital. In addition, the financial holding company and its direct and indirect subsidiaries which intend to acquire shares issued by such Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Net Total Equity Capital or (ii) ₩5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then, immediately after the acquisition, must file a report with the Financial Services Commission and publicly disclose the filing of such report (for example, through a website).

Restrictions on Financial Holding Company Ownership

Under the Financial Holding Companies Act, foreign financial institutions are permitted to establish financial holding companies in Korea. Pursuant to the Presidential Decree of the Financial Holding Companies Act, a foreign financial institution can control a financial holding company if, subject to satisfying certain other conditions, it, together with its specially-related persons, holds 100% of the total shares in the financial holding company.

In addition, any single shareholder and persons who stand in a special relationship with such shareholder (as defined under the Presidential Decree to the Financial Holding Companies Act) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a financial holding company controlling national banks (or 15% in the case of a financial holding company controlling regional banks only). The Government and the Korea Deposit Insurance Corporation are not subject to such a ceiling.

However, “non-financial business group companies” (as defined below) may not acquire beneficial ownership of shares of a bank holding company in excess of 4% of such financial holding company’s outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of such financial holding company’s 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. In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of total voting shares issued and outstanding of a financial holding company which controls national bank, provided that an approval from the Financial Services Commission is obtained in instances where the total holding exceeds 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 bank holding company.

“Non-financial business group companies” are defined under the Financial Holding Companies Act as companies, which include:

- (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 item (i) or (ii) above holds more than 4% of the total shares issued and outstanding of such mutual fund;
- (iv) any private equity fund (x) which has a partner with limited liability that falls under item (i), (ii) or (iii) above and holds equity equivalent to 10% or greater of the total amount invested by the private equity fund, (y) which has a partner with unlimited liability that falls under item (i), (ii) or (iii) above or (z) whose affiliates belonging to an enterprise group subject to limitation on mutual investment hold in aggregate equity equivalent to 30% or greater of the total amount invested by such private equity fund; or
- (v) any investment purpose company in which a private equity fund that falls under item (iv) above acquires and holds no less than 4% of such company’s shares or equity or exercises de-facto influence on such company’s significant managerial matters.

Sharing of Customer Information among Financial Holding Companies and their Subsidiaries

Under the Act on Use and Protection of Credit Information, any individual customer’s credit information may only be disclosed or otherwise used by financial institutions to determine, establish or maintain existing commercial transactions with them and only after obtaining written consent to use information. In addition, under

the Act on Real Name Financial Transactions and Confidentiality, an individual working at a financial institution may not provide or reveal information or data concerning the contents of financial transactions to other persons unless such individual receives a request or consent in writing from the holder of a title deed, except under certain exceptions stipulated in the Act. Under the Financial Holding Company Act, a financial holding company and its direct and indirect subsidiaries, however, may share certain credit information of individual customers among themselves for internal management purposes outlined in the Enforcement Decree of the Financial Holding Company Act (such as credit risk management, internal control and customer analysis) without the customers' written consent, provided they adhere to the methods and procedures for provision of such information set forth therein. A financial investment company subsidiary of a financial holding company with a dealing and/or brokerage license may provide the financial holding company and its other direct and indirect subsidiaries information relating to the aggregate amount of cash or securities that a customer of the financial investment company has deposited for internal management purposes outlined in the Enforcement Decree of the Financial Holding Company Act, provided they adhere to the methods and procedures for provision of such information set forth therein. Certain amendments to the Financial Holding Company Act, which became effective on November 29, 2014, limit the scope of credit information that may be shared without the customers' prior consent and require certain procedures for provision of customer information as prescribed by the Financial Services Commission. Beginning on November 29, 2014, notice must be given to customers at least once a year regarding (i) the provider of customer information, (ii) the recipient of customer information, (iii) the purpose of providing the information and (iv) the categories of the information provided.

The Act on Corporate Governance of Financial Companies

The Act on Corporate Governance of Financial Companies came into effect as of August 1, 2016. The Act was enacted to address calls for strengthened regulations on corporate governance of financial companies and to serve as a uniform regulation on corporate governance matters applicable to all financial companies in place of the separate regulations for each sector that existed. The Act contains several key measures, including, but not limited, to (i) condition of eligibility of officers of financial companies and standards for determining whether financial companies' officers may hold concurrent positions in other companies, (ii) standards for composition and operation of board of directors, (iii) standards for establishment, composition and operation of committees of the board of directors, (iv) internal control and risk management, (v) requirements and procedures for the approval of a change of major shareholders and (vi) special regulations for rights of minority shareholders of financial companies.

Financial Investment Services and Capital Markets Act

General

The Financial Investment Services and Capital Markets Act categorizes capital markets-related business into six different functions, as follows:

- dealing (trading and underwriting of "financial investment products" (as defined below));
- brokerage (brokerage of financial investment products);
- collective investment (establishment of collective investment schemes and the management thereof);
- investment advice;
- discretionary investment management; and
- trusts (together with the five businesses set forth above, the "Financial Investment Businesses").

Accordingly, all financial businesses relating to financial investment products are reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses, irrespective of the type of the financial institution it is. For example, under the Financial Investment Services and Capital Markets Act, derivative businesses conducted by securities companies and future companies will be subject to the same regulations under the Financial Investment Services and Capital Markets Act, at least in principle.

The banking business and insurance business are not subject to the Financial Investment Services and Capital Markets Act and will continue to be regulated under separate laws; provided, however, that they may become subject to the Financial Investment Services and Capital Markets Act if their activities involve any financial investment businesses requiring a license based on the Financial Investment Services and Capital Markets Act.

Comprehensive Definition of Financial Investment Products

In an effort to encompass the various types of securities and derivative products available in the capital markets, the Financial Investment Services and Capital Markets Act sets forth a comprehensive term “financial investment products,” defined to mean all financial products with a risk of loss in the invested amount (in contrast to “deposits,” which are not financial investment products for which the invested amount is protected or preserved). Financial investment products are classified into two major categories: (i) “securities” (relating to financial investment products where the risk of loss is limited to the invested amount) and (ii) “derivatives” (relating to financial investment products where the risk of loss may exceed the invested amount). As a result of the general and open-ended manner in which financial investment products are defined, any future financial product could potentially fall under the definition of financial investment products, which would enable Financial Investment Companies (as defined below) to handle a broader range of financial products. Under the Financial Investment Services and Capital Markets Act, securities companies, asset management companies, futures companies and other entities engaging in any Financial Investment Business are classified as “Financial Investment Companies.”

License System

Financial Investment Companies are able to choose what Financial Investment Business to engage in (through the “check the box” method set forth in the relevant license application), by specifying the desired (i) Financial Investment Business, (ii) financial investment product and (iii) target customers to which financial investment products may be sold (namely, general investors or professional investors). Licenses will be issued under the specific business sub-categories described above. For example, it would be possible for a Financial Investment Company to obtain a license to engage in the Financial Investment Business of (i) dealing (ii) over-the-counter derivatives products (iii) only with professional investors.

Expanded Business Scope of Financial Investment Companies

Under the previous regulatory regime in Korea, it was difficult for a financial institution to explore a new line of business or expand upon its existing line of business. For example, a financial institution licensed as a securities company generally could not engage in the asset management business. In contrast, under the Financial Investment Services and Capital Markets Act, pursuant to the integration of its current business involving financial investment products into a single Financial Investment Business, a licensed Financial Investment Company is permitted to engage in all types of Financial Investment Businesses, subject to compliance with the relevant regulations, for example, maintaining an adequate “Chinese Wall,” to the extent required. As to incidental businesses (i.e., a financial related business which is not a Financial Investment Business), the Financial Investment Services and Capital Markets Act generally allows a Financial Investment Company to freely engage in such incidental businesses by shifting away from the previous system of permitting only the listed activities towards a more comprehensive system. In addition, a Financial Investment Company is permitted (i) to outsource marketing activities by contracting with “introducing brokers” that are individuals but not employees of the Financial Investment Company, (ii) to engage in foreign exchange business related to their Financial Investment Business and (iii) to participate in the settlement network, pursuant to an agreement among the settlement network participants.

Improvement in Investor Protection Mechanism

While the Financial Investment Services and Capital Markets Act broadens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is imposed upon Financial Investment Companies dealing in financial investment products. The Financial Investment Services and Capital Markets Act makes a distinction between general investors and sophisticated investors and provides new or enhanced protections to general investors. For instance, the Financial Investment Services and Capital Markets Act expressly provides for strict know-your-customer rules for general investors and imposes an obligation on Financial Investment Companies that they should market financial investment products suitable to each general investor considering his or her personal attributes, including investment objective, net worth, and investment experience. Under the Financial Investment Services and Capital Markets Act, a Financial Investment Company can be held liable if a general investor proves (i) damages or losses relating to such general investor's investment in financial investment products solicited by such Financial Investment Company and (ii) absence of explanation, false explanation, or omission of material fact (without having to prove fault or causation). In case there are any conflicts of interest between the Financial Investment Companies and investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

Other Regulatory Changes Related to Securities and Investments

The Financial Investment Services and Capital Markets Act brought changes to various rules in securities regulations including those relating to public disclosure, insider trading and proxy contests, which had previously been governed by the Securities and Exchange Act. For example, the 5% and 10% reporting obligations under the Securities and Exchange Act have become more stringent under the Financial Investment Services and Capital Markets Act. For instance, the number of events requiring an investor to update its 5% report have increased under the Financial Investment Services and Capital Markets Act. Previously, only a change in the shareholding of 1% or more or in the purpose of shareholding (such as an intention to influence management) could trigger the obligation to update the 5% report. The Government has issued detailed regulations stipulating additional events requiring updates to 5% reports, such as the change in the type of holding and change in any major aspect of the relevant contract. As for the 10% report filing obligation, the initial filing is expected to be required to be made within five business days of the date of the event triggering the 10% reporting obligation, compared to 10 calendar days under the previous law. The due date for reporting a subsequent change after the initial 10% report filing has been reduced from the 10th day of the first month immediately following the month in which such change took place to five business days of the date of such change. Under the previous law, there had been a limitation on the type of investment vehicles that could be used in a collective investment scheme (namely, to trusts and corporations), the type of funds that could be used for collective investments, and the types of assets and investment securities a fund could invest in. However, the Financial Investment Services and Capital Markets Act significantly liberalizes these restrictions, permitting all legal entities, including limited liability companies or partnerships, to be used for the purpose of collective investments, allowing the formation of fund complexes and permitting investment funds to invest in a wide variety of different assets and investment instruments.

Principal Regulations Applicable to Banks

General

The banking system in Korea is governed by the Banking Act and the Bank of Korea Act of 1950, as amended (the "Bank of Korea Act"). In addition, Korean banks are subject to the regulations and supervision of the Bank of Korea, the Bank of Korea's Monetary Policy Committee, the Financial Services Commission and its executive body, the Financial Supervisory Service.

The Bank of Korea, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The Bank of Korea acts under instructions of the Monetary Policy Committee, the supreme policy-making body of the Bank of Korea.

Under the Bank of Korea Act, the Monetary Policy Committee's primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea. The Financial Services Commission, established on April 1, 1998 as the Financial Supervisory Commission and later changed its name to the Financial Services Commission on March 3, 2008, regulates commercial banks pursuant to the Banking Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organization Act and the Banking Act on May 24, 1999, the Financial Services Commission, instead of the Ministry of Strategy and Finance, now regulates market entry into the banking business.

The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for the prudent control of liquidity and for capital adequacy and establishes reporting requirements pursuant to the authority delegated to it under the Financial Services Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Banking Act, approval to commence a commercial banking business or a long-term financing business must be obtained from the Financial Services Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of deposits for a period not exceeding one year or, subject to the limitation established by the Financial Services Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain approval from the Financial Services Commission. Approval to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Services Commission.

If the Financial Services Commission deems a bank's financial condition to be unsound or if a bank fails to meet the applicable capital adequacy ratio set forth under Korean law, the Financial Services Commission may order, among others:

- capital increases or reductions;
- suspension of officers' performance of their duties and appointment of custodians;
- stock cancellations or consolidations;
- transfers of a part or all of business;
- sale of assets and bar on acquisition of high-risk assets;
- closures or downsizing of branch offices or workforce;
- mergers or becoming a subsidiary under the Financial Holding Companies Act of a financial holding company;
- acquisition of a bank by a third party;

- suspensions of a part or all of business operation; or
- assignments of contractual rights and obligations relating to financial transactions.

Capital Adequacy

The Banking Act requires nationwide banks to maintain a minimum paid-in capital of ₩100 billion and regional banks to maintain a minimum paid-in capital of ₩25 billion.

In addition to minimum capital requirements, all banks including foreign bank branches in Korea are required to maintain a prescribed solvency position. A bank must also set aside as its legal reserve an amount equal to at least 10% of its net profits after tax each time it pays dividends on net profits earned until such time when the reserve equals the amount of its total paid-in capital.

Under the Banking Act, the capital of a bank is divided into two categories: Tier I and Tier II capital. Tier I capital (typically referred to as “Core Capital”) consists of (i) the capital that can absorb losses incurred by a bank such as capital, capital surplus and earned surplus generated from the issuance of common shares (collectively, “Common Stock Capital”), and (ii) the capital that can absorb the losses of a bank after depletion of the Common Stock Capital such as capital and capital surplus generated from the issuance of Tier I capital instruments satisfying the requirements designated by the Financial Supervisory Service (collectively, “Other Core Capital”). Tier II capital (typically referred to as “Supplementary Capital”) represents the capital which is equivalent to, but not included in, the Core Capital and can absorb losses incurred upon the liquidation of a bank such as capital and capital surplus generated from the issuance of Tier II capital instruments satisfying the requirements designated by the Financial Supervisory Service and allowance for bad debts set aside for loans classified as “normal” or “precautionary.”

Under the Detailed Regulations on the Supervision of the Banking Business, Tier I capital instruments must satisfy, among others, the following requirements in order to be recognized as Other Core Capital:

- (i) the price for such instruments shall have been fully paid through the procedure for issuance, and the instruments shall be in a perpetual form with no cause triggering a step-up or redemption;
- (ii) such instruments shall be bound by a special agreement on being subordinate to depositors, general creditors and subordinated debt of the bank (referring to a special agreement under which subordinated creditors’ right to claim payment shall take effect only after unsubordinated creditors’ claims are fully paid, when bankruptcy or any similar incident occurs; hereinafter the same shall apply) but shall not fall within liabilities exceeding assets at the time when bankruptcy is declared under the Debtor Rehabilitation and Bankruptcy Act;
- (iii) the payment of dividends or interests shall be suspended from the date when the bank is designated as a “insolvent financial institution” under the Act on Structural Improvement of the Financial Industry of Korea or under the Depositor Protection act of Korea as applicable, or the Financial Supervisory Service takes measures under the Regulations on the Supervision of the Banking Business such as the managerial improvement recommendation, the managerial improvement request, the managerial improvement order and the emergency measures against the bank to the date when the above-mentioned event is removed;
- (iv) the payment of dividends or interests shall not be determined in connection with the credit rating of the bank;
- (v) the dividends may only be paid out of distributable income;
- (vi) the bank shall be able to revoke in its sole discretion the payment of dividends or interests at any time;
- (vii) the cancellation of paying dividends must not impose restrictions on the bank except in relation to dividends to common stockholders;

- (viii) the revocation of the payment of dividends or interests shall not be deemed as the event of defaults, and the bank shall be able to use in its sole discretion the amount which was revoked to pay as dividends or interests to redeem any other debts of the bank then due and payable;
- (ix) such instruments shall not be redeemed within five years from the issuance date and the bank shall be able to determine in its sole discretion whether it redeems such instruments even after five years from the issuance date, and the instruments shall not be subject to any condition that arouse investors' expectation to have the instruments redeemed or any condition that imposes a burden of redemption upon the issuing bank in fact;
- (x) the requirements prescribed in Appendix 3-5 (Trigger Events for Contingent Capital Securities) of the Detailed Enforcement Rules of Regulation on Supervision of Banking Business shall be satisfied;
- (xi) the bank or the person who has de facto control over the bank shall not purchase capital instruments or provide a purchaser of such securities with funds for the purchase by providing a collateral or guarantee for payment or by lending a loan, shall not raise the priority of its claims, legally or economically, for the price paid for the securities, and shall not provide a collateral or guarantee to the purchasers of the securities directly or via a related company; and
- (xii) such capital instruments shall have no condition that hinders the issuing bank's procurement or expansion of capital in the future.

Under the Detailed Regulations on the Supervision of the Banking Business, Tier II capital instruments must satisfy, among others, the following requirements in order to be recognized as Supplementary Capital:

- (i) the procedure for issuance shall have been completed, the price for such capital instruments shall have been fully paid, and the capital instruments shall be bound by a special agreement of subordination to deposits and ordinary debts;
- (ii) the maturity shall not be less than five years from the issuance date, and Tier II capital instruments shall not be redeemed within five years from the issuance date;
- (iii) there is no condition to promote the bank to redeem such capital instruments such as a step-up provision, and the bank shall be able to determine in its sole discretion whether to redeem such instruments prior to the maturity date, and the instruments shall not be subject to any condition that arouse investors' expectation to have the instruments redeemed or any condition that imposes a burden of redemption upon the issuing bank in fact;
- (iv) other than the case where the bank is subject to the bankruptcy or liquidation, the holder of Tier II capital instruments shall not have the right to require bank to pay the principal or interests of such instruments earlier than the original due date thereof;
- (v) the payment of dividends or interests shall not be determined in connection with the credit rating of the bank;
- (vi) the requirements prescribed in Appendix 3-5 (Trigger Events for Contingent Capital Securities) of the Detailed Enforcement Rules of Regulation on Supervision of Banking Business shall be satisfied;
- (vii) the bank or any person or entity over which the bank exercises substantial control shall not purchase the capital instruments issued by such bank nor provide, directly or indirectly, the funds to acquire the capital instruments by providing any collateral or guaranty or loan in favor of the person or entity which tries to acquire such instruments; and
- (viii) the bank shall not enhance, legally or economically, the payment priority of the capital instruments, nor provide, directly or indirectly through its affiliated company, any collateral or guaranty in favor of the person or entity which acquires such instruments.

All banks must meet standards regarding minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with the Financial Services Commission requirements that have been formulated based on the BIS Standards. These standards were adopted and became effective in 1996. Under these regulations, all domestic banks and foreign bank branches are required to meet the minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

Furthermore, as Basel III was adopted and is being implemented in stages in Korea since December 1, 2013, all banks in Korea are required to meet minimum ratios of common stock capital (less any capital deductions) and core capital (less any capital deductions) to risk-weighted assets as set out in the Regulation on the Supervision of the Banking Business. The required minimum ratio of common stock capital (less any capital deductions) to risk-weighted assets is 4.5%, and the required minimum ratio of core capital (less any capital deductions) to risk-weighted assets is 6.0%. In addition, additional capital conservation buffer requirements have been implemented in stages from January 1, 2016 to January 1, 2019. Under such requirements, all banks in Korea are required to maintain a capital conservation buffer of 0.625% from January 1, 2016, which was gradually increased to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019.

Under the Regulation on the Supervision of the Banking Business and the Detailed Regulations promulgated thereunder, Korean banks apply the following risk-weight ratios in respect of their home mortgage loans:

- (i) for those banks adopting a standardized approach for calculating credit risk-weighted assets, the risk-weight ratio of 35% (only in the case where the loan is fully secured by a first ranking mortgage); and
- (ii) for those banks adopting an internal ratings-based approach for calculating credit risk-weighted assets, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined in the Detailed Regulations on the Supervision of the Banking Business.

In Korea, Basel II, a convention entered into by the Basel committee in June 2004 for the purpose of improving risk management and increasing capital adequacy of banks, was implemented in January 2008. Pursuant to Basel II, operational risk, such as inadequate procedure, loss risk by employees, internal system, occurrence of unexpected event, as well as credit risk and market risk, is taken into account in calculating the risk-weighted assets, in addition to maintaining the capital adequacy ratio of 8% for banks. Under Basel II, the capital requirements for credit risk can be calculated by the internal rating based (IRB) approach or the standardized approach.

Under the standardized approach, a home mortgage loan fully secured by a first ranking mortgage over the residential property is risk-weighted at 35%, but certain home mortgage loans with loan-to-value ratio exceeding 60% are risk weighted at 50% pursuant to an amendment of the Detailed Regulation on the Supervision of the Banking Business on December 31, 2018.

Under the Regulation on the Supervision of the Banking Business, banks shall set aside allowances for bad debts for each class of soundness in accordance with IFRS as adopted by Korea. If the amount for each class of soundness calculated in accordance with the following criteria exceeds the allowances for bad debts set aside, the excess amount shall, at the time of each settlement of accounts, be set aside as regulatory reserve for credit losses.

- 0.85% of normal credits (or 0.9% in the case of normal credits comprising loans to certain industries including construction, retail and wholesale sales, accommodations, restaurant, real estate and lease, 1.0% in the case of normal credits comprising loans to individuals and households, 2.5% in the case of normal credits comprising credit card loans and 1.1% in the case of normal credits comprising other credit card receivables);
- 7% of precautionary credits (or 10% in the case of precautionary credits comprising loans to individuals and households, 50% in the case of precautionary credits comprising credit card loans and 40% in the case of precautionary credits comprising other credit card receivables);

- 20% of substandard credits (or 10% in the case of substandard credits comprising assets for which the bank has the right to receive payment in priority pursuant to the Corporate Restructuring Promotion Act of Korea or Paragraph 180, Subparagraph 2 of the Debtor Rehabilitation and Bankruptcy Act of Korea (the “Priority Assets”), 65% in the case of substandard credits comprising credit card loans and 60% in the case of substandard credits comprising other credit card receivables);
- 50% of doubtful credits (or 25% in the case of doubtful credits comprising Priority Assets, 55% in the case of doubtful credits comprising loans to individuals and households and 75% in the case of doubtful credits comprising credit card loans and other credit card receivables); and
- 100% of estimated loss credits (or 50% in the case of estimated loss credits comprising of Priority Assets).

Furthermore, under the Regulation on the Supervision of the Banking Business, banks must maintain allowances for bad debts and regulatory reserve for credit losses in respect of their confirmed guarantees (including confirmed acceptances) and outstanding non-used credit lines in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard, doubtful and estimated loss credits comprising their outstanding loans and other credits as set forth above.

As of January 1, 2016, the Financial Services Commission implemented Basel III requirements relating to accumulation of additional capital for systemically important banks 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 2021. 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 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. Since March 2016, the Financial Services Commission has maintained countercyclical capital buffer requirements at 0%, and the Financial Supervisory Service has maintained the countercyclical capital buffer requirement at 0% for the first quarter of 2021. The Detailed Regulation on the Supervision of the Banking Business was also amended on June 30, 2018 to add “concentration of risk in the retail sector” as an additional criterion when the Financial Supervisory Service evaluates the risk management systems of Korean banks.

Liquidity

All banks are required to match the maturities of their assets and liabilities in accordance with the Banking Act in order to ensure adequate liquidity. Banks may not invest in excess of an amount exceeding 100% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a period remaining to maturity of over three years. However, this restriction does not apply to government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea.

The Financial Services Commission requires Korean banks to maintain a liquidity coverage ratio of at least 90.0% as of January 1, 2017, 95.0% as of January 1, 2018 and 100.0% as of January 1, 2019. The Financial Services Commission defines liquidity coverage ratio as high quality liquid assets that can be immediately converted into cash with little or no loss in value, as divided by the net amount of cash outflow for the next 30 day period, under the stress level established according to the liquidity coverage ratio, pursuant to the Regulation on the Supervision of the Banking Business, which was amended as of June 28, 2016 to implement the liquidity coverage ratio requirements under Basel III.

With respect to foreign currency liquidity coverage ratio, the Regulation on the Supervision of the Banking Business requires that financial institutions dealing with foreign exchange affairs (i.e., banks) whose foreign-currency denominated liabilities are equal to or greater than US\$500 million or 5% of its total liabilities, as of the end of the immediately preceding half-year period, maintain a foreign currency liquidity coverage ratio of 60% or higher beginning January 1, 2017, 70% or higher beginning January 1, 2018 and 80% or higher beginning January 1, 2019. The term “foreign currency liquidity coverage ratio” means the ratio of high-liquidity assets to the net cash outflow in respect of foreign-currency denominated assets and liabilities for the next 30 days. In the case of financial institutions dealing with foreign exchange affairs whose foreign-currency denominated liabilities are less than US\$500 million and less than 5% of its total liabilities, as of the end of the immediately preceding half-year period, the following ratios shall be maintained and foreign-currency denominated assets and liabilities shall be categorized and managed according to such different remaining maturities: (i) the ratio of assets for which remaining maturities are less than three months to liabilities for which remaining maturities are less than three months shall be at least 85%, and (ii) the assets for which remaining maturities are less than one month shall not exceed liabilities for which the remaining maturities are less than one month by more than 10%.

In April 2020, in response to the COVID-19 pandemic, the Financial Supervisory Service temporarily lowered the liquidity coverage ratio requirement from 100% to 85% and the foreign currency liquidity coverage ratio requirement from 80% to 70%. These temporary lower ratio requirements will apply through September 2021.

The Monetary Policy Committee of the Bank of Korea is authorized to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 7.0% of average balances for Won-denominated demand deposits outstanding, 0.0% of average balances for Won-denominated employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding and 2.0% of average balances for Won-denominated time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding. For foreign currency deposit liabilities, a 2.0% minimum reserve ratio is applied to savings deposits outstanding and a 7.0% minimum reserve ratio is applied to demand deposits, while a 1.0% minimum reserve ratio is applied for offshore accounts, immigrant accounts and resident accounts opened by financial institutions (excluding bank holding companies) and The Export-Import Bank of Korea as well as foreign currency certificates of deposit held by account holders of such offshore accounts, immigrant accounts and resident accounts opened by financial institutions (excluding bank holding companies) and The Export-Import Bank of Korea.

Loan-to-Deposit Ratio

In December 2009, the Financial Supervisory Service announced that it would introduce a new set of regulations on the loan-to-deposit ratio by amending the Regulation on the Supervision of the Banking Business upon its determination that the overall liquidity of banks in Korea had become unstable due to the ongoing increase in the loan-to-deposit ratio resulting from banks expanding their asset size too competitively by granting mortgages on houses and loans to small- and medium-sized enterprises over the last couple of years. The Regulation on the Supervision of the Banking Business, which was amended as of August 19, 2010 and December 26, 2014 and took effect on January 1, 2014 and January 1, 2015, respectively, requires banks with

Won-denominated loans of not less than ₩2 trillion in value as of the last month of the immediately preceding quarter to maintain a ratio of Won-denominated loans (excluding certain types of loans using funds borrowed from Korea Development Bank or the Government or loans made under certain operational rules of Korea Federation of Banks) to Won-denominated deposits (excluding certificates of deposit) and the balance of the covered bonds under the Act on Issuance of Covered Bonds, the maturity of which is not less than five years (only in case when such financing from the issuance of covered bonds is used in Won currency and up to 1% of Won-denominated deposits) 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 Supervisory Service announced a series of measures to temporarily ease the regulations on loan-to-deposit ratio. In particular, until December 2021, the loan-to-deposit ratio maximum of 100% will be temporarily increased to 105%, and corporate loans to SOHOs extended since January 1, 2020 will also be subject to a multiple of 85% provided such loans are not real estate related. Shinhan Bank's loan-to-deposit ratio as of December 31, 2020 was 98.17%, based on monthly average balances.

Financial Exposure to Any Single Customer and Major Shareholders

Under the Banking Act, the sum of material credit exposures by a bank, namely, the total sum of its credits to single individuals, legal entities or persons sharing credit risk with such individuals or legal entities such as companies belonging to the same enterprise groups as defined under the Monopoly Regulations and Fair Trade Act that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions), must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions), subject to certain exceptions. Subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to an individual or a legal entity, and no bank may grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to individuals, legal entities and companies that belong to the same enterprise group as defined in the Monopoly Regulations and Fair Trade Act.

Under the Banking Act, certain restrictions apply to extending credits to a major shareholder. The definition of a "major shareholder" is as follows:

- a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) in excess of 10% (or in the case of regional banks, 15%) in the aggregate of the bank's total issued and outstanding voting shares; or
- a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) more than 4% in the aggregate of the total issued and outstanding voting shares of a bank (other than a regional bank), where such shareholder is the largest shareholder or is able to actually control the major business affairs of the bank, for example, through appointment and dismissal of the chief executive officer or of the majority of the executives.

Under the Banking Act, banks are prohibited from extending credits in the amount greater than the lesser of (1) 25% of the sum of such bank's Tier I and Tier II capital (less any capital deductions) and (2) the relevant major shareholder's shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions) to a major shareholder (together with persons who have special relationship with such major shareholder as defined in the Presidential Decree of the Banking Act). Also, no bank is allowed to grant credit to its major shareholders in the aggregate in excess of 25% of its Tier I and Tier II capital (less any capital deductions).

When managing the credit risk of banks, among the methods for providing credit support by banks, a loan agreement, a purchase agreement for asset-backed commercial papers, purchase of subordinate beneficiary certificates, and assumption of liability by providing warranty against default under asset-backed securitization are examples of creating financial exposure to banks.

Interest Rates

Korean banks remain dependent on the acceptance of deposits as their primary source of funds. Currently, there are no legal controls on interest rates on bank loans in Korea, except for the cap of 24.0% per annum on interest rates under the Act on Lending Business.

Lending to Small- and Medium-sized Enterprises

When commercial banks (including Shinhan Bank) make Won-denominated loans to certain startup, venture, innovative and other strategic small- and medium-sized enterprises specially designated by the Bank of Korea as “priority borrowers,” the Bank of Korea generally provides the underlying funding to these banks at concessionary rates for up to 50% of all such loans made to the priority borrowers subject to a monthly-adjusted limit prescribed by the Bank of Korea (currently ₩5.9 trillion) provided that if such loans to priority borrowers made by all commercial banks exceed the prescribed limit for a given month, the concessionary funding for the following month will be allocated to each commercial bank in proportion to such bank’s lending to priority borrowers two months prior to the time of such allocation, which has the effect that, if a particular bank lags other banks in making loans to priority borrowers, the amount of funding such bank can receive from the Bank of Korea at concessionary rates will be proportionately reduced.

Disclosure of Management Performance

For the purpose of enforcing mandatory disclosure of management performance so that the general public, especially depositors and stockholders, will be in a better position to monitor banks, the Financial Services Commission requires commercial banks to disclose certain matters as follows:

- loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank’s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to such borrower is calculated pursuant to the criteria under the Detailed Regulations promulgated under the Regulation on the Supervision of the Banking Business), except where the loan exposure to a single business group is not more than ₩4 billion; and
- any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank’s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, except where the loss is not more than ₩1 billion.

Restrictions on Lending

According to the Banking Act, commercial banks are prohibited from making any of the following categories of loans:

- loans made directly or indirectly on the pledge of a bank’s own shares;
- loans made directly or indirectly to enable a natural or a legal person to buy the bank’s own shares;
- loans made to any of the bank’s officers or employees other than de minimis loans of up to (1) ₩20 million in the case of a general loan, (2) ₩50 million in the case of a general loan plus a housing loan, or (3) ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;
- credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; and
- loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to ₩20 million or general and housing loans of up to ₩50 million in the aggregate.

Recent Regulations Relating to Retail Household Loans

The Financial Services Commission has implemented a number of changes in recent years to the regulations relating to retail household lending by banks. Under the currently applicable regulations:

- as to loans secured by houses (including apartments) located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) shall not exceed 70%;
- as to loans secured by houses (including apartments) located in areas of excessive investment or high speculation, in each case, as designated by the Government, the loan-to-value ratio should not exceed 40%, except that such maximum loan-to-value ratio is 50% for low-income households that (i) have an annual income of less than ₩80 million (or ₩90 million for first-home buyers), (ii) do not currently own any housing and (iii) are using the loan to purchase low-price housing valued at less than ₩600 million;
- as to any new loans secured by high-priced houses (including apartments) located in areas of excessive investment or high speculation for which the price exceeds ₩1.5 billion (based on evaluation data of a certified rating institution and the detailed standards as determined by the director of the Financial Supervisory Service), the loan to value ratio should not exceed 40% for a housing price of ₩900 million or less and shall not exceed 20% for a housing price exceeding ₩900 million;
- as to any new loans secured by houses (including apartments) located nationwide to be extended to a household that already owns one or more houses, the maximum loan-to-value ratio must be adjusted to 10% lower than the applicable loan-to-value ratio described above;
- any new loans secured by houses (including apartments) located in areas of excessive investment or high speculation to a household that already owns one or more houses are not permitted unless otherwise specified by the applicable regulations;
- any new loans secured by high-priced houses (including apartments) located in areas of excessive investment or high speculation for which the price exceeds ₩900 million (based on evaluation data of a certified rating institution and the detailed standards as determined by the director of the Financial Supervisory Service) are generally prohibited;
- as to loans secured by houses (including apartments) located in areas of excessive investment or high speculation, in each case, as designated by the Government, the borrower's debt-to-income ratio (calculated as (1) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such housing and existing mortgage and home equity loans and (y) the interest on other debts of the borrower over (2) the borrower's annual income) should not exceed 40%, except that such maximum debt-to-income ratio is 50% for low-income households that (i) have an annual income of less than ₩80 million (or ₩90 million for first-home buyers), (ii) do not currently own any housing and (iii) are using the loan to purchase low-price housing valued at less than ₩600 million;
- as to any new loans secured by apartments to be extended to a household that already owns one or more houses but wishes to purchase additional houses located in an unregulated Seoul metropolitan area, the maximum debt-to-income ratio must be adjusted to 10% lower than the applicable debt-to-income ratio described above; and
- as to loans secured by high priced housing (including apartments) located in areas of excessive investment or high speculation to a household that has already obtained a loan secured by the house (including the relevant loan secured by high priced housing), the borrower's debt-service ratio (calculated as (1) the aggregate annual total payment amount of the principal of and interest on financial liabilities over (2) the borrower's annual income) should not exceed 40% unless otherwise specified by the applicable regulations.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for conducting its business; provided that the aggregate value of such real estate property must not exceed 60% of the sum of its Tier I and Tier II capital (less any capital deductions). Any property acquired by a bank (1) through the exercise of its rights as a secured party or (2) the acquisition of which is prohibited by the Banking Act must be disposed of within three years, unless otherwise provided by the regulations thereunder.

Restrictions on Shareholdings in Other Companies

Under the Banking Act, a bank may not own more than 15% of shares outstanding with voting rights of another company, except where, among other reasons:

- the company issuing such shares is engaged in a business that falls under the category of financial businesses set forth by the Financial Services Commission (including companies which business purpose is to own equity interests in private equity funds); or
- the acquisition of shares by the bank is necessary for corporate restructuring of such company and is approved by the Financial Services Commission.

In the above cases, a bank must satisfy either of the following requirements:

- the total investment in companies in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 20% of the sum of Tier I and Tier II capital (less any capital deductions); or
- the total investment in companies in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 30% of the sum of Tier I and Tier II capital (less any capital deductions) where the acquisition satisfies the requirements determined by the Financial Services Commission.

The Banking Act provides that a bank using its bank accounts and its trust accounts is not permitted to acquire the shares issued by the Major Shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Banking Act, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with such shareholder (as described in the Presidential Decree to the Banking Act) may acquire beneficial ownership of up to 10% of a national bank's total issued and outstanding shares with voting rights and up to 15% of a regional bank's total issued and outstanding shares with voting rights. The government, the Korea Deposit Insurance Corporation and financial holding companies qualifying under the Financial Holding Companies Act are not subject to such ceilings. However, non-financial business group companies — namely, (1) any same shareholder group with an aggregate net assets of all non-financial companies belonging to such group of not less than 25% of the aggregate net assets of all corporations that are members of such group; (2) any group with aggregate assets of all non-financial companies belonging to such group of not less than ₩2 trillion; (3) any mutual fund in which the same shareholder group, as described in items (1) and (2) above, owns more than 4% of the total shares issued and outstanding; (4) a private equity fund (under the Financial Investment Services and Capital Markets Act) where (i) the general partner of such private equity fund, (ii) the limited partner whose equity holding ratio in such private equity fund is 10% or more, or (iii) the limited partners, being member companies of a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act, whose aggregate equity holding ratio in such private equity fund is 30% or more falls under either of item (1) to (3) above; or (5) a special purpose company of a private equity fund where a private equity fund, as described in item (4) above, owns 4% or more of the special

purpose company's issued and outstanding shares or has actual control over the major business affairs of the special purpose company through, for example, appointment and dismissal of the officers – may not acquire beneficial ownership of shares of a national bank in excess of 4% of such bank's outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of:

- up to 10% of a national bank's outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial group companies will not exercise voting rights in respect of such shares in excess of the 4% limit; and
- in the event that a foreigner, as defined in the Foreign Investment Promotion Act, owns not less than 10% of a national bank's outstanding voting shares, up to 10% of such bank's outstanding voting shares without the approval of the Financial Services Commission, and in excess of 10%, 25% or 33% of such bank's outstanding voting shares, with the approval of the Financial Services Commission, up to the number of shares owned by such foreigner.

In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of a national bank's total voting shares issued and outstanding, provided that an approval from the Financial Services Commission is obtained in instances where the total holding exceeds 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding.

Deposit Insurance System

The Depositor Protection Act provides, through a deposit insurance system, insurance for certain deposits of banks in Korea. Under the Depositor Protection Act, all banks governed by the Banking Act, including Shinhan Bank and Jeju Bank, are required to pay to the Korea Deposit Insurance Corporation an insurance premium on a quarterly basis at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank's insurable deposits in any given year. The current insurance premium is 0.02% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation pays the insured amount, it will acquire the claims of the depositors within the payment amount. Under current rules, the Korea Deposit Insurance Corporation insures only up to a total of ₩50 million per an individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits.

The Financial Consumer Protection Act

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 the breach of such 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.

Trust Business

A bank that intends to enter into the trust business must obtain the approval of the Financial Services Commission. Trust activities of banks are governed by the Financial Investment Services and Capital Markets Act. Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

- under the Banking Act, the Financial Investment Services and Capital Markets Act and the Trust Act, assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of such bank; accordingly, banks engaged in the banking and trust businesses must maintain two separate accounts, the “banking accounts” and the “trust accounts,” and two separate sets of records which provide details of their banking and trust businesses, respectively; and
- assets comprising the trust accounts are not available to depositors or other general creditors of such bank in the event the trustee is liquidated or is wound up.

In the event that a bank qualifies and operates as a collective investment business entity, a trustee, a custodian or a general office administrator under the Financial Investment Services and Capital Markets Act, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the collective investment business, the trustee or custodian business and general office administration. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation, except where an officer or a director (1) serving in two or more business operations with no significant conflict of interest in accordance with the Presidential Decree on the Financial Investment Services and Capital Markets Act or (2) serving in a trustee business or a custodian business and simultaneously serving in a general office administrator business in accordance with the Financial Investment Services and Capital Markets Act;
- prohibitions against the joint use or sharing of computer equipment or office equipment; and
- prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

A bank which qualifies and operates as a collective investment business entity may engage in the sale of beneficiary certificates of investment trusts which are managed by such bank. However, such bank is prohibited from engaging in the following activities:

- acting as trustee of an investment trust managed by such bank;
- purchasing with such bank’s own funds beneficiary certificates of an investment trust managed by such bank;

- using in its sales activities of other collective investment securities information relating to the trust property of an investment trust managed by such bank;
- selling through other banks established under the Banking Act beneficiary certificates of an investment trust managed by such bank;
- establishing a short-term financial collective investment vehicle; and
- establishing a mutual fund.

Laws and Regulations Governing Other Business Activities

To enter the foreign exchange business, a bank must register with the Minister of the Ministry of Strategy and Finance. The foreign exchange business is governed by the Foreign Exchange Transaction Law. To enter the securities business, a bank must obtain the approval of the Financial Services Commission. The securities business is governed by regulations under the Financial Investment Services and Capital Markets Act. Pursuant to the above-mentioned laws, banks are permitted to engage in the foreign exchange business and the underwriting business for government and other public bonds.

Recently, regulatory authorities are encouraging financial institutions to lower the ATM usage fees in order to decrease the financial expense burden on consumers. Further, in light of the increasing household debt, regulatory authorities are encouraging financial institutions to gradually increase the proportion of the principal of retail loans that are subject to the fixed interest rates from 14% in 2012 to 45% by 2017.

Principal Regulations Applicable to Credit Card Companies

General

Any person, including a bank, wishing to engage in the credit card business must obtain a license from the Financial Services Commission. In addition, in order to enter the credit card business, a bank must obtain a license from the Financial Services Commission (hereinafter, a bank which obtains such license is defined as “licensed bank engaged in the credit card business”). The credit card business is regulated and governed by the Specialized Credit Financial Business Act. Under the Specialized Credit Financial Business Act and regulations thereunder, a company in the same conglomerate group (as defined in the Monopoly Regulations and Fair Trade Act) may engage in the credit card business even though another company in the same conglomerate group is already engaged in such business, which was previously not permitted.

The Specialized Credit Financial Business Act establishes guidelines on capital adequacy and provides for other regulations relating to the supervision of credit card companies. The Specialized Credit Financial Business Act delegates regulatory authority over credit card companies to the Financial Services Commission and its executive body, the Financial Supervisory Service.

A licensed bank engaging in the credit card business is regulated by the Financial Services Commission and the Financial Supervisory Service.

The Financial Services Commission regulates credit card companies and licensed banks engaged in the credit card business by establishing guidelines or regulations on management of such companies. Moreover if the Financial Services Commission deems the financial condition of a credit card company or a licensed bank engaged in the credit card business to be unsound or such companies fail to satisfy the guidelines or regulations, the Financial Services Commission may take certain measures to improve the financial condition of such companies.

Restrictions on Scope of Business

Under the Specialized Credit Financial Business Act, a credit card company may conduct only the following types of business: (i) credit card business as licensed or other specialized credit finance businesses as registered pursuant to the Specialized Credit Financial Business Act; (ii) the businesses ancillary to the credit card business, (for example, providing cash advance loans to existing credit card holders, issuing and settling of debit cards and issuing, selling and settling of pre-paid cards); (iii) provision of unsecured or secured loans; (iv) provision of discount on notes; (v) purchase, management and collection of account receivables originated by companies in the course of providing goods and services; (vi) provision of payment guarantee; (vii) asset management business under the Asset Backed Securitization Act; (viii) credit investigation; and (ix) other incidental businesses related to the foregoing. Under the Specialized Credit Financial Business Act, a credit card company's scope of business includes "businesses that utilize existing manpower, assets or facilities in a credit card company, as designated by the Financial Services Commission." Under the current regulation established by the Financial Services Commission, a credit card company may engage in various types of business including, but not limited to, e-commerce, operation of insurance agency, delegation of card issuance, supply of payment settlement system, loan brokerage and brokerage of collective investment securities.

A credit card company's average balance of claim amounts arising from the advance of loans to credit card holders (excluding such claims arising from the re-advance of loans to credit card holders following a change in the maturity or interest rate of such loans as part of a debt restructuring) as of the end of each quarter may not exceed the sum of the following amounts:

- Average balance of claims during a quarter arising from the purchase of goods or services by credit card holders with credit cards; and
- Amount of debit card usage during a quarter by debit card members.

Capital Adequacy

The Specialized Credit Financial Business Act provides for a minimum paid-in capital amount of: (i) ₩20 billion in the case of a specialized credit financial business company which wishes to engage in no more than two kinds of core businesses (i.e. credit card, installment finance, leasing and new technology business) and (ii) ₩40 billion in the case of an specialized credit financial business company, which wishes to engage in three or more kinds of core businesses.

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company must maintain a "capital adequacy ratio," defined as the ratio of adjusted equity capital to adjusted total asset, of 8% or more and a "delinquent claim ratio," defined as the ratio of delinquent claims to total claims as set forth under the regulations relating to the Specialized Credit Financial Business Act, of less than 10%.

Under the Specialized Credit Financial Business Act and regulations thereof, the minimum ratio of allowances for losses on loans, leased assets (except assets subject to an operating lease) and suspense receivables as of the date of accounting settlement (including semiannual preliminary accounts settlement) would be 0.5% of normal assets, 1% of precautionary assets and 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets, and the minimum ratio of allowances for losses on card assets would be 1.1% (or 2.5%, in the case of card loan assets and revolving assets) of normal assets, 40% (or 50%, in the case of card loan assets and revolving assets) of precautionary assets, 60% (or 65%, in the case of card loan assets and revolving assets) of substandard assets, 75% of doubtful assets and 100% of estimated loss assets. In addition, a credit card company has to reserve a certain amount calculated according to relevant regulations as loss allowances for unused credit limits.

Liquidity

Under the Specialized Credit Financial Business Act and regulations thereunder, a credit card company must maintain a Won liquidity ratio (Won-denominated current assets/Won-denominated current liabilities) of 100% or more. In addition, once a credit card company is registered as a foreign exchange business institution with the Minister of the Ministry of Strategy and Finance, such credit card company is required to (1) maintain a foreign-currency liquidity ratio within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 80%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as foreign-currency liquid assets due within seven days less foreign-currency liabilities due within seven days, divided by total foreign-currency assets) of not less than 0% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as foreign-currency liquid assets due within a month less foreign-currency liabilities due within a month, divided by total foreign-currency assets) of not less than negative 10%. The Financial Services Commission requires a credit card company to submit quarterly reports with respect to the maintenance of these ratios.

Restrictions on Funding

Under the Specialized Credit Financial Business Act, a credit card company may raise funds using only the following methods: (i) borrowing from financial institutions, (ii) issuing corporate debentures or notes, (iii) selling securities held by the credit card company, (iv) transferring claims held by the credit card company, (v) borrowing and issuing foreign currency securities after registering itself as a foreign exchange business institutions under the Foreign Exchange Transactions Law, (vi) transferring claims held by the credit card company in connection with its businesses, or (vii) issuing securities backed by the claims held by the credit card company relating to its businesses.

Furthermore, a credit card company may borrow funds from offshore or issue foreign currency denominated securities once it is registered as a foreign exchange business institution with the Minister of the Ministry of Strategy and Finance.

A credit card company must ensure that its total asset does not exceed eight times the amount of its equity capital. However, if the credit card company cannot comply with such limit due to the occurrence of unavoidable events such as drastic changes in the domestic and global financial markets, such limit of its total assets compared to the equity capital may be adjusted by a resolution of the Financial Services Commission. A non-credit card company must ensure that its total asset does not exceed ten times the amount of its equity capital.

Restrictions on Loans to Affiliate Companies

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company may not provide loans exceeding 50% of its equity capital, in the aggregate, to its specially related persons (as defined under the relevant laws) including, but not limited to, its affiliates.

Restrictions on Assistance to Other Companies

Under the Specialized Credit Financial Business Act, a credit card company may not engage in any of the following acts in conjunction with other financial institutions or companies: (i) holding voting shares under cross shareholding or providing credit for the purpose of avoiding the restrictions on loans to affiliate companies; (ii) acquiring shares under cross shareholding for the purpose of avoiding the limitation on purchase of its treasury shares under the Korean Commercial Code or the Financial Investment Services and Capital Markets Act; or (iii) other acts which are likely to have a material adverse effect on the interests of transaction parties as stipulated by the Presidential Decree to the Specialized Credit Financial Business Act, which are not yet provided.

A credit card company also may not extend credit for enabling another person to purchase the shares of such credit card company or to arrange financing for the purpose of avoiding the restrictions on loans to affiliate companies.

Restrictions on Investment in Real Estate

Under the Specialized Credit Financial Business Act and the regulations thereof, a credit card company may possess real estate only to the extent that such business conduct is designated by such laws and regulations, with certain exceptions such as for the purposes of factoring or leasing or as a result of enforcing its security rights, provided that the Financial Services Commission may limit the maximum amount a credit card company may invest in real estate investments for business purposes up to a percentage equal to or in excess of 100% of its equity capital.

Restrictions on Shareholding in Other Companies

Under the Specialized Credit Financial Business Act and the Act on the Structural Improvement of the Financial Industry, a credit card company and its affiliate financial institutions (together a “group”) are required to obtain prior approval of the Financial Services Commission if such credit card company, together with its affiliate financial institutions, (i) owns 20% or more of outstanding voting shares of a target company or (ii) owns 5% or more of outstanding voting shares of a target company, and shall be deemed to have control of the target company, including being the largest shareholder of such target company or otherwise.

Disclosure and Reports

Pursuant to the Specialized Credit Financial Business Act and the regulations thereof, the ordinary disclosure requirement for a credit card company is to disclose any material matters relating to management performance, profits and losses, corporate governance, competence of the employees or risk management within three months from the end of each fiscal year and within two months from the end of the first half of the fiscal year. In addition, a credit card company is required to disclose on an on-going basis certain matters such as the occurrence of non-performing loans, a financial incident or losses exceeding certain amounts. In addition, under the regulations issued by the Financial Services Commission, a credit card company or a licensed bank engaging in the credit card business must submit such report as required by the Governor of the Financial Supervisory Service, with certain important matters being reported as frequently as each month. In addition, all companies engaged in the specialized credit financial business under the Specialized Credit Financial Business Act, including, without limitation, credit card companies, must file a report to the Financial Supervisory Service regarding the result of settlement of accounts within one month after the end of its fiscal year. Also, these companies are required to conduct a provisional settlement of accounts for each quarter and file a report to the Financial Supervisory Service within one month after the end of such quarter.

Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards

Under the Specialized Credit Financial Business Act, upon notice from the holder of a credit card or a debit card of its loss or theft, a credit card company or a licensed bank engaged in the credit card business, as the case may be, is liable for any loss arising from the unauthorized use of credit cards or debit cards thereafter as well as any loss from unauthorized transactions made within 60 days prior to such notice. However, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may transfer to the cardholder all or part of the risks of loss associated with unauthorized transactions made within 60 days prior to such notice, in accordance with the standard terms and conditions agreed between the credit card company or the licensed bank engaged in the credit card business, as the case may be, and the cardholder, provided that the loss or theft must be due to the cardholder’s willful misconduct or negligence. Disclosure of a cardholder’s password under duress or threat to the cardholder’s or his/her family’s life or health will not be deemed as the cardholder’s willful misconduct or negligence.

Moreover, a credit card company or a licensed bank engaged in the credit card business, as the case may be, is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. However, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may transfer all or part of this risk of loss to holders of credit cards in the event of willful misconduct or gross negligence by holders of such cards if the terms and conditions of the written agreement entered between the credit card company or a licensed bank engaged in the credit card business, as the case may be, and holders of such cards specifically provide for such transfer. For these purposes, disclosure of a customer's password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence.

In addition, the Specialized Credit Financial Business Act prohibits a credit card company from transferring to merchants the risk of loss arising from lost, stolen, forged or altered credit cards, debit cards or pre-paid cards; provided, however, that a credit card company may enter into an agreement with a merchant under which the merchant agrees to be responsible for such loss if caused by the merchant's gross negligence or willful misconduct.

Each credit card company or a licensed bank engaged in the credit card business must institute appropriate measures such as establishing reserves, purchasing insurance or joining a cooperative association in order to fulfill its obligations related to the risk of loss arising from unauthorized use due to lost, stolen, forged or altered credit cards, debit cards or pre-paid cards.

Under the Specialized Credit Financial Business Act, the Financial Services Commission may take necessary measures to maintain credit order and protect consumers by establishing standards to be complied with by credit card companies relating to:

- maximum limits for cash advances on credit cards;
- restrictions on debit cards with respect to per day or per transaction usage;
- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards;
- calculation and determination of credit limits;
- determination of the amount limit of credit cards;
- provisions included in credit card agreements;
- management of credit card merchants;
- collection on claims; or
- classification of credit card holders for purposes of determining the fees applicable to such holders.

Lending Ratio in Ancillary Business

Pursuant to the Presidential Decree of the Specialized Credit Financial Business Act, as amended in January 2020, a credit card company must maintain a quarterly average balance of receivables arising from cash advances to credit card holders (excluding cash advances incurred by re-lending to a credit card holder after modifying the terms and conditions, such as maturity or interest rate, of the original cash advance for debt rescheduling purposes) no greater than its aggregate quarterly average balance of receivables arising from credit card holders' purchase of goods and services (excluding the amount of receivables arising from the purchase of goods and services using an exclusive use card for business purposes) plus its aggregate quarterly amount of payments made by members using their debit cards.

Issuance of New Cards and Solicitation of New Card Holders

The Presidential Decree of the Specialized Credit Financial Business Act establishes the conditions under which a credit card company or a licensed bank engaged in the credit card business may issue new cards and solicit new members. Specifically, new credit cards may be issued only to the following persons that meet all of the following criteria: (i) age of 19 years or more as defined in the Korean Civil Code, or age of 18 years or more with evidence of employment as of the date of the credit card application; (ii) satisfaction of a minimum credit score as publicly announced by the Financial Services Commission, provided that the minimum personal credit score requirement will not apply in the case where (a) the credit card company can confirm through objective evidence that an applicant is sufficiently capable of paying for his or her credit card use or such applicant can provide objective evidence therefor, or (b) a credit card function is added to an existing debit card for added convenience to the card holder and the credit card function is subject to limits determined by the Financial Services Commission; (iii) satisfaction of the application scoring system for the relevant credit; and (iv) verification of personal identity.

In addition, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may not engage in the following methods of soliciting credit card holders: (i) providing economic benefits or conditioning such benefits in excess of 10% of the annual credit card fee (in the case of no-annual fee credit cards, the average annual fees will be ₩10,000) in connection with issuance of credit cards; (ii) solicitation on streets and private roads as prescribed under the Road Act and Private Road Act, public place and corridors used by the general public; (iii) solicitation through visits, except those visits made upon prior consent and visits to a business area; (iv) solicitation through pyramid sales methods; and (v) solicitation through the Internet, as further discussed below.

In addition, a credit card company or a licensed bank engaged in the credit card business is required to check whether the credit card applicant has any delinquent debt owed to any other credit card company or other financial institutions which the applicant is unable to repay, and also require, in principle, with respect to solicitations made through the Internet, the certified electronic signature of the applicant. Moreover, persons who intend to engage in solicitation of credit card applicants must register with the Financial Services Commission, unless the solicitation is made by officers or employees of a credit card company or a company in business alliance with such credit card company.

Compliance Rules on Collection of Receivable Claims

Pursuant to the Specialized Credit Financial Business Act and its regulations, a credit card company or a licensed bank engaged in the credit card business are prohibited from collecting its claims by way of:

- exerting violence or threat of violence;
- informing a Related Party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor's liability without just cause;
- providing false information relating to the debtor's obligation to the debtor or his or her Related Party;
- threatening to sue or suing the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;
- visiting or telephoning the debtor during late hours between 9:00 p.m. and 8:00 a.m.; and
- utilizing other uncustomary methods to collect the receivables thereby invading the privacy or the peacefulness in the workplace of the debtor or his or her Related Party.

Principal Regulations Applicable to Financial Investment Companies

General

The securities business is regulated and governed by the Financial Investment Services and Capital Markets Act. Financial investment companies are under the regulation and supervision of the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Financial Investment Services and Capital Markets Act, a financial investment company may engage in dealing, brokerage, collective investment, investment advice, discretionary investment management or trust businesses if it has obtained relevant licenses from the Financial Services Commission.

A financial investment company may also engage in certain businesses ancillary to the primary business or certain other additional businesses by submitting a report to the Financial Services Commission at least seven days prior to the commencement of the business without obtaining any separate license. Approval to merge with any other entity or to transfer all or substantially all of a business must also be obtained from the Financial Services Commission.

Under the Act on the Structural Improvement of the Financial Industry, if the Government deems a financial investment company's financial condition to be unsound or if a financial investment company fails to meet the applicable Net Operating Equity Ratio (as defined below), the government may order certain sanctions, including among others, sanctions against a financial investment company or its officers or employees, capital increase or reduction and a suspension or assignment of a part or all of business operation.

Regulations on Financial Soundness — Capital Adequacy

The Financial Investment Services and Capital Markets Act sets forth various types of brokerage and/or dealing business licenses based on (i) the scope of products and services that may be provided by each type of the brokerage and/or dealing licensee and (ii) the type of customers to which such products and services may be provided. For example, a financial investment company engaged in the brokerage, dealing and underwriting businesses with retail investors as well as professional investors in connection with all types of securities is required to have a minimum paid-in capital of ₩53 billion in order to obtain a license for such brokerage, dealing and underwriting businesses.

Under the Financial Investment Service Regulations, as amended and effective as of January 31, 2019, the soundness requirement of financial investment companies changed from the previous net operating equity ratio requirement to a net equity ratio requirement. The net equity ratio is calculated according to the following formula:

Net Equity Ratio = (Net Operating Equity – Total Risk) / Equity Capital Maintenance Requirement for Each Service Unit

The terms “Net Operating Equity” and “Total Risk” for the purpose of the above-stated formula are defined and elaborated in the regulations of the Financial Services Commission. Generally, the Net Operating Equity, the Total Risk and the Equity Capital Maintenance Requirement for Each Service Unit are to be calculated according to the following formula:

Net Operating Equity = Net assets (total assets - total liabilities) - the total of items that may be deducted + the total of items that may be added;

Total Risk = market risk + counterparty risk + management risk; and

Equity Capital Maintenance Requirement for Each Service Unit = Mandatory Equity Capital to be Required for Each Licensed Service Unit × 70%

The regulations of the Financial Services Commission require, among other things, financial investment companies to maintain the net equity ratio at a level equal to or higher than 100% at the end of each quarter of the fiscal year.

In addition, all Korean companies, including financial investment companies, are required to set aside, as a legal reserve, 10% of the cash portion of the annual dividend or interim dividend in each fiscal year until the reserve reaches 50% of the stated capital.

Under the Financial Investment Services and Capital Markets Act and regulations thereunder, the minimum ratio of allowances for losses on loans and suspense receivables specified under such regulations is 0.5% of normal assets, 2% of precautionary assets, 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets.

Other Provisions on Financial Soundness

The Financial Investment Services and Capital Markets Act, the Presidential Decree of the Financial Investment Services and Capital Markets Act and the regulations of the Financial Services Commission also include certain provisions which are designed to regulate certain types of activities relating to the management of the assets of a securities company, subject to certain exceptions. Such provisions include:

- restrictions on the holdings by a securities company of securities issued by another company which is the largest shareholder or the major shareholder (each as defined under the Financial Investment Services and Capital Markets Act) of such securities company; and
- restrictions on providing money or credit to the largest shareholder (including specially-related persons of such shareholder), major shareholders, officers and specially-related persons of the securities company.

Principal Regulations Applicable to Insurance Companies

General

Insurance companies are regulated and governed by the Insurance Business Act (the “Insurance Business Act”). In addition, insurance companies in Korea are under the regulation and supervision of the Financial Services Commission and its governing entity, the Financial Supervisory Service.

Under the Insurance Business Act, approval to commence an insurance business must be obtained from the Financial Services Commission based on the type of insurance businesses, which are classified as life insurance business, non-life insurance business and third type insurance business. Life insurance business means an insurance business which deals with life insurance policies or pension insurance policies (including retirement insurance policies). Non-life insurance business means an insurance business which deals with fire insurance policies, marine insurance policies, car insurance policies, guaranty insurance policies, reinsurance policies, liability insurance policies or other insurance policies prescribed under the Presidential Decree of the Insurance Business Act. Third type insurance business means an insurance business which deals with injury insurance policies, health insurance policies or nursing care insurance policies. Under the Insurance Business Act, insurance companies are not allowed to engage in both a life insurance business and a non-life insurance business, subject to certain exceptions.

If the Government deems an insurance company’s financial condition to be unsound or if an insurance company fails to properly manage the business as set forth under relevant Korean law, the government may order certain sanctions including, among others, sanctions against an insurance company or its officers or employees, capital increase or reduction and a suspension or assignment of a part or all of business operation.

Capital Adequacy

The Insurance Business Act requires a minimum paid-in capital of ₩30 billion for an insurance company; provided, that, the insurance company which intends to engage in only certain types of insurance policies may have a lower paid-in capital pursuant to the Presidential Decree of the Insurance Business Act.

In addition to the minimum capital requirement, an insurance company is required to maintain a Solvency Margin Ratio of 100% or more. “Solvency Margin Ratio” is the ratio of the Solvency Margin to the Standard Amount of the Solvency Margin. Solvency Margin is the aggregate amount of paid-in capital, reserve for dividends to policyholders, allowance for bad debt and subordinated debt amount and others similar thereto as set out in the regulation of the Financial Services Commission, less non-amortized acquisition costs, goodwill and others similar thereto as appearing in the regulation of the Financial Services Commission. The Standard Amount of Solvency Margin for life insurance companies is defined under the regulation of the Financial Services Commission and is required to comply with the risk based capital regime.

Under the Insurance Business Act, the Presidential Decree and other regulations thereunder, for each accounting period, insurance companies are required to appropriate policy reserve that is earmarked for future payments of insurance money, refund and dividends to policyholders (hereinafter collectively referred to as “Insurance Money”) for each insurance contract. However, if an insurance company has reinsured a portion of its insurance contracts with a creditworthy reinsurance company in order to lower its overall risk, in principle, the insurance company is not required to appropriate policy reserve for the reinsured contracts. Instead, the reinsurance company is required to appropriate such policy reserve for the reinsured contracts. However, if an insurance company transfers more than 50% of its risk to a reinsurance company, the amount of risk transferred in excess of 50% will be disregarded for purposes of calculating the solvency margin ratio. In particular, if the ratio of the risks transferred to the reinsurance company to the total risks insured by an insurance company exceeds 50%, such insurance company will be required to have net assets in relation to such risks transferred in excess of the 50% threshold for purposes of the solvency margin requirement. The Insurance Business Act was amended on January 24, 2011 to classify the insurance products into two categories: (i) reportable insurance products and (ii) voluntary insurance products. Under this amendment, only the changes to the terms and conditions of the reportable insurance products require a prior report and approval from the Financial Supervisory Service and the voluntary insurance products can be sold without prior approval from the Financial Supervisory Service. The policy reserve needs to be appropriated in accordance with the policy reserve calculation method for each insurance product as stipulated in amended Insurance Business Act.

The policy reserve amount consists of the following: (i) premium reserves and prepaid insurance premiums which are calculated under the methods determined by the written calculation methods for insurance premiums and policy reserves by insurance types or by lapses of insurance period, with regard to the contracts for which the causes for payment of the Insurance Money have yet to occur as of the end of each accounting period; (ii) amounts for which a lawsuit is pending on the Insurance Money or amounts for which a payment has been fixed with regard to the contracts for which the causes for payment of Insurance Money have occurred as of the end of each accounting period, and amounts which have not been paid yet due to an unsettled amount for paying the Insurance Money, even if the causes for payment of the Insurance Money have already occurred; and (iii) amounts reserved by an insurance company for allocation to policyholders.

Pursuant to the regulations established by the Financial Services Commission, insurance companies are required to maintain allowances for outstanding loans, accounts receivables and other credits (including accrued income, payment on account, and bills receivables or dishonored) in an aggregate amount covering not less than 0.5% of normal credits, 2% of precautionary credits, 20% of substandard credits, 50% of doubtful credits and 100% of estimated loss credits, provided that the minimum ratio of allowances for certain type of outstanding loans by insurance companies to individuals and households (including, retail loans, housing loans, and other forms of retail loans extended to individuals not registered for business), is increased to 1% of normal credits, 10% of precautionary credits and 55% of doubtful credits. Furthermore, the regulations on insurance companies

became more stringent in September 2010 by adding a requirement that insurance companies maintain allowance for bad debts in connection with real estate project financing loans in excess of 0.9% of normal credits and 7% of precautionary credits.

Variable Insurance and Bancassurance Agents

Variable insurance is regulated pursuant to the Insurance Business Act and the Financial Investment Services and Capital Markets Act. In order for an insurance company to sell variable insurance to a policyholder and operate such variable insurance, the insurance company must obtain a license with respect to collective investment business from the Financial Services Commission and register as a selling company with the Financial Services Commission. In this case, according to the Financial Investment Services and Capital Markets Act, an insurance company will be regulated as an investment trust and assets acquired in connection with variable insurance must be held by a trust company that is registered with the Financial Services Commission pursuant to the Financial Investment Services and Capital Markets Act.

According to the Financial Investment Services and Capital Markets Act, insurance companies may operate variable insurance through (i) mandating all of the management and the management instruction business to another asset management company, (ii) operating by way of discretionary investment all of the assets constituting the investment advisory assets out of the investment trust assets, or (iii) operating all of the investment trust assets into other collective investment securities, thereby allowing all of the particular variable insurance assets to be outsourced.

The Insurance Business Act permits banks, securities companies, credit card companies and other financial institutions to register as insurance agents or insurance brokers and engage in the insurance business (the “Bancassurance Agents”), who are currently permitted to sell all types of life and non-life insurance products, except for protection type insurance products, such as whole life insurance, critical illness insurance and automobile insurance.

Restrictions on Investment of Assets

According to the Insurance Business Act, insurance companies are prohibited from making any of the following investment of assets:

- owning any real estate (excluding any real estate owned as a result of enforcing their own security interest) other than real estate for conducting its business as designated by the Presidential Decree. In any case, the total amount of real estate owned by an insurance company must not exceed 25% of its Total Assets, provided that investment in real estate for a separate account is limited to 15% of the assets of such separate account;
- loans made for the purpose of speculation in commodities or securities;
- loans made directly or indirectly to enable a natural or legal person to buy their own shares;
- loans made directly or indirectly to finance political campaigns and other similar activities; and
- loans made to any of the insurance company’s officers or employees other than loans based on insurance policy or de minimis loans of up to (1) ₩20 million in the case of a general loan, (2) ₩50 million in the case of a general loan plus a housing loan, or (3) ₩60 million in the aggregate for general loans and housing loans.

In addition, insurance companies are not allowed to exceed the following limits in making the following investments:

- with respect to holding foreign currency under the Foreign Exchange Transaction Act or owning offshore real estate, 30% of its Total Assets; and

- with respect to the sum of margins for a futures exchange designated by the Presidential Decree or a foreign futures exchange, and commitment amounts of over-the-counter derivatives must not exceed 6% of its Total Assets, provided that the over-the-counter derivative trades are limited to 3%. The derivatives trades of a separate account are limited to 6% of the assets of separate account, provided that the over-the-counter derivatives trades are limited to 3%.

Regulations on Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and last amended on May 28, 2013. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

- claims for damages caused by misleading information contained in a securities statement;
- claims for damages caused by the filing of a misleading business report, semi-annual report, or quarterly report;
- claims for damages caused by insider trading or market manipulation; and
- claims instituted against auditors for damages caused by accounting irregularities.

Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

U.S. Regulations

As a substantial majority of our and our subsidiaries' operations are in Korea, we are primarily subject to the regulations and supervision of the Financial Services Commission and the Financial Supervisory Service. Our subsidiaries, however, have limited operations in the United States, and we own a bank in the United States. Therefore, we and our U.S. operations are subject to U.S. supervision, regulation and enforcement by relevant authorities in the United States with regard to our U.S. operations.

U.S. Banking Regulations

Our operations in the United States are subject to a variety of regulatory regimes. Shinhan Bank maintains an uninsured branch in New York, which is licensed by the New York State Department of Financial Services (the "Department") and registered with the banking authority of Korea. Shinhan Bank's New York branch is subject to regulation and examination by the Department under its licensing authority. In addition, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") exercises examination and regulatory authority over Shinhan Bank's U.S. branch. We also own a non-member state chartered bank, Shinhan Bank America, which is regulated by the Department, as its chartering authority, and by the Federal Deposit Insurance Corporation ("FDIC"), as its primary federal banking regulator and as the insurer of its deposits. Our U.S. branch and U.S. bank subsidiary are subject to restrictions on their respective activities, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, and restrictions on transactions with affiliates, among other things. We are also a financial holding company and a bank holding company under U.S. banking laws and our U.S. operations are subject to regulation, supervision and enforcement by the Federal Reserve Board.

Shinhan Bank's U.S. Branch

The Department, as the licensing authority of Shinhan Bank's U.S. branch, has the authority, in certain circumstances, to take possession of the business and property of Shinhan Bank located in New York. Such circumstances generally include violations of law, unsafe business practices and insolvency. If the Department exercised this authority over the New York branch of Shinhan Bank, all assets of Shinhan Bank located in New York would generally be applied first to satisfy creditors of the New York branch. Any remaining assets would be applied to satisfy creditors of other U.S. offices of Shinhan Bank, after which any residual assets of the New York branch would be returned to the principal office of Shinhan Bank, and made available for application pursuant to any Korean insolvency proceeding.

Financial Holding Company

In addition to the direct regulation of Shinhan Bank's U.S. branch by the Department and the Federal Reserve Board, because we operate a U.S. branch and have a subsidiary bank in the U.S., our nonbanking activities in the United States are subject to regulation by the Federal Reserve Board pursuant to the International Banking Act of 1978, the Bank Holding Company Act of 1956 (the "BHC Act"), and other laws. We have elected to be a "financial holding company" under the BHC Act. Financial holding companies may engage in a broader spectrum of activities than bank holding companies or foreign banking organizations that are not financial holding companies, including underwriting and dealing in securities. To maintain our financial holding company status, (i) we and our U.S. subsidiary bank located in New York are required to be "well capitalized" and "well managed," (ii) our U.S. branch is required to meet certain examination ratings, and (iii) our subsidiary bank in New York is required to maintain a rating of at least "satisfactory" under the Community Reinvestment Act of 1977 (the "CRA").

A major focus of U.S. governmental policy relating to financial institutions in recent years has been aimed at fighting money laundering and terrorist financing. Regulations applicable to us and our subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of clients. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences for the firm, both in legal terms and in terms of our reputation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was enacted on July 21, 2010 in response to the financial crisis, impacts the financial services industry by addressing, among other issues, systemic risk oversight, bank capital standards, the liquidation of failing systemically important institutions, over-the-counter and cleared derivatives, the ability of banking entities, including non-U.S. banks with branches in the U.S., like us, to engage in proprietary trading activities and invest in hedge funds and private equity (the so-called Volcker rule), consumer and investor protection, hedge fund registration, securitization, investment advisors, shareholder "say on pay," the role of credit-rating agencies, and more. The Dodd-Frank Act requires various federal banking and financial regulatory authorities to adopt a broad range of implementing rules and regulations. Such authorities have significant discretion in drafting the implementing rules and regulations.

The Dodd-Frank Act provides regulators with tools to impose greater capital, leverage and liquidity requirements and other prudential standards, particularly for financial institutions that pose significant systemic risk. Pursuant to the Dodd-Frank Act, the Federal Reserve Board has implemented rules that establish enhanced prudential standards for the U.S. operations of foreign banking organizations ("FBOs") such as us. In imposing such heightened prudential standards on non-U.S. banks such as us, the Federal Reserve Board is directed to take into account the principle of national treatment and equality of competitive opportunity, and the extent to which the foreign bank holding company is subject to comparable home country standards.

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the “Reform Act”) was signed into law. Among other regulatory changes, the Reform Act amends various sections of the Dodd-Frank Act, including by raising the asset threshold for automatic application of enhanced prudential standards to FBOs under the Dodd-Frank Act from \$50 billion in total global consolidated assets to \$250 billion. The bill exempted FBOs with total global consolidated assets of less than \$100 billion from these enhanced prudential standards effective immediately upon enactment of the bill. In October 2019, the Federal Reserve Board issued a final rule to implement the Reform Act’s changes to the application of enhanced prudential standards with respect to U.S. bank holding companies and FBOs (the “EPS Tailoring Rule”). The EPS Tailoring Rule delineates three categories of enhanced prudential standards (“EPS categories”) applicable to FBOs based on an FBO’s asset size and other factors such as the degree of the cross-jurisdictional activity, reliance on short-term wholesale funding, nonbank assets, and off-balance sheet exposures of an FBO’s U.S. operations. The EPS Tailoring Rule generally determines the stringency of enhanced prudential standards applicable to FBOs based on the risk profile of the FBO’s U.S. operations, rather than its global footprint, with most enhanced prudential standards applying only to FBOs with combined U.S. assets of at least \$100 billion. FBOs with global assets of \$100 billion or more and a relatively limited U.S. presence, such as us, are subject to certain minimum standards under the EPS Tailoring Rule, with the Federal Reserve Board relying primarily on compliance with comparable home-country prudential standards with respect to such FBOs.

If our size or risk profile were to increase, our combined U.S. operations may be subject to certain further enhanced prudential standards. In particular, enhanced prudential standards applicable to FBOs require an FBO with both significant total global consolidated assets and significant U.S. assets (excluding the total assets of each U.S. branch and agency) to establish a U.S. top-tier intermediate holding company (“IHC”) over all U.S. bank and nonbank subsidiaries, and generally subject such an FBO’s IHC to the same capital adequacy standards, including minimum risk based capital and leverage requirements, liquidity, liquidity risk management, stress testing and single counterparty credit limits as those applicable to U.S. bank holding companies in the same EPS category under the EPS Tailoring Rule. In addition, certain enhanced prudential standards will apply to the combined U.S. operations of an FBO whether or not the FBO is required to establish a U.S. IHC. Rules imposing early remediation requirements on FBOs have yet to be finalized. We continue to assess the full impact of these enhanced prudential requirements and the EPS Tailoring Rule on our business.

In addition, as an FBO with more than \$100 billion in total consolidated assets, we are currently required to submit annually to the Federal Reserve Board and FDIC a resolution plan for the orderly resolution of our U.S. operations under the U.S. Bankruptcy Code or other applicable insolvency laws in a rapid and orderly fashion in the event of future material financial distress or failure. If the Federal Reserve Board and the FDIC jointly determine that the resolution plan is not credible and the deficiencies are not cured in a timely manner, they may jointly impose more stringent capital, leverage or liquidity requirements or restrictions on our growth, activities or operations. If we were to fail to address the deficiencies in the resolution plan when required, we could eventually be required to divest certain assets or operations.

In October 2019, the Federal Reserve Board and FDIC issued a final rule addressing the applicability of resolution planning requirements for FBOs (the “FBO Resolution Plan Rule”). The FBO Resolution Plan Rule applies reduced resolution plan filing requirements to FBOs that have \$250 billion or more in total global consolidated assets and that do not otherwise meet certain category thresholds identified in the EPS Tailoring Rule, such as us, requiring such FBOs to submit a reduced content resolution plan every three years.

In July 2019, U.S. federal regulatory agencies adopted amendments to the Volcker Rule regulations to implement the Volcker Rule amendments included in the Reform Act, and also in 2019 such U.S. federal regulatory agencies adopted certain targeted amendments to the Volcker Rule regulations to simplify and tailor certain compliance requirements relating to the Volcker Rule. In June 2020, U.S. federal regulatory agencies adopted additional revisions to the Volcker Rule’s current restrictions on banking entities sponsoring and investing in certain covered hedge funds and private equity funds, including by proposing new exemptions allowing banking entities to sponsor and invest without limit in credit funds, venture capital funds, customer

facilitation funds and family wealth management vehicles (the “Covered Fund Amendments”). The Covered Fund Amendments also loosen certain other restrictions on extraterritorial fund activities and direct parallel or co-investments made alongside covered funds. The Covered Fund Amendments therefore should expand the ability of banking entities to invest in and sponsor private funds. The ultimate consequences of the Reform Act on the Fund and its activities remain uncertain, and it remains unclear whether any particular other legislative or regulatory proposals will be enacted or adopted.

Shinhan Bank America

Shinhan Bank America, a state chartered bank that is located in New York and is not a member of the Federal Reserve Board, is subject to extensive regulation and examination by the Department, as its chartering authority, and by the FDIC, as the insurer of its deposits and as its primary federal banking regulator. The federal and state laws and regulations which are applicable to banks regulate, among other things, the activities in which they may engage and the locations at which they may engage in them, their investments, their reserves against deposits, the timing of the availability of deposited funds and transactions with affiliates, among other things. Shinhan Bank America must file reports with the Department and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions, such as establishing branches and mergers with, or acquisitions of, other depository institutions. The Department and the FDIC periodically examine the bank to test Shinhan Bank America’s safety and soundness and its compliance with various regulatory requirements. This comprehensive regulatory and supervisory framework restricts the activities in which a bank can engage and is intended primarily for the protection of the FDIC insurance fund and the bank’s depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves. Any change in such regulations, whether by the Department, the FDIC or as a result of the enactment of legislation, could have a material adverse impact on Shinhan Bank America and its operations.

Capital Requirements. The FDIC imposes capital adequacy standards on state-chartered banks like Shinhan Bank America. The “prompt corrective action” framework under the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), provides, among other things, for expanded regulation of insured depository institutions, including banks, and their parent holding companies. As required by FDICIA, the federal banking agencies have established five capital tiers ranging from “well capitalized” to “critically undercapitalized” for insured depository institutions. In order for our U.S. bank subsidiary to be classified as “well capitalized,” which is necessary in order for us to maintain our financial holding company status, it must maintain a minimum 5% Tier I leverage ratio, a 6.5% common equity Tier I capital ratio, a 8% Tier I risk-based capital ratio and a 10% total risk-based capital ratio.

In order for Shinhan Bank America to be classified as “adequately capitalized” under FDICIA’s prompt corrective action standards, which is necessary in order for Shinhan Bank America to avoid certain restrictions under FDICIA, it must maintain a minimum 4% Tier I leverage ratio, a 4.5% common equity Tier I capital ratio, a 6% Tier I risk-based capital ratio and a 8% total risk-based capital ratio.

As of December 31, 2020, Shinhan Bank America exceeded all of the capital ratio standards for a well-capitalized bank with a Tier I leverage ratio of 11.98%, a common equity Tier I risk-based capital ratio of 16.30%, a Tier I risk-based capital ratio of 16.30% and a total risk-based capital ratio of 17.15%.

Activities and Investments of New York-Chartered Banks. Shinhan Bank America derives its lending, investment and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the Department, as well as FDIC regulations and other federal laws and regulations. See “– Activities and Investments of FDIC-Insured State-Chartered Banks” below. These New York laws and regulations authorize Shinhan Bank America to invest in real estate mortgages, consumer and commercial loans, certain types of debt securities, including certain corporate debt securities and obligations of federal, State and

local governments and agencies, and certain other assets. A bank's aggregate lending powers are not subject to percentage of asset limitations, but, as discussed below, there are limits on the amount of credit exposure that a bank may have to a single borrower or group of related borrowers. A New York-chartered bank may also exercise trust powers upon approval of the Department. Shinhan Bank America does not have trust powers.

With certain limited exceptions, Shinhan Bank America may not make loans or extend credit for commercial, corporate or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of Shinhan Bank America's net worth, on an unsecured basis, and 25% of the net worth if the excess is collateralized by readily marketable collateral or collateral otherwise having a value equal to the amount by which the loan exceeds 15% of Shinhan Bank America's net worth. In calculating the amount of outstanding loans or credit to a particular borrower for this purpose, Shinhan Bank America must include its credit exposure arising from derivative transactions with the borrower.

Activities and Investments of FDIC-Insured State-Chartered Banks. The activities and equity investments of FDIC-insured, state-chartered banks are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank may, among other things, (i) acquire or retain a majority interest in a subsidiary that is engaged in activities that are permissible for the bank itself to engage in, (ii) invest as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, and (iii) acquire up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions. In addition, an FDIC-insured state-chartered bank may not directly, or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the insurance fund of which it is a member and the bank is in compliance with applicable regulatory capital requirements.

Regulatory Enforcement Authority. Applicable banking laws include substantial enforcement powers available to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. On June 12, 2017, Shinhan Bank America entered into a consent order with the FDIC with respect to certain weaknesses relating to its anti-money laundering compliance program. Shinhan Bank America has taken corrective measures and provides periodic reports to the FDIC with regard to such matters.

Under the New York State Banking Law, the Department may issue an order to a New York-chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to keep prescribed books and accounts. Upon a finding by the Department that any director, trustee or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Department to discontinue such practices, such director, trustee or officer may be removed from office by the Department after notice and an opportunity to be heard. The Department also may take possession of a banking organization under specified statutory criteria.

Prompt Corrective Action. Section 38 of the Federal Deposit Insurance Act provides the federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." A bank is deemed to be (i) "well capitalized" if it has total risk-based capital ratio of 10.0% or

greater, has a Tier I risk-based capital ratio of 8.0% or greater, has a common equity Tier I capital ratio of 6.5% or greater, has a Tier I leverage capital ratio of 5.0% or greater, and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure, (ii) “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, has a Tier I risk-based capital ratio of 6.0% or greater, has a common equity Tier I capital ratio of 4.5% or greater, has a Tier I leverage capital ratio of 4.0% or greater and does not meet the definition of “well capitalized,” (iii) “undercapitalized” if it has a total risk-based capital ratio that is less than 8.0%, has a Tier I risk-based capital ratio that is less than 6.0%, has a common equity Tier I capital ratio of less than 4.5%, or has a Tier I leverage capital ratio that is less than 4.0%, (iv) “significantly undercapitalized” if it has a total risk-based capital ratio that is less than 6.0%, has a Tier I risk-based capital ratio that is less than 4.0%, has a common equity Tier I capital ratio that is less than 3.0%, or has or a Tier I leverage capital ratio that is less than 3.0%, and (v) “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The regulations also provide that a federal banking regulator may, after notice and an opportunity for a hearing, reclassify a “well capitalized” institution as “adequately capitalized” and may require an “adequately capitalized” institution or an “undercapitalized” institution to comply with supervisory actions as if it were in the next lower category if the institution is in an unsafe or unsound condition or engaging in an unsafe or unsound practice. The federal banking regulator may not, however, reclassify a “significantly undercapitalized” institution as “critically undercapitalized.”

An institution generally must file a written capital restoration plan which meets specified requirements, as well as a performance guaranty by each company that controls the institution, with an appropriate federal banking regulator within 45 days of the date that the institution receives notice or is deemed to have notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Immediately upon becoming undercapitalized, an institution becomes subject to statutory provisions, which, among other things, set forth various mandatory and discretionary restrictions on the operations of such an institution.

FDIC Insurance. Shinhan Bank America’s deposits are insured by the FDIC. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC.

During the 2008-2009 financial crisis, there were many failures and near-failures among financial institutions. The FDIC insurance fund reserve ratio, representing the ratio of the fund to the level of insured deposits, declined due to losses caused by bank failures and the FDIC then increased its deposit insurance premiums on remaining institutions in order to replenish the insurance fund. The FDIC insurance fund balance increased throughout 2010 and turned positive in 2011. The Dodd-Frank Act requires the FDIC to increase the ratio of the FDIC insurance fund to estimated total insured deposits (“Reserve Ratio”) to 1.35% by September 30, 2020. If bank failures in the future are more costly than the FDIC currently anticipates, then the FDIC may be required to continue to impose higher insurance premiums. Any such increase would increase our non-interest expense. Thus, despite the prudent steps Shinhan Bank America may take to avoid the mistakes made by other banks, its costs of operations may increase as a result of those mistakes by others.

As required by the Dodd-Frank Act, the FDIC revised its deposit insurance premium assessment rates in 2011. In 2016, the FDIC adopted a rule in accordance with provisions of the Dodd-Frank Act that requires large institutions to bear the burden of raising the Reserve Ratio from 1.15% to 1.35% through assessment surcharges for such large institutions. The Reserve Ratio exceeded 1.35% in September 2018. Extraordinary growth in insured deposits during the first and second quarters of 2020 caused the Reserve Ratio to decline below the statutory minimum of 1.35%, resulting in the FDIC establishing a restoration plan on September 15, 2020 which contemplates the Reserve Ratio returning to 1.35% within 8 years.

As a result of the Dodd-Frank Act, the increase in the standard FDIC insurance limit from US\$100,000 to US\$250,000 was made permanent. The Dodd-Frank Act also removed the prohibition on banks paying interest on demand deposits.

The FDIC may terminate the deposit insurance of any insured depository institution, including Shinhan Bank America, if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that would result in termination of Shinhan Bank America's deposit insurance.

Brokered Deposits. Under federal law and applicable regulations, (i) a well capitalized bank may solicit and accept, renew or roll over any brokered deposit without restriction, (ii) an adequately capitalized bank may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC and (iii) an undercapitalized bank may not (x) accept, renew or roll over any brokered deposit or (y) solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in such institution's normal market area or in the market area in which such deposits are being solicited. The term "undercapitalized insured depository institution" is defined to mean any insured depository institution that fails to meet the minimum regulatory capital requirement prescribed by its appropriate federal banking agency. The FDIC may, on a case-by-case basis and upon application by an adequately capitalized insured depository institution, waive the restriction on brokered deposits upon a finding that the acceptance of brokered deposits does not constitute an unsafe or unsound practice with respect to such institution. In January 2021, the FDIC adopted rules on aspects of FDIC's brokered deposit and interest rate regulations. The impact of these rules on Shinhan Bank America's operations in the future is uncertain. Shinhan Bank America had an aggregate amount of US\$40 million of brokered deposits outstanding as of December 31, 2020.

Community Reinvestment and Consumer Protection Laws. In connection with its lending activities, Shinhan Bank America is subject to a variety of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. Included among these are the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act and CRA.

The CRA requires FDIC insured banks to define the assessment areas that they serve, identify the credit needs of those assessment areas and take actions that respond to the credit needs of the community. The FDIC must conduct regular CRA examinations of Shinhan Bank America and assign it a CRA rating of "outstanding," "satisfactory," "needs improvement" or "unsatisfactory." Shinhan Bank America is also subject to provisions of the New York State Banking Law which impose similar obligations to serve the credit needs of its assessment areas. The Department and the FDIC each periodically assess a bank's compliance, and makes the assessment available to the public. Federal and New York State laws both require consideration of these ratings when reviewing a bank's application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices. A negative assessment may serve as a basis for the denial of any such application. Shinhan Bank America has received "satisfactory" ratings from both the Department and the FDIC in its most recent CRA performance evaluation.

In December 2019, the FDIC and the Office of the Comptroller of the Currency ("OCC") proposed comprehensive amendments to the CRA, which would significantly affect the manner in which banks seek to satisfy their CRA obligations (including by modifying incentives for banks to lend to, invest in, and provide services to their communities generally, and in low- and moderate-income ("LMI") areas, in particular) and modify the CRA examination process for all but the smallest banks by moving from the current subjective rating system to a "metric-based" rating system. On May 20, 2020, the OCC finalized comprehensive amendments to the CRA. However, the FDIC Chairman indicated that the FDIC would not adopt the CRA amendments during the COVID-19 pandemic. It remains unclear whether the FDIC or other regulatory agencies will adopt final rules

amending the CRA and, if such rules were to be adopted, we cannot predict at this time the extent to which the scope of such final rules would resemble the CRA amendments proposed in December 2019. It also remains unclear whether any other particular legislative or regulatory proposals will be enacted or adopted concerning CRA requirements applicable to us. To the extent any such final amendments to CRA requirements applicable to us are adopted, such regulatory developments may impact the ability of Shinhan Bank America to achieve “satisfactory” CRA performance ratings.

The Dodd-Frank Act created the Consumer Financial Protection Bureau (the “Bureau”) with broad authority to regulate and enforce consumer protection laws. The Bureau has the authority to adopt regulations under numerous existing federal consumer protection statutes. The Bureau may also decide that a particular consumer financial product or service, or the manner in which it is offered, is an unfair, deceptive, or abusive act or practice. If the Bureau so decides, it has the authority to outlaw such act or practice.

Limitations on Dividends. The payment of dividends by Shinhan Bank America is subject to various regulatory requirements. Under New York State Banking Law, a New York-chartered stock bank may declare and pay dividends out of its net profits, unless there is an impairment of capital, but approval of the Superintendent of Banks is required if the total of all dividends declared in a calendar year would exceed the total of its net profits for that year combined with its retained net profits of the preceding two years, subject to certain adjustments.

Assessments. Banking institutions are required to pay assessments to both the FDIC and the Department to fund the operations of those agencies. The assessments are based upon the amount of Shinhan Bank America’s total assets. Shinhan Bank America must also pay an examination fee to the Department when it conducts an examination.

Transactions with Related Parties. Shinhan Bank America’s authority to engage in transactions with related parties or “affiliates” (i.e., any entity that controls or is under common control with an institution) is limited by Sections 23A and 23B of the Federal Reserve Act. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the institution and also limits the aggregate amount of transactions with all affiliates to 20% of the institution’s capital and surplus. The term “affiliate” includes, for this purpose, us and any company that we control other than Shinhan Bank America and its subsidiaries.

Loans to affiliates must be secured by collateral with a value that depends on the nature of the collateral. The purchase of low quality assets from affiliates is generally prohibited. Loans and asset purchases with affiliates must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with nonaffiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards that in good faith would be offered to or would apply to nonaffiliated companies. Shinhan Bank America’s authority to extend credit to executive officers, directors and 10% shareholders, as well as entities controlled by such persons, is governed by Regulation O of the Federal Reserve Board. Regulation O generally requires such loans to be made on terms substantially similar to those offered to unaffiliated individuals (except for preferential loans made in accordance with broad based employee benefit plans), places limits on the amount of loans Shinhan Bank America may make to such persons based, in part, on Shinhan Bank America’s capital position, and requires certain approval procedures to be followed.

Standards for Safety and Soundness. FDIC regulations require that Shinhan Bank America adopt procedures and systems designed to foster safe and sound operations in the areas of internal controls, information systems, internal and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings and compensation, fees and benefits. Among other things, these regulations prohibit compensation and benefits and arrangements that are excessive or that could lead to a material financial loss. If Shinhan Bank America fails to meet any of these standards, it will be required to submit to the FDIC a plan specifying the steps that will be taken to cure the deficiency. If it fails to submit an acceptable plan or fails to implement the plan, the FDIC will require it to correct the deficiency and until corrected, may impose restrictions on it.

The FDIC has also adopted regulations that require Shinhan Bank America to adopt written loan policies and procedures that are consistent with safe and sound operation, are appropriate for its size, and must be reviewed by its board of directors annually. Shinhan Bank America has adopted such policies and procedures, the material provisions of which are discussed above as part of the discussion of our lending operations.

U.S. Regulation of Other U.S. Operations

In the United States, Shinhan Investment America Inc., our U.S.-registered broker-dealer subsidiary, is subject to regulations that cover all aspects of the securities business, including, sales methods, trade practices among broker-dealers, use and safekeeping of clients' funds and securities, capital structure; record-keeping, the financing of clients' purchases, and the conduct of directors, officers and employees.

Shinhan Investment America Inc. is regulated by a number of different government agencies and self-regulatory organizations, including the SEC and the Financial Industry Regulatory Authority ("FINRA"). Our U.S. subsidiaries are also regulated by some or all of the NYSE, the Municipal Securities Rulemaking Board, the U.S. Department of the Treasury, the Federal Reserve Board and the Commodities Futures Trading Commission. In addition, the U.S. states, provinces and territories have local securities commissions that regulate and monitor activities in the interest of investor protection. These regulators have a variety of sanctions available, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

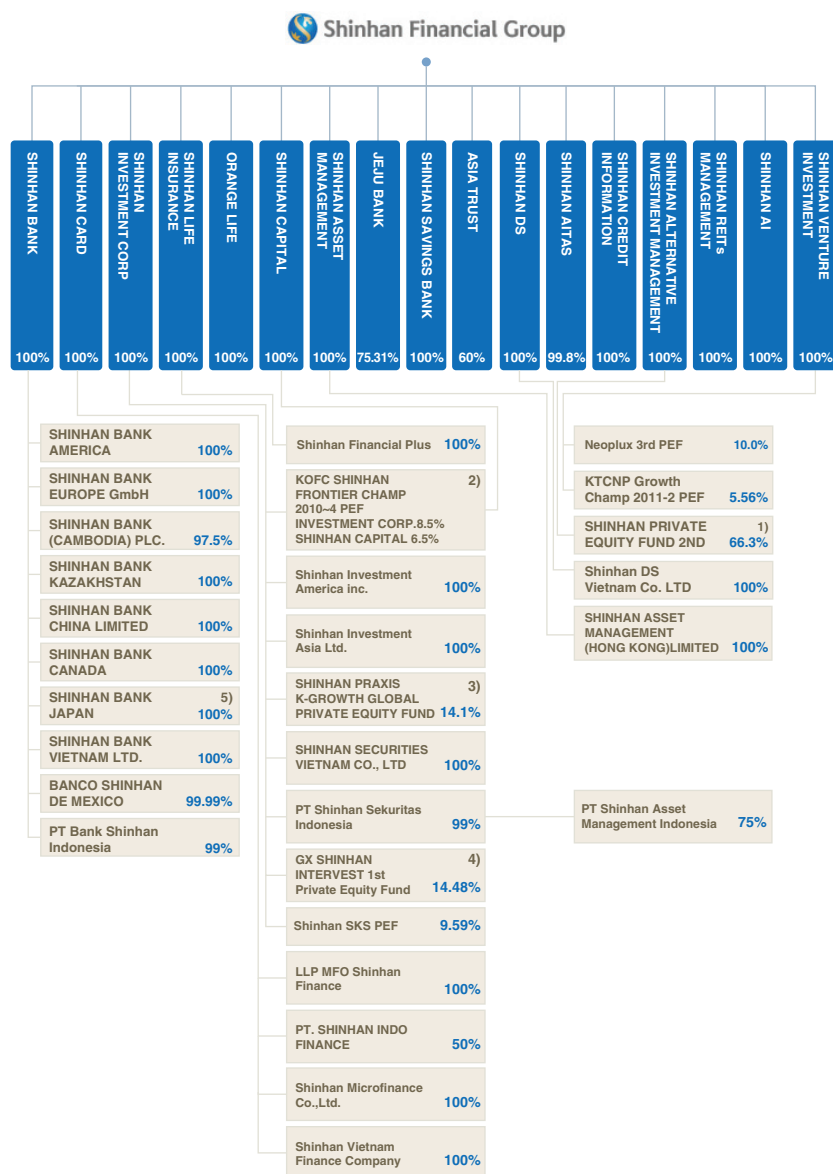
FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. FINRA covers a broad spectrum of securities businesses, including, registering and educating industry participants, examining securities firms, writing rules, enforcing those rules and the federal securities laws, informing and educating the investing public, providing trade reporting and other industry utilities, and administering a dispute resolution forum for investors and registered firms. It also performs market regulation under contract for the NASDAQ Stock Market, the American Stock Exchange and the Chicago Climate Exchange.

Many of the provisions of the Dodd-Frank Act discussed above will affect the operation of Shinhan Investment America, as well as our U.S. banking operations. Again, the impact of this statute on our operations will depend on the final regulations ultimately adopted by various agencies and oversight boards in coming years.

Shinhan Bank America may be impacted by provisions of the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, or other legislation or regulations adopted in response to the COVID-19 pandemic, which may contain certain temporary regulatory forbearance measures applicable during the COVID-19 pandemic.

ITEM 4.C. Organizational Structure

We currently have 18 direct and 30 indirect subsidiaries. The following diagram provides an overview of our organizational structure, including our significant subsidiaries and our ownership of such subsidiaries as of the date of this annual report:



- 1) We and our subsidiaries currently own 96.74% in the aggregate.
- 2) We and our subsidiaries currently own 34.6% in the aggregate.
- 3) We and our subsidiaries currently own 18.9% in the aggregate.
- 4) We and our subsidiaries currently own 25.27% in the aggregate.
- 5) SBJ BANK own 100% in the aggregate.

All of our subsidiaries are incorporated in Korea, except for the following:

- Shinhan Bank America (incorporated in the United States);
- Shinhan Bank Canada (incorporated in Canada);

- Shinhan Bank (China) Limited (incorporated in the People’s Republic of China);
- Shinhan Bank Europe GmbH (incorporated in Germany);
- Shinhan Bank Kazakhstan Limited (incorporated in Kazakhstan);
- Shinhan Bank Japan (incorporated in Japan);
- Shinhan Bank (Cambodia) PLC (incorporated in Cambodia);
- Shinhan Bank Vietnam Ltd. (incorporated in Vietnam);
- PT Bank Shinhan Indonesia (incorporated in Indonesia);
- Banco Shinhan de Mexico (incorporated in Mexico);
- LLP MFO Shinhan Finance (incorporated in Kazakhstan);
- PT Shinhan Indo Finance (incorporated in Indonesia);
- Shinhan Microfinance Co., Ltd. (incorporated in Myanmar);
- Shinhan Vietnam Finance Company Ltd. (incorporated in Vietnam);
- Shinhan Investment Corp., USA Inc. (incorporated in the United States);
- Shinhan Investment Corp., Asia Ltd. (incorporated in Hong Kong);
- Shinhan Securities Vietnam Co., Ltd. (incorporated in Vietnam);
- PT Shinhan Sekuritas Indonesia (incorporated in Indonesia);
- Shinhan Asset Management Indonesia (incorporated in Indonesia);
- Shinhan BNP Paribas Asset Management (Hong Kong) Limited (incorporated in Hong Kong);
- Shinhan DS Vietnam Co. Limited (incorporated in Vietnam); and
- SBJ DNX (incorporated in Japan).

ITEM 4.D. Properties

The following table provides information regarding certain of our properties in Korea.

<u>Type of Facility</u>	<u>Location</u>	<u>Area (In square meters)</u>	
		<u>Building</u>	<u>Site (If Different)</u>
Registered office and corporate headquarters	20, Sejong-daero 9-gil, Jung-gu, Seoul, Korea 04513	59,519	5,418
Shinhan Card headquarters	100, Eulji-ro, Jung-gu, Seoul, Korea 04551	65,774	4,634
Shinhan Investment Corp.	70, Yeoui-daero, Yeongdeungpo-gu, Seoul, Korea 07325	70,170	4,765
Shinhan Centennial Building	29, Namdaemun-ro 10-gil, Jung-gu, Seoul, Korea 04540	19,697	1,389
Shinhan Bank Gwanggyo Branch	54, Cheonggyecheon-ro, Jung-gu, Seoul, Korea 04540	16,727	6,783
Shinhan Myongdong Branch	43, Myeongdong-gil, Jung-gu, Seoul, Korea 04534	8,936	1,017
Shinhan Youngdungpo Branch	27, Yeongjung-ro, Yeongdeungpo-gu, Seoul, Korea 07301	6,171	1,983

<u>Type of Facility</u>	<u>Location</u>	<u>Area</u> <u>(In square meters)</u>	
		<u>Building</u>	<u>Site (If Different)</u>
Shinhan Back Office Support Center	1311, Jungang-ro, Ilsandong-gu, Goyang-si, Gyeonggi-do, Korea 10401	25,238	5,856
Shinhan Bank Back Office and Call Center	251, Yeoksam-ro, Gangnam-gu, Seoul, Korea 06225	40,806	7,964
Shinhan Bank Back Office and Storage Center	1221, Isunwhan-ro, Sangdang-gu, Cheongju-Si, Chungcheongbuk-do, Korea 28777	6,019	5,376
Shinhan Card Yoksam-Dong Building	176, Yeoksam-ro, Gangnam-gu, Seoul, Korea 06248	7,348	1,185
Shinhan Data Center	67, Digital Valley-ro, Suji-gu, Yongin-si, Gyeonggi-do, Korea 16878	45,277	9,114

Our subsidiaries own or lease various land and buildings for their branches and sales offices.

As of December 31, 2020, Shinhan Bank had a countrywide network of 859 branches. Approximately 21.9% of these facilities were housed in buildings owned by us, while the remaining branches were leased properties. Lease terms are generally between two to three years and generally do not exceed five years. As of December 31, 2020, Jeju Bank had 33 branches of which we own 18 of the buildings in which the facilities are located, representing 54.5% of its total branches. Lease terms are generally between one to two years and seldom exceed five years.

As of December 31, 2020, Shinhan Card had 29 branches, including its headquarters, all but three of which were leased. Lease terms are generally between one to two years. As of December 31, 2020, Shinhan Investment had a nationwide network of 118 branches of which we own five of the buildings in which the facilities are located, representing 4.24% of its total branches in Korea. Lease terms are generally between one to two years. As of December 31, 2020, Shinhan Life Insurance and Orange Life Insurance each had 115 branches, which we lease for a term of generally one to two years.

The net book value of all the properties owned by us on December 31, 2020 was ₩3,030 billion. We do not own any material properties outside of Korea.

ITEM 4A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the staff of the U.S. Securities and Exchange Commission regarding our periodic reports under the Securities Exchange Act of 1934, as amended.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and notes thereto included in this annual report. The following discussion is based on our consolidated financial statements, which have been prepared in accordance with IFRS.

ITEM 5.A. Operating Results

Overview

We are one of the leading financial institutions in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. Incorporated on September 1, 2001, we are the first privately-held financial holding company to be established in Korea. Since inception, we have developed and introduced a wide range of

financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are the second largest financial services provider in Korea (as measured by consolidated total assets as of December 31, 2020) and operate the second largest banking business (as measured by consolidated total bank assets as of December 31, 2020) and the largest credit card business (as measured by total credit purchase volume in 2020) in Korea.

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 and financial markets. In recent years, the global economy and financial markets experienced adverse conditions and volatility, which also had an adverse impact on the Korean economy and in turn on our business and profitability. See “Item 3.D. Risk Factors — 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.”

We derive most of our income from interest earned on our corporate and retail loans, net of funding costs (which primarily consist of interest payable on customer deposits). Net interest income is largely a function of the average volume of loans and the net interest spread thereon.

In 2019, the average volume of retail loans increased by 11.1% from 2018, primarily as a result of a continued increase in home rental long-term deposit loans. In 2019, the average volume of corporate loans increased by 10.2% from 2018, primarily as a result of an increase in facilities loans.

In 2020, the average volume of retail loans increased by 8.3% from 2019, primarily as a result of home rental long-term deposit loans. In 2020, the average volume of corporate loans increased by 10.2% from 2019, primarily as a result of an increase in facilities loans.

From 2018 to 2019, the average yield on retail loans and the average rate on deposits increased as the base interest rate set by the Bank of Korea was increased from 1.50% to 1.75% in November 2018, resulting in a higher average market interest rate for 2019 compared to 2018, notwithstanding decreases in the base interest rate by the Bank of Korea from 1.75% to 1.50% in July 2019 and from 1.50% to 1.25% in October 2019. The average yield on corporate loans remained stable despite a higher average market interest rate in 2019 due to an increase in loans to corporate borrowers with high credit ratings which have lower interest rates. Shinhan Bank’s net interest income increased by 5.1% from ₩5,586 billion in 2018 to ₩5,872 billion in 2019. Net interest income after provision for credit losses on loans amounted to ₩5,340 billion and ₩5,501 billion in 2018 and 2019, respectively. Shinhan Bank’s operating income increased by 3.1% from ₩3,165 billion in 2018 to ₩3,263 billion in 2019.

From 2019 to 2020, both the average yield on interest-earning assets and the average rate on interest-bearing liabilities decreased primarily due to decreases in the base interest rate by the Bank of Korea from 1.25% to 0.75% in March 2020 and from 0.75% to 0.50% in May 2020. Shinhan Bank’s net interest income increased by 1.0% from ₩5,872 billion in 2019 to ₩5,928 billion in 2020. Net interest income after provision for credit losses on loans amounted to ₩5,501 billion and ₩5,284 billion in 2019 and 2020 respectively. Shinhan Bank’s operating income decreased by 10.7% from ₩3,263 billion in 2019 to ₩2,914 billion in 2020.

As for Shinhan Card, its operating revenue is largely dependent on transaction volume and less sensitive to interest rate movements than our banking business, since merchant fees (representing a fixed percentage of a credit card purchase amount) provide a stable source of income and our credit card business enjoys more

diversified sources of funding, including commercial paper, corporate debentures (which have maturities longer than most bank deposit products) and asset-backed securitizations. The credit card transaction volume is largely dependent on the overall trends of the general Korean economy, such as general consumer spending patterns in Korea. Shinhan Card's operating revenues increased by 3.7% from ₩3,752 billion in 2018 to ₩3,892 billion in 2019, largely due to an increase in interest income resulting from an increase in loans of foreign subsidiaries to increase their operating assets, as well as Shinhan Card's acquisition of Prudential Vietnam Finance Company Limited (which subsequently changed its legal name to Shinhan Vietnam Finance). Shinhan Card's operating revenues increased by 5.1% from ₩3,892 billion in 2019 to ₩4,091 billion in 2020, largely due to an increase in net foreign currency transaction gain mainly incurred in the transactions on bonds and borrowings in foreign currency, due to a decline in foreign currency exchange rates amid stronger valuation of the Won. In addition, fees and commission income increased by 3.3% from ₩1,432 billion in 2019 to ₩1,479 billion in 2020, primarily as a result of an increase in fees and commission income from lease operations as a result of expansion of operations, such as purchasing operating assets.

The following provides a discussion of the major trends surrounding the general economy and the financial services sector in Korea in 2020 and our current outlook for 2021 as they relate to our core businesses. The following discussion represents the subjective view of our management and may significantly differ from the actual results for 2021.

Trends in the Korean Economy

In 2020, the global economic growth rate is estimated to have been approximately negative 3% to 4% as global consumption and cross-border trade decreased sharply amidst the COVID-19 pandemic and resulting lockdowns, which would be the lowest growth rate since World War II and the first time the global economy has shown negative growth since the global financial crisis in 2009. In response, many governments have implemented stringent quarantine and lockdown policies while also announcing comprehensive stimulus packages to address the unprecedented impact on production and consumption the COVID-19 pandemic has had. Global economic uncertainties in relation to COVID-19 are expected to continue in 2021, including uncertainty due to the extent and effectiveness of extensive control measures and vaccination programs, among others. There are also uncertainties stemming from political events in major countries, including the escalation of the U.S.-China trade conflicts following the inauguration of Joe Biden as the president of the U.S. Any of these events or uncertainties may have a material adverse effect on the global economy and also our business, financial condition and results of operations.

In 2020, the Korean economy recorded a growth rate of negative 1.0% compared to a positive growth rate of 2.0% in 2019, which was the first time the Korean economy experienced a negative growth rate since the financial crisis in 1998. The contraction of the Korean economy was primarily a result of a sharp decline in consumer consumption amidst a decrease in demand for face-to-face services due to the implementation of social distancing measures as well as a decline in household purchasing power and consumer sentiment resulting from the COVID-19 crisis. However, the Government adopted four supplementary budget plans during 2020 (in the amount of an aggregate of ₩66.8 trillion) and increased Government spending, in part offsetting the general decrease in customer consumption. Despite a decline in the volume of exports in 2020, export volumes recovered substantially during the latter half of 2020 as global trade conditions improved and demand for semiconductors, one of Korea's major export products, increased due to an increase in demand for non-face-to-face channels and information technology products in general. Facility investment in Korea increased in 2020 compared to 2019 due to solid demand in the information technology sector, including semiconductors and displays, and new technology businesses.

In 2021, we consider the following as potential risks to the Korean economy: (i) possibility of a global recession in major markets due to the impact of COVID-19, including discrepancies in vaccine rollout rates, continued decline in consumer confidence and weekend demand for face-to-face services; (ii) the increased volatility of foreign currency exchange markets due to the varying monetary policies of the global economies

including decreases in base interest rates, fiscal and monetary easing policies; (iii) a prolonged slump in the Korean economy resulting from slowing of job creation and exacerbation of unemployment issues, particularly a rise in youth unemployment; (iv) China's slowing growth and the possibility of a hard landing for China; (v) potential decline in productivity due to aging demographics and low birth rates; (vi) uncertainty and volatility regarding the political and economic policies, including growing protectionism, of the United States and other major economies; (vii) concerns within the financial sectors due to high levels of household debt; and (viii) political risks including political instability due to North Korea. In particular, the COVID-19 pandemic has led to significant global economic and financial disruptions, including an adverse impact on international trade and business activities, sharp declines and significant volatility in the financial markets as well as decreases in interest rates worldwide. In light of the high level of interdependence of the global economy, unfavorable changes in the global financial markets, including as a result of any of the foregoing potential risks, could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations. In 2021, the overall sluggishness in the Korean economy is expected to continue as persisting uncertainty in the global economic environment is expected to continue affecting the Korean economy. Petrochemical and other export items with high demands from China are also expected to continue to experience a negative impact due to the economic slowdown in China amidst the COVID-19 pandemic. Although the Korean economy is showing signs of recovery as exports of Korea's major export products, including semiconductors, computers and batteries has been slowly increased as a result of an increase in global demand for non-face-to-face channels and information technology products, it remains uncertain whether exports can maintain such levels amidst global economic uncertainties. Although facility investment in Korea increased in 2020, particularly in the information technology and new technology sectors, global political and economic uncertainties may hinder companies from actively investing in new facilities. Investments in the housing sector are similarly expected to remain at relatively low levels due to the Government's tightening of regulations on the real estate market, and structural factors such as the aging population will continue to persist. Although the Government is expected to continue implementing policies to mitigate downturns in the economy, for example large-scale fiscal spending and welfare spending, Korea's economy is expected to continue to experience low, if not negative, growth rates. In particular, it is expected that factors such as a decline in exports, consumption and tourism if the COVID-19 pandemic were to be prolonged, as well as increased volatility in the financial markets and the possibility of escalations of trade disputes between major economies will pose downside risks to the domestic economy in 2021. Accordingly, the economic outlook for the financial services sector in Korea in 2021 and for the foreseeable future remains highly uncertain.

As for interest rate movements, since 2009, Korea, like many other countries, has experienced a low interest rate environment despite some marginal fluctuations, in part due to the Government's policy to stimulate the economy through active rate-lowering measures. Between 2009 and 2014, the base interest rate set by the Bank of Korea remained within the band between 2.00% and 3.25%. In an effort to support Korea's economy amidst a slowdown in Korea's growth and uncertain global economic prospects, the Bank of Korea reduced the base interest rate to 1.75% in March 2015, 1.50% in June 2015 and further reduced such rate to the historic low of 1.25% in June 2016. In November 2017, the Bank of Korea raised the base interest rate to 1.50%, marking the first time it increased the base interest rate since 2011, and in November 2018 further raised the base interest rate from 1.50% to 1.75%, citing concerns over household debt in the aggregate exceeding ₩1,500 trillion and potential outflow of funds due to the widening interest rate differential between the base interest rate of the Bank of Korea and the benchmark interest rate of the Federal Reserve Board. After increasing its benchmark interest rate three times during 2017, the Federal Reserve Board increased its benchmark interest rate four times during 2018, to a range of 2.25% to 2.50% in December 2018 when it signaled that it expected to raise the benchmark interest rate another two times during 2019. However, the Federal Reserve Board actually reduced the benchmark interest rate three times during 2019 amidst signs of slowdown in the U.S. and major global economies and recently lowered the rate again to a range of 1.0% to 1.25% on March 3, 2020 and to a range of 0% to 0.25% in March 15, 2020 in response to the threat posed to the economy by the COVID-19 pandemic. Similarly, the Bank of Korea also lowered the base interest rate from 1.75% to 1.50% in July 2019 and from 1.50% to 1.25% in October 2019, and further reduced the base interest rate from 1.25% to 0.75% in March 2020 and from 0.75% to 0.50% in May 2020 in response to the COVID-19 pandemic. Although the COVID-19 pandemic and related

factors such as high unemployment rates may result in the benchmark interest rate remaining at low levels at least for the near future, a gradual recovery in the global economy or a variety of other factors may result in upward pressure on the base interest rate. Accordingly, the Bank of Korea's policy path of interest rates in 2021 and for the foreseeable future remains uncertain and will be affected in part by the policy path of the Federal Reserve Board, which also remains uncertain for the foreseeable future.

Recent Developments and Outlook for the Korean Financial Sector

Commercial Banking

Since the financial crisis in 2008, the asset size of Korean commercial banks has consistently grown year over year, including in 2020. Asset quality of commercial banks in Korea continued to improve, primarily as a result of Korean commercial banks' risk management efforts as well as, more recently, Government-led financial support programs introduced in response to the COVID-19 pandemic such as loan rescheduling and principal and interest payment deferral programs. Household loans as well as corporate loans increased amidst Government-led financial support programs implemented in response to the COVID-19 pandemic as well as an increase in Government expenditures and fiscal stimulus measures. However, net income for Korean commercial banks decreased in 2020 compared to 2019, primarily due to COVID-19-related provisions recognized by Korean commercial banks during 2020.

In 2021, asset growth for commercial banks in Korea is expected to slow due to a variety of factors, including the Government's strengthening of policies on the housing market and household debt, such as those relating to total household debt management, introduction of debt service ratios and loan-to-deposit ratios, an expected slowdown in the real estate market and financial regulators' continued focus on curbing the growth of housing loans. Moreover, the prolonged COVID-19 pandemic may lead to an increase in defaults on loan payments, particularly small- and medium-sized enterprises, which may lead to an increase in delinquency and a have a negative impact on the asset quality of commercial banks. In addition, as the demand for consumer protection in investment products increases, the banks' organization and key performance indicators are expected to be readjusted, and fees and commission income generally is expected to decrease. Competition between banks and fintech firms is expected to further intensify due to the introduction of open banking and amendments to Korea's major data privacy laws. The resulting competition is expected to go beyond traditional price-based competition, requiring banks to focus on offering customized products and services based on big data analysis and integrating financial services with customers' daily life patterns in order to provide differentiated value. The Government's policies focusing on protection of consumers and encouraging inclusive financial policies are also expected to lead to further competition among banks for relevant businesses, such as businesses to support the middle class, socially disadvantaged classes, small businesses and startups. We believe that strengthening risk management capabilities will become increasingly important and have a more direct impact on the financial performance of commercial banks in Korea.

Credit Cards

In 2020, despite the Korean economy recording negative growth amidst a decline in household purchasing power and consumer sentiment resulting from the COVID-19 pandemic, the Korean credit card industry experienced modest growth in sales volume and profit as credit card companies seek to preemptively diversify businesses, such as COVID-19 emergency fund businesses, automobile financing products and loans to non-card members, as well as reduced costs through a focus on digital channels as opposed to traditional face-to-face channels.

Multiple factors, such as the continued sluggishness in domestic consumption and investment, rising levels of household debt, aging demographics and low birth rates, as well as the prolonged impact of COVID-19, have increased the uncertainty surrounding the Korean credit card industry. In addition, there has been intensified competition within the financial services industry, especially with the commercialization and popularity of

platform businesses and other integrated financial services using digital finance infrastructures such as government-led MyData and MyPayment. Moreover, pricing details have become more transparent and the overall pricing margin of products and services have decreased and are expected to further decrease in the future. Accordingly, it has become even more important for credit card companies to diversify their businesses and strengthen the competitiveness of their platforms through efficient cost control using digital technology.

Securities

In 2020, the Korean stock market experienced record high growth as a result of increased participation by individual investors in the Korean stock market, in turn resulting in significant improvement to the overall profitability of brokerage services in Korea.

In 2021, securities companies are expected to continue efforts to diversify revenue sources other than traditional brokerage services, expanding into investment banking and sales and trading in an effort to reduce the impact of stock price fluctuations on the profitability of securities companies. Competition has particularly intensified as entry barriers into the securities industry is relatively low and there are a limited number of factors allowing companies to differentiate its services with other financial companies. Despite the introduction of new net capital ratio requirements in 2016, which regulate minimum equity capital requirements for each authorized business unit separately and were intended to loosen restrictions on businesses, management of traditional net capital ratios remains important as it directly affects credit rating. In addition, introducing leverage ratio regulations, for example, the application of the BIS capital adequacy ratio, is expected to give larger securities firms an advantage over their smaller competitors as larger securities firms will have larger capital buffers compared to small and medium-sized firms. As more securities companies enter the wealth management and corporate and investment banking markets, more companies are expected to combine and integrate their banking and financial investment services. Moreover, fintech companies such as KakaoPay and Toss have entered the online brokerage and asset management markets through the launch of Kakaopay Securities Corp. and Toss Securities, respectively, in February 2021, further intensifying competition within the segment.

Life Insurance

In 2020, the life insurance industry's overall revenue continued to decline due to a persisting low interest rate environment, as well as slowing growth of the economy, an aging population and low birthrates.

In 2021, the life insurance industry's overall profitability is expected to continue to decline as the factors mentioned above continue to persist, and it is expected that risk management and underwriting (risk takeover) capability will become an increasingly important factor in life insurance companies' ability to strategically reduce business expenses. In addition, the demands for health insurance products and retirement pension insurance have increased steadily, and as a result it is expected that sales channels, products, and digital-based competitiveness will become more important in the future. As the line between financial and non-financial sectors become blurry and the life insurance market matures, we expect overall growth potential for the industry to be limited and the importance of developing differentiated products and services tailored to customers' individualized needs and expanding digital-based customer services to become increasingly important. In addition, the Korean Insurance Capital Standards regulations are expected to be implemented by 2023 and will require insurance companies to apply market price valuation to their assets and liabilities in calculating capital requirement ratios in line with the new IFRS 17 accounting standards, thereby posing further challenges which may result in increased volatility for Korean life insurance companies.

Specialized Credit

The specialized credit business was introduced in Korea in August 1997. The specialized credit business cannot accept customer deposits and generally involves providing a combination of four types of financing: equipment and facilities leasing, installment finance, new technology finance and credit card services, and

sources funding primarily by issuing debentures and commercial papers. The specialized credit business generally targets customers with higher risk profile in return for higher return compared to customers of commercial banks, which makes risk management (including customer screening) a particularly key factor for commercial success of this business.

Due, in part, to the variety of services being offered and the broad range of potential customers, specialized credit providers often find it relatively easy to develop new customer segments and provide niche offerings. In September 2015, the National Assembly of Korea passed an amendment to the Credit Finance Business Act, which, among other things, reduced entry barriers into the credit finance industry by lowering the minimum capital requirements for new entrants. Due to the relatively low barriers of entry, however, competition is intense and has further intensified as commercial banks have been offering automobile loan offerings as well as medium-interest loan products and peer-to-peer companies and lenders have been expanding their credit loan businesses as well. As a result, overall profitability has declined in recent years and competition has been further intensifying.

Asset Management

The total amount of assets under management by asset management companies, including fund assets under management and discretionary investment contracts, increased by 8.9% to ₩1,323 trillion as of December 31, 2020 from ₩1,215 trillion as of December 31, 2019, primarily due to growth of institutional investors. The total amount of fund assets under management increased by 9.4% to ₩713 trillion as of December 31, 2020 from ₩652 trillion as of December 31, 2019, and the total amount of discretionary investment contracts increased by 8.2% to ₩609.9 trillion as of December 31, 2020 from ₩563.5 trillion as of December 31, 2019. Operating profit increased by 54.1% to ₩1,434.4 billion in 2020 from ₩930.8 trillion in 2019, due primarily to the increase in trust deposit. As a result, net profit increased by 71.3% to ₩1,357 billion in 2020 from ₩792 trillion in 2019.

In 2021, institutional investors are expected to continue to lead the growth of the asset management industry. Growth of the private funds market is expected to slow, in part due to redemption delays and losses from several private funds. Investors' risk appetite may increase if global uncertainties, including those due to the COVID-19 pandemic, are eased and if improvement is shown in major financial indicators, as returns on bonds are expected to decrease in a low-interest rate environment and hence demands for higher return investment products are expected to increase. As estimated returns on investments in the Korean market are expected to remain low due to slowing growth of the Korean economy, demand for investments in overseas markets and non-financial assets is expected to increase. Demand for long-term investment products in the public fund market, such as individual annuity funds and retirement pension funds, is expected to continue to rise. Demand from investors looking to invest in ESG products is expected to continue to be strong as new ESG products are introduced into the market and gradually attract interest from retail investors.

Interest Rates

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 margins and profitability, particularly with respect to its financial products that are sensitive to such movements. For example, if the interest rates applicable to Shinhan Bank's loans (which are recorded as our assets) decrease at a faster pace or by a wider margin, or increase at a slower pace or by a thinner margin, compared to the interest rates applicable to its deposits (which are recorded as our liabilities), Shinhan Bank's net interest margin will shrink and its profitability will be negatively affected. In addition, the relative size and composition of Shinhan Bank's variable rate loans and deposits (as compared to our fixed rate loans and deposits) may also impact Shinhan Bank's net interest margin. Furthermore, the difference in the average repricing frequency of Shinhan Bank's interest-earning assets (primarily loans) compared to its interest-bearing liabilities (primarily deposits) may also impact its net interest margin. For

example, since Shinhan Bank’s deposits currently have a longer term, on average, than that of its loans, its deposits are on average less sensitive to movements in the base interest rates on which its deposits and loans tend to be pegged, and therefore, an increase in the base interest rates tends to increase its net interest margin while a decrease in the base interest rates tends to have the opposite effect. Since Shinhan Bank is one of our principal operating subsidiaries, its net interest margin and profitability have a substantial effect on our overall net interest margin and profitability. While we continually manage our assets and liabilities to minimize our exposure to the interest rate volatility, such efforts by us may not mitigate the impact of interest rate volatility in a timely or effective manner.

The interest rate charged to customers by our banking subsidiaries is based, in part, on the “cost of funds index,” or COFIX, which is published by the Korean Federation of Banks. COFIX is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment savings deposits, repos, discounted bills and senior non-convertible financial debentures) of eight major Korean banks (comprised of Shinhan Bank, Kookmin Bank, Woori Bank, KEB Hana Bank, Nonghyup Bank, Industrial Bank of Korea, Citibank Korea and Standard Chartered Bank Korea). Each bank then independently determines the interest rate applicable to its respective customers by adding a spread to the COFIX based on the difference between the COFIX and such bank’s general funding costs, administration fees, the customer’s credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. These interest rates are typically adjusted on a monthly basis.

The following table shows certain benchmark Won-denominated borrowing interest rates as of the dates indicated.

	<u>Corporate Bond Rates⁽¹⁾</u>	<u>Treasury Bond Rates⁽²⁾</u>	<u>Certificate of Deposit Rates⁽³⁾</u>	<u>COFIX Balance-Based⁽⁴⁾</u>	<u>New COFIX Balance-Based⁽⁵⁾</u>	<u>COFIX New Borrowing-Based⁽⁶⁾</u>
June 30, 2016	1.69	1.25	1.37	1.75	—	1.54
December 31, 2016 . . .	2.13	1.64	1.52	1.62	—	1.51
June 30, 2017	2.24	1.70	1.38	1.58	—	1.47
December 31, 2017 . . .	2.68	2.14	1.66	1.66	—	1.77
June 30, 2018	2.77	2.12	1.65	1.83	—	1.82
December 31, 2018 . . .	2.29	1.82	1.93	1.95	—	1.96
June 30, 2019	1.97	1.47	1.78	2.00	—	1.85
December 31, 2019 . . .	1.94	1.36	1.53	1.81	1.55	1.63
June 30, 2020	2.25	0.84	0.79	1.55	1.26	1.06
December 31, 2020 . . .	2.21	0.98	0.66	1.21	0.96	0.90

Source: Korea Financial Investment Association Bond Information Service

Notes:

- (1) Measured by the yield on three-year AA- rated corporate bonds.
- (2) Measured by the yield on three-year treasury bonds.
- (3) Measured by the yield on certificates of deposit (with maturity of 91 days).
- (4) Measured based on the weighted average of the borrowing rates for the monthly ending balances of the funding made by the commercial banks that are subject of the COFIX reporting.
- (5) New COFIX on Outstanding Balance (the “New COFIX”) is a new benchmark COFIX introduced since July 2019. The New COFIX also takes into account other deposits such as inter-bank time deposits and non-resident deposits and other funding sources such as subordinated bonds and convertible bonds in calculating the weighted average of the borrowing rates for the monthly ending balances of the funding made by the commercial banks that are subject of the COFIX reporting.
- (6) Measured based on the weighted average of the borrowing rates for new funding for each month made by the commercial banks that are subject of the COFIX reporting.

Critical Accounting Policies

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below. The accounting policies set out below have been applied consistently to all periods presented in our consolidated financial statements included in this annual report, unless otherwise indicated.

Non-derivative Financial Assets

Classification, measurement and impairment of non-derivative financial assets have been amended due to the adoption of IFRS 9 ‘Financial Instruments’ which became effective from January 1, 2018. As this report exhibits comparative financial statements prior to and after the adoption of the new standard, the critical accounting policies presented herein include information with regard to both IAS 39 and IFRS 9.

Non-derivative financial Assets — classification and measurement policy applicable before January 1, 2018 under IAS 39

Financial assets are classified into four categories. (i) Financial assets at fair value through profit or loss (“FVTPL”) are financial assets that are held for trading or designated at fair value through profit or loss upon initial recognition. These financial assets are measured at fair value after initial recognition and the changes in the fair value are recognized through profit or loss of the period. Costs attributable to the acquisition are immediately expensed in the period. (ii) Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that we have the positive intent and ability to hold to maturity. They are carried at amortized cost using the effective interest method after their initial recognition. (iii) Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. (iv) Available-for-sale (“AFS”) financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. They are measured at fair value after their initial recognition.

Non-derivative financial Assets — classification and measurement policy applicable from January 1, 2018 under IFRS 9

Under IFRS 9, non-derivative financial assets are classified and measured at fair value through profit or loss with the changes in fair value recognized in profit and loss as they arise, unless restrictive criteria are met for classifying and measuring the asset at either amortized cost (“AC”) or fair value through other comprehensive income (“FVOCI”). A financial asset shall be measured at FVOCI or at AC if both of the following conditions are met:

- the objective of our business model is to hold assets only to collect cash flows, or to collect cash flows and to sell (“the Business Model test”); and
- the contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding (“the SPPI test”).

Despite meeting both criteria of the Business Model test and the SPPI test, we may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’). Hybrid financial instruments which do not meet the criteria of contractual cash flow characteristics such as convertible bonds, equity-linked securities and structured deposits were classified as FVTPL regardless of its business model because the accounting to bifurcate embedded derivatives from the host contract is not allowed under IFRS 9.

Also, a special designation for equity instruments is allowed at initial recognition that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. It becomes important to distinguish these equity investments from other financial assets. IFRS 9 defines an equity investment as one meeting the definition of an equity instrument in IAS 32, *Financial Instruments: Presentation* – i.e., any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Under IFRS 9, puttable instruments, which were previously classified as equity instruments in accordance with the exemption of IAS 32, are no longer qualified to be classified as equity instruments from the investor's perspective. Some equity stocks, equity investments and beneficiary certificates which had been included in available-for-sale equity instruments under IAS 39 were re-classified into FVTPL because of their puttable characteristics upon adoption of IFRS 9.

Valuation of Financial Assets and Liabilities

All financial assets are measured at fair value except held-to-maturity financial assets and loans and receivables under IAS 39 and financial assets at amortized cost under IFRS 9. The fair value of financial instruments being traded in an active market is determined by the published market prices at the end of each period. The published market prices of financial instruments being held by us are based on notifications by trading agencies. Where the market for a financial instrument is not active, such as in the case of over-the-counter market derivatives, fair value is determined by using either a valuation technique or an independent third-party valuation service.

We use various valuation techniques and set rational assumptions based on the present market situations. Such valuation techniques may include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or option pricing models. The main assumptions and estimates which our management considers when applying a model with valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although judgment may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates.
- Selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate.
- Judgment to determine what model should be used to calculate fair value in areas where the choice of valuation model is particularly subjective (for example, valuation of complex derivative products).

We classify and disclose fair value of financial instruments into the following three-level of IFRS fair value hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

Impairment of Financial Assets

Under IAS 39, a financial asset (or in aggregate thereof) as of the end of the reporting period was considered to be impaired only when there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, were not recognized under IAS 39. However, after the adoption of IFRS 9, we changed our impairment policy to recognized loss allowance for expected credit loss, and therefore we have been recognizing impairment loss on a more forward-looking basis and in a more timely manner than we did previously.

As IFRS 9 is based on expected credit loss, we evaluate whether the credit risk on a financial asset has increased significantly since initial recognition at the end of each reporting period. When making such assessment, we use the change in the risk of a default occurring over the expected life of the financial asset instead of the change in the amount of expected credit losses. In order to make this assessment, we compare the risk of a default occurring on the financial asset as at the end of the reporting period with the risk of a default occurring on the financial asset as at the date of initial recognition, considering reasonable and supportable information that is available without undue cost or effort and that demonstrates significant increases in credit risk since initial recognition. We consider changes in the risk of default estimated from changes in internal credit rating, qualitative factors, days of delinquency, and others as part of the evaluation criteria for significant increases in credit risk. For details, see Note 4 of the notes to our consolidated financial statements included in this annual report. Impairment losses under IAS 39 on the other hand were estimated on the basis of historical loss experience, and estimated future cash flows for financial assets, assessed collectively, were calculated based on impairment history of other similar financial assets with similar credit risk characteristics.

As for measurement model, IAS 39 determined whether to use an individual or collective assessment basis depending on the individual significance and the existence of objective evidence of impairment. However, IFRS 9 has three types of measurement models – general approach, impairment approach, or simplified approach, depending on whether the financial asset was already impaired at the date of initial recognition and the classification of financial asset. We apply the general approach to most of our loans at amortized cost. The general approach requires recognition of lifetime expected credit losses for all financial assets for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

As for measurement items, impairment standards of IAS 39 were applied to loans and receivables, available-for-sale securities and held-to-maturity securities, respectively. However, expected credit losses under IFRS 9 are recognized on debt instruments at FVOCI or at AC, loan commitments and financial guarantee contracts regardless of whether the type of financial instrument is securities or loans or whether it is on-balance or off-balance. In addition, as all equity instruments under IFRS 9 are measured at FVTPL or at FVOCI and the amount recognized in other comprehensive income shall not be subsequently transferred to profit or loss, impairment standards of IFRS 9 are not applied to equity instruments. In contrast, under IAS 39, a significant or prolonged decline in fair value of an available-for-sale equity security below its cost was considered as objective evidence of impairment, and the cumulative other comprehensive gain or loss was realized to profit or loss.

Allowance for Credit Losses on Loans

Loans are classified as financial assets at amortized cost except for certain loans whose contractual cash flows do not consist solely of payments of principal and interest on the principal amount outstanding. Under IAS 39, loans were only permitted to be classified as loans and receivables. Loans at amortized cost under IFRS 9 are and loans and receivables under IAS 39 were subject to the application of impairment standards. The allowance for credit losses on loans has increased due to the adoption of IFRS 9 and the subsequent application of the new

impairment model – expected credit loss model (whereas IAS 39 previously applied the incurred loss model). The allowance for credit losses on loans for the comparative financial statements as at the end of the period prior to adoption of the new standard was not restated, and the transition impact upon the initial adoption of IFRS 9 was recognized in retained earnings as of January 1, 2018.

The methodology for determining allowance for credit losses on loans is as follows and is mainly focused on Shinhan Bank which holds the majority of our loan assets.

- Allowance for Credit Losses on Loans Assessed Individually

Allowance for credit losses on loans assessed individually is based on the management's best estimate derived from present value of future cash flows that are expected to be collected from debt instruments subject to assessment. When forecasting these cash flows, we utilize all relevant information and financial circumstances available such as net realizable value of relevant collateral and operating cash flows of counterparties. Based on the individual significance, Shinhan Bank determines whether to apply individual or collective assessment – collective assessment is applied for loans that are not individually significant or loans that are individually significant but do not have significant increases in credit risk. Individual assessment is applied for loans that have relatively large balances and which have had significant increase in credit risk or have become impaired. Under IAS 39, Shinhan Bank evaluated impaired loans with relatively large balances individually. Shinhan Bank classifies credit-impaired borrowers with loan amounts of over ₩3 billion as subject to individual assessment (quantitative criteria) and also considers certain other factors such as asset quality, financial ratios, audit opinions and signs of insolvency (qualitative criteria).

Meanwhile, retail loans are not subject to individual assessment as they are not significant in amount from Shinhan Bank's overall credit risk management perspective.

- Allowance for Credit Losses on Loans Assessed Collectively

Allowance for credit losses on loans assessed collectively uses estimation model based on experience loss ratio in order to measure expected credit loss (incurred loss under IAS 39) embedded in portfolios. This model considers various factors such as the type of borrower, credit rating and maturity in order to apply Probability of Default ("PD") of each financial asset (or in the aggregate), recovery rate per loan and collateral, as well as Loss Given Default ("LGD"). Additionally, we modelize the measurement of inherent loss and apply consistent assumptions in order to determine the input variables based on current circumstances and historical and forward-looking information. For forward-looking information, we utilize economic outlooks published by domestic and overseas research institutes or government and public agencies. We also reflect estimates of future macroeconomic conditions that we believe have been prepared without bias from a neutral viewpoint in measuring expected credit losses. The methodology and assumptions used in this model are reviewed on a regular basis in order to minimize the difference between estimated allowance for credit losses on loans and actual credit losses on loans.

Shinhan Bank uses a PD/LGD model for collective assessment using three risk components – Exposure At Default ("EAD"), PD and LGD. EAD refers to the expected exposure at the time of default. EAD of financial assets is equal to the total carrying amount of such asset, and EAD of loan commitments or financial guarantee contracts are calculated as the sum of the amount already used and the amount expected to be used in the future.

As for measurement of PD by loan type, we estimate PD for corporate credit exposure based on internal credit ratings and PD for retail credit exposure based on Behavior Scoring System (BSS) ratings (which are largely based on the credit history of retail loan borrowers and predict such borrowers' payment patterns) and product type. If there hasn't been a significant increase in credit risk since initial recognition, we use probability of default events occurring within the next 12 months. However if there has been a significant increase in credit risk, we use probability of default events occurring over the remaining lifetime of the loan.

LGD refers to the expected loss if a borrower defaults. We calculate LGD, where $LGD = (1 - RR)$, based on the Recovery Rate (“RR”) measured from past default exposures. The model for measuring LGD is developed to reflect type of collateral, seniority of collateral, type of borrower and cost of recovery. In particular, LGD for retail loan products uses loan-to-value ratio as a key variable. The recovery rate reflected in the LGD calculation is based on the present value of recovery amount, discounted at the effective interest rate.

We believe that the accounting estimates related to impairment of loans at amortized cost and our allowance for credit losses on loans are “critical accounting policies” because: (1) they are highly susceptible to change from period to period since they require us to make assumptions about future default rates and losses relating to our loan portfolio; and (2) any significant difference between our estimated losses on loans (as reflected in our allowance for credit losses on loans) and actual losses on loans could require us to record additional provisions for credit losses on loans which, if significant, could have a material impact on our profit. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Derivative Financial Instruments

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Hedge Accounting

We hold derivative financial instruments to hedge our foreign currency and interest rate risk exposures. On initial designation of the hedge, we formally document the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. We make an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

IFRS 9 maintains the mechanics of hedge accounting (three types of hedge accounting) as defined in IAS 39 but modifies it such that it becomes less complex and more aligned with the actual way risks are managed as compared to IAS 39. Previous hedging relationships which hedge accounting had been applied under IAS 39 therefore still remain effective after adoption of IFRS 9.

Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statements of comprehensive income as the hedged item).

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

Cash Flow Hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the consolidated statements of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When the transaction occurs, the related cumulative gain or loss on the hedging instrument recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment in the same period that the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that had been recognized in other comprehensive income are immediately reclassified to profit or loss.

Net Investment in a Foreign Operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, in whole or in part, the gain or loss on hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income is reclassified from equity to profit or loss in accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates'.

Leases

Beginning on January 1, 2019, accounting treatment as the lessee has changed as we have adopted IFRS 16, 'Leases'. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged from IAS 17. As restatement of prior periods is not required, comparative financial information for prior periods, which have been prepared applying IAS 17, has not been restated. Accordingly, certain of our historical financial information before 2019 includes the financial information applying IAS 17 and is not directly comparable against that of our financial information after January 1, 2019.

Lessee accounting - policy applicable before January 1, 2019

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the lessee assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Under a finance lease, the lessee recognizes the leased asset and a liability for future lease payments. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Under an operating lease, the lessee recognizes the lease payments as expense over the lease term and does not recognize the leased asset in its statement of financial position.

Lessee accounting - policy applicable from January 1, 2019

At the commencement date of the lease, the Group recognizes the right-of-use assets and the lease liabilities. Each lease payment is allocated to payment for the principal portion of the lease liability and financial costs. The Group recognizes in profit or loss the amount calculated to produce a constant periodic rate of interest on the lease liability balance for each period as financial costs. Right-of-use assets are depreciated using a straight-line method from the commencement date over the lease term.

Lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date of the lease, and the lease payments included in the measurement of the liabilities consist of the following payments:

- Fixed payments (including in-substance fixed payments, less any lease incentives receivable)
- Variable lease payments depending on the index or rate
- Amounts expected to be paid by the lessee under the residual value guarantee
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Extended Lease payments in an optional renewal period if the lessee is reasonably certain to that they will exercise the extension option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

If the interest rate implicit in the lease is readily determined, the lease payments are discounted by the rate; if the rate is not readily determined, the lessee's incremental borrowing rate is used.

The cost of the right-of-use assets comprise:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date (less any lease incentives received)
- Any initial direct costs incurred by the lessee

An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

Intangible Assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity method accounted investee.

Impairment of Non-financial Assets

The carrying amounts of our non-financial assets, other than assets arising from employee benefits, deferred tax assets and assets held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if we have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Other Long-term Employee Benefits

Our net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of our obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

Defined Benefit Plans

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

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

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

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

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Termination Benefits

Termination benefits are recognized as an expense when we are committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if we have made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Share-based Payment Transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable profit is different from accounting profit for the period since taxable profit excludes temporary differences (which will be taxable or deductible in determining taxable profit (tax loss) of future periods) and non-taxable or non-deductible items from accounting profit.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that there will be taxable profit against which such deductible temporary differences can be utilized. However, deferred tax is not recognized for the following temporary differences: (i) taxable temporary differences arising from the initial recognition of goodwill, (ii) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and (iii) differences associated with investments in subsidiaries, associates, and interests in joint ventures, to the extent that we are able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

We file our national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows us to make national income tax payments based on our and our wholly owned domestic subsidiaries' consolidated profits or losses. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of our subsidiaries and are used as a basis for the income taxes to be recorded in their separate financial statements.

Recently Adopted Standards and Interpretations

Amendments to IFRS 16, 'Leases' - The practical expedient for the exemption, discount or deferral of rent related to COVID-19

As a practical expedient, the lessee may not evaluate whether a rent concession, such as rent discount directly resulting from COVID-19, constitutes a change in the lease. The lessee with this choice shall account for changes in lease payments, such as rent discounts, consistently with the way the standard specifies when those changes are not lease changes. We changed our accounting policy in accordance with the amendments IFRS 16. The amended accounting policies are applied retrospectively in accordance with the transitional provisions IFRS 16. Retrospective application of accounting policies has no cumulative effect on the initial application to be reflected in retained earnings at the beginning of January 1, 2020, and the comparative financial statements

presented have not been restated. The amount recognized in profit or loss is ₩24,928 million to reflect the change in lease payments arising from the same lease discount for the year ended December 31, 2020 as a result of the amendment to IFRS 16, 'Leases'.

Amendments to IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosures Revision – Interest rate indicator reform'

The revised standards require exceptions to the analysis of future information in relation to the application of hedge accounting while uncertainty exists due to movements of the interest rate indicator reform. The exception assumes that when assessing whether the expected cash flows that comply with existing interest rate indicators are highly probable, whether there is an economic relationship between the hedged item and the hedging instrument, and whether there is a high hedge effectiveness between the hedged item and the hedging instrument, the interest rate indicators that are based on the hedged item do not change due to the effect of the interest rate index reform. The nominal amount of the hedging instrument related to the interest rate index exposed to the hedging relationship due to the reform of the interest rate index is referred to Notes 10 in the consolidated financial statements included in the annual report.

New Standards and Interpretations Not Yet Adopted

IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement', IFRS 7, 'Financial Instruments: Disclosures Revision', IFRS 4, 'Insurance Contracts' and IFRS 16, 'Leases' amended – Interest rate indicator reform Average Balance Sheet and Volume and Rate Analysis

The effective interest rate, not the carrying amount, is adjusted when replacing the interest rate index of a financial instrument measured at amortized cost in relation to the reform of the interest rate index. There are exceptions, such as allowing hedge accounting to continue uninterrupted even if an interest rate indicator replacement occurs in a hedging relationship. These amendments will take effect for annual periods beginning after January 1, 2021, and early application is permitted. The Group is determining whether there will be any impact on the Group's financial statements due to these amendments.

IFRS 17 'Insurance Contracts' amended

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition, measurement, presentation and disclosure of insurance contracts and replaces existing IFRS 4. The standard applies to all types of insurance contracts (e.g., life, non-life, direct insurance and re-insurance), regardless of the type of entities such insurance contracts have been issued by, as well as to certain guarantees and financial instruments with discretionary participation features. Under IFRS 17, the standard general model is supplemented by the variable fee approach and the premium allocation approach. IFRS 17 is expected to become effective beginning January 1, 2023. The Group is currently in the process of evaluating the potential impact of adopting IFRS 17.

Average Balance Sheet and Volume and Rate Analysis

Average Balances and Related Interest

The following table shows our average balances and interest rates, as well as the net interest spread, net interest margin and asset liability ratio, in 2018, 2019 and 2020.

	Year Ended December 31,								
	2018			2019			2020		
	Average Balance ⁽¹⁾	Interest Income/Expense	Yield / Rate	Average Balance ⁽¹⁾	Interest Income/Expense	Yield / Rate	Average Balance ⁽¹⁾	Interest Income/Expense	Yield / Rate
	(In billions of Won, except percentages)								
Assets:									
Interest-earning assets									
Due from banks ⁽²⁾	₩ 10,747	₩ 189	1.76%	₩ 10,996	₩ 242	2.20%	₩ 12,099	₩ 142	1.17%
Loans ⁽³⁾									
Retail loans	115,622	4,029	3.48	128,474	4,672	3.64	139,099	4,446	3.20
Corporate loans	144,063	5,154	3.58	158,797	5,686	3.58	174,937	5,272	3.01
Public and other loans	2,486	87	3.49	3,159	110	3.50	3,596	103	2.85
Loans to banks	4,915	122	2.48	3,969	107	2.69	5,597	76	1.35
Credit card loans	21,527	1,790	8.32	23,059	1,917	8.31	23,307	1,875	8.04
Total loans	288,613	11,182	3.87	317,458	12,492	3.94	346,536	11,772	3.40
Securities ⁽⁴⁾	101,614	2,113	2.08	141,855	2,880	2.03	155,860	2,778	1.78
Other interest-earning assets	—	88	—	—	93	—	—	82	—
Total interest-earning assets	₩400,974	₩13,572	3.38%	₩470,309	₩15,707	3.34%	₩514,495	₩14,774	2.87%
Non-interest-earning assets									
Cash and due from banks	₩ 11,409			₩ 12,731			₩ 14,574		
Derivative assets	2,263			2,757			3,892		
Property and equipment and intangible assets	7,313			9,229			9,537		
Other non-interest-earning assets	24,328			32,028			36,016		
Total non-interest-earning assets	₩ 45,313			₩ 56,745			₩ 64,019		
Total assets	₩446,287	₩13,572		₩527,054	₩15,707		₩578,514	₩14,774	
Liabilities:									
Interest-bearing liabilities									
Deposits									
Demand deposits	₩ 37,714	₩ 148	0.39%	₩ 40,379	₩ 171	0.42%	₩ 50,751	₩ 167	0.33%
Savings deposits	74,467	415	0.56	77,652	452	0.58	91,474	293	0.32
Time deposits	130,846	2,362	1.81	147,479	2,830	1.92	154,516	2,262	1.46
Other deposits	8,525	167	1.96	9,297	192	2.07	8,482	121	1.42
Total interest-bearing deposits	251,552	3,092	1.23	274,807	3,645	1.33	305,223	2,843	0.93
Borrowings	29,364	468	1.59	32,336	551	1.71	38,320	427	1.11
Debt securities issued	55,931	1,337	2.39	70,087	1,666	2.38	74,435	1,554	2.09
Other interest-bearing liabilities	3,213	95	2.98	4,192	107	2.55	4,207	67	1.60
Total interest-bearing liabilities	₩340,060	₩ 4,992	1.47%	₩381,422	₩ 5,969	1.57%	₩422,185	₩ 4,891	1.16%

	Year Ended December 31,								
	2018			2019			2020		
	Average Balance ⁽¹⁾	Interest Income/Expense	Yield / Rate	Average Balance ⁽¹⁾	Interest Income/Expense	Yield / Rate	Average Balance ⁽¹⁾	Interest Income/Expense	Yield / Rate
	(In billions of Won, except percentages)								
Non-interest-bearing liabilities									
Non-interest-bearing deposits . . .	₩ 3,547			₩ 3,608			₩ 3,908		
Derivatives liabilities	2,889			2,691			3,527		
Insurance liabilities	25,388			50,742			52,682		
Other non-interest-bearing liabilities	39,739			48,211			52,225		
Total non-interest-bearing liabilities	₩ 71,563			₩105,252			₩112,342		
Total liabilities	₩411,623	₩4,992		₩486,674	₩5,969		₩534,527	₩4,891	
Total equity attributable to equity holder of the Group	33,876			37,844			41,914		
Non-controlling interests	788			2,536			2,073		
Total liabilities and equity	₩446,287	₩4,992		₩527,054	₩5,969		₩578,514	₩4,891	
Net interest spread ⁽⁵⁾			1.91%			1.77%			1.71%
Net interest margin ⁽⁶⁾			2.14%			2.07%			1.92%
Average asset liability ratio ⁽⁷⁾			117.91%			123.30%			121.86%

Notes:

- (1) Average balances are based on (a) daily balances for Shinhan Bank and (b) quarterly balances for other subsidiaries.
- (2) Due from banks as of December 31, 2018, 2019 and 2020, consists of due from banks at amortized cost and due from banks at fair value through profit or loss.
- (3) Non-accruing loans are included in the respective average loan balances. Income on such non-accruing loans is no longer recognized from the date the loan is placed on nonaccrual status. We reclassify loans as accruing when interest (including default interest) and principal payments are current. Loans as of December 31, 2018, 2019 and 2020, consist of loans at amortized cost and loans at fair value through profit or loss.
- (4) Average balance and yield on securities are based on book value. Securities as of December 31, 2018, 2019 and 2020, consist of securities at fair value through profit or loss, securities at fair value through other comprehensive income and securities at amortized cost.
- (5) Represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities.
- (6) Represents the ratio of net interest income to average interest-earning assets.
- (7) Represents the ratio of average interest-earning assets to average interest-bearing liabilities.

Analysis of Changes in Net Interest Income — Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for (i) 2020 compared to 2019 and (ii) 2019 compared to 2018. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change.

	From 2019 to 2020		
	Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(In billions of Won)		
Increase (decrease) in interest income			
Due from banks	₩ 22	₩ (122)	₩ (100)
Loans:			
Retail loans	367	(593)	(226)
Corporate loans	542	(956)	(414)
Public and other loans	14	(21)	(7)
Loans to banks	34	(65)	(31)
Credit card loans	21	(63)	(42)
Total loans	<u>978</u>	<u>(1,698)</u>	<u>(720)</u>
Securities	269	(371)	(102)
Other interest-earning assets	—	(11)	(11)
Total interest income	<u>₩1,269</u>	<u>₩(2,202)</u>	<u>₩ (933)</u>
Increase (decrease) in interest expense			
Deposits:			
Demand deposits	₩ 38	₩ (42)	₩ (4)
Savings deposits	70	(229)	(159)
Time deposits	129	(697)	(568)
Other deposits	(15)	(56)	(71)
Total interest-bearing deposits	<u>222</u>	<u>(1,024)</u>	<u>(802)</u>
Borrowings	90	(214)	(124)
Debt securities issued	99	(211)	(112)
Other interest-bearing liabilities	—	(40)	(40)
Total interest expense	<u>₩ 411</u>	<u>₩(1,489)</u>	<u>₩(1,078)</u>
Net increase (decrease) in net interest	<u>₩ 858</u>	<u>₩ (713)</u>	<u>₩ 145</u>

	From 2018 to 2019		
	Interest Increase (Decrease) Due to Change in		
	Volume	Rate	Change
	(In billions of Won)		
Increase (decrease) in interest income			
Due from banks	₩ 4	₩ 49	₩ 53
Loans:			
Retail loans	462	181	643
Corporate loans	528	4	532
Public and other loans	23	0	23
Loans to banks	(25)	10	(15)
Credit card loans	128	(1)	127
Total loans	<u>1,116</u>	<u>194</u>	<u>1,310</u>
Securities	818	(51)	767
Other interest-earning assets	—	5	5
Total interest income	<u>₩1,938</u>	<u>₩197</u>	<u>₩2,135</u>
Increase (decrease) in interest expense			
Deposits:			
Demand deposits	₩ 11	₩ 12	₩ 23
Savings deposits	18	19	37
Time deposits	313	155	468
Other deposits	16	9	25
Total interest-bearing deposits	<u>358</u>	<u>195</u>	<u>553</u>
Borrowings	49	34	83
Debt securities issued	337	(8)	329
Other interest-bearing liabilities	26	(14)	12
Total interest expense	<u>₩ 770</u>	<u>₩207</u>	<u>₩ 977</u>
Net increase (decrease) in net interest	<u>₩1,168</u>	<u>₩ (10)</u>	<u>₩1,158</u>

Results of Operations

2020 Compared to 2019

The following table sets forth, for the periods indicated, the principal components of our operating income.

	Year Ended December 31,		
	2019	2020	% Change
	(In billions of Won, except percentages)		
Net interest income	₩ 9,738	₩ 9,883	1.5%
Net fees and commission income	2,141	2,383	11.3
Net other operating income (expense)	(6,833)	(7,336)	7.4
Operating income	<u>₩ 5,046</u>	<u>₩ 4,930</u>	<u>(2.3)%</u>

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31,		
	2019	2020	% Change
(In billions of Won, except percentages)			
Interest income:			
Cash and deposits at amortized cost	₩ 210	₩ 128	(39.0)%
Deposits at fair value through profit or loss	32	14	(56.3)
Securities at fair value through profit or loss	741	743	0.3
Securities at fair value through other comprehensive income	1,078	958	(11.1)
Securities at amortized cost	1,061	1,077	1.5
Loans at amortized cost	12,435	11,698	(5.9)
Loans at fair value through profit or loss	57	74	29.8
Others	93	82	(11.8)
Total interest income	<u>₩15,707</u>	<u>₩14,774</u>	<u>(5.9)%</u>
Interest expense:			
Deposits	₩ 3,645	₩ 2,843	(22.0)%
Borrowings	551	427	(22.5)
Debt securities issued	1,666	1,554	(6.7)
Others	107	67	(37.4)
Total interest expense	<u>₩ 5,969</u>	<u>₩ 4,891</u>	<u>(18.1)%</u>
Net interest income	<u>₩ 9,738</u>	<u>₩ 9,883</u>	<u>1.5%</u>
Net interest margin ⁽¹⁾	2.07%	1.92%	

Note:

- (1) Represents the ratio of net interest income to average interest-earning assets. See “— Average Balance Sheet and Volume and Rate Analysis — Average Balances and Related Interest.”

Interest income. Interest income decreased by 5.9% from ₩15,707 billion in 2019 to ₩14,774 billion in 2020 primarily due to a decrease in interest on loans at amortized cost and, to a lesser extent, a decrease in interest on securities at fair value through other comprehensive income. Interest on loans at amortized cost decreased by 5.9% from ₩12,435 billion in 2019 to ₩11,698 billion in 2020 primarily as a result of a decrease in the average lending rates of both retail loans and corporate loans, despite an increase in the average balances of both retail loans and corporate loans as further described below. Interest on securities at fair value through other comprehensive income decreased by 11.1% from ₩1,078 billion in 2019 to ₩958 billion in 2020 primarily due to a decrease in the average lending rates of securities at fair value through other comprehensive income, despite an increase in the average balances of securities at fair value through other comprehensive income.

Interest income on retail loans decreased by 4.8% from ₩4,672 billion in 2019 to ₩4,446 billion in 2020, primarily due to a decrease in the average lending rate for retail loans from 3.64% in 2019 to 3.20% in 2020, despite a 8.3% increase in the average balance of retail loans from ₩128,474 billion in 2019 to ₩139,099 billion in 2020. The average lending rate for retail loans decreased primarily as a result of decreases in the base interest rate by the Bank of Korea from 1.25% to 0.75% in March 2020 and from 0.75% to 0.50% in May 2020. The base rate set by the Bank of Korea largely determines the market rates for certificates of deposit, which in turn largely determines the lending rates for a substantial majority of our retail loans. The average balance of retail loans increased primarily as a result of increased demand in the housing market despite stricter regulations on

maximum debt-to-income and loan-to-value ratios implemented by the Government on mortgage loans. In particular, the volume of mortgage and home equity loans increased as more households chose to purchase homes due to a continued increase in the amounts of long-term deposits required for housing rentals and a decrease in the supply of homes available for long-term deposit leases.

Interest income from corporate loans decreased by 7.3% from ₩5,686 billion in 2019 to ₩5,272 billion in 2020, primarily due to a decrease in the average lending rate for corporate loans from 3.58% in 2019 to 3.01% in 2020, despite a 10.2% increase in the average balance of corporate loans from ₩158,797 billion in 2019 to ₩174,937 billion in 2020. The average lending rate for corporate loans decreased primarily as a result of the general decrease in market interest rates largely driven by the decrease in the base interest rate by the Bank of Korea in March 2020 and May 2020 as discussed above. The average balance of corporate loans increased principally as a result of policies to support small and medium sized enterprises due to the prolonged COVID-19 pandemic and their efforts to secure funds.

Interest expense. Interest expense decreased by 18.1% from ₩5,969 billion in 2019 to ₩4,891 billion in 2020, due primarily to a 22.0% decrease in interest expense on deposits from ₩3,645 billion in 2019 to ₩2,843 billion in 2020, as well as a 22.5% decrease in interest expense on borrowings from ₩551 billion in 2019 to ₩427 billion in 2020.

The decrease in interest expense on deposits was due to a decrease in the average interest rate of total interest-bearing deposits from 1.33% in 2019 to 0.93% in 2020, despite a 11.1% increase in the average balance of deposits from ₩274,807 billion in 2019 to ₩305,223 billion in 2020. The decrease in the average rate of interest paid on deposits was mainly due to a decrease in the average rate of interest paid on time deposits from 1.92% in 2019 to 1.46% in 2020 as well as a decrease in the average rate of interest paid on savings deposits from 0.58% in 2019 to 0.32% in 2020. The average rate of interest paid on time deposits and savings deposits decreased largely as a result of lower average market interest rates for 2020 compared to 2019 as described above. The increase in the average balance of deposits was primarily due to a 17.8% increase in the average balance of savings deposits, which was largely a result of policies to increase liquidity including funding supports of government and local government due to the prolonged COVID-19.

The decrease in interest expense on borrowings was due primarily to a decrease in the average interest rate of borrowings from 1.71% in 2019 to 1.11% in 2020, which was partially offset by a 18.5% increase in the average balance of borrowings from ₩32,336 billion in 2019 to ₩38,320 billion in 2020. The average interest rate of borrowings decreased principally as a result of the general decrease in market interest rates largely driven by the decrease in the base interest rate by the Bank of Korea in March 2020 and May 2020 as discussed above.

Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. Our overall net interest margin decreased by 15 basis points from 2.07% in 2019 to 1.92% in 2020 largely due to a decrease in the average market interest rates for 2020 compared to 2019 as described above, despite an increase in the average volume of interest-earning assets.

Net interest spread, which represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities, decreased by 6 basis points from 1.77% in 2019 to 1.71% in 2020 due to a 41 basis point decrease in the average rate of interest on interest-bearing liabilities from 1.57% in 2019 to 1.16% in 2020 and a 47 basis point decrease in the average rate of interest on interest-earning assets from 3.34% in 2019 to 2.87% in 2020. The average rate of interest on interest-bearing liabilities decreased primarily due to a 40 basis point decrease in the average interest rate on deposits. The average rate of interest on interest-earning assets decreased primarily due to a 54 basis point decrease in the average interest rates on loans, which was mainly due to the reduced average interest rate on corporate loans. The average volume of interest-earning assets increased by 9.4% from ₩470,309 billion in 2019 to ₩514,495 billion in 2020 largely as a result of an increase in the volume of retail and corporate loans. The average volume of interest-bearing liabilities increased by 10.7% from ₩381,422 billion in 2019 to ₩422,185 billion in 2020 largely due to policies to increase liquidity including funding supports of government and local government due to the prolonged COVID-19.

Fees and Commission Income (Expense), Net

The following table shows, for the periods indicated, the principal components of our net fees and commission income.

	Year Ended December 31,		
	2019	2020	% Change
(In billions of Won, except percentages)			
Fees and commission income:			
Credit placement fees	₩ 67	₩ 95	41.8%
Commission received as electronic charge receipt	152	143	(5.9)
Brokerage fees	353	546	54.7
Commission received as agency	140	145	3.6
Investment banking fees	151	161	6.6
Commission received in foreign exchange activities	244	239	(2.0)
Asset management fees	307	255	(16.9)
Credit card fees	1,234	1,170	(5.2)
Operating lease fees	142	245	72.5
Others	767	815	6.3
Total fees and commission income	<u>₩3,557</u>	<u>₩3,814</u>	<u>7.2%</u>
Fees and commission expense:			
Credit-related fees	₩ 42	₩ 46	9.5%
Credit card fees	916	849	(7.3)
Others	458	536	17.0
Total fees and commission expense	<u>₩1,416</u>	<u>₩1,431</u>	<u>1.1%</u>
Net fees and commission income	<u>₩2,141</u>	<u>₩2,383</u>	<u>11.3%</u>

Net fees and commission income increased by 11.3% from ₩2,141 billion in 2019 to ₩2,383 billion in 2020 primarily due to increases in brokerage fees income, operating lease fees income and decrease in credit card fees expense, which was partially offset by a decrease in credit card fees income and asset management fees income.

Brokerage fees income increased by 54.7% from ₩353 billion in 2019 to ₩546 billion in 2020 primarily due to an increase in daily average stock trading volume amidst volatile market conditions. Operating lease fees income increased by 72.5% from ₩142 billion in 2019 to ₩245 billion in 2020 primarily due to the expansion of operations, such as purchasing operating assets including leases classified as operating leases. As a result of COVID-19, credit card fees expense decreased by 7.3% from ₩916 billion in 2019 to ₩849 billion in 2020 primarily due to a decrease in the number of offline transactions which have higher fees and expenses compared to online transactions.

Credit card fees income decreased by 5.2% from ₩1,234 billion in 2019 to ₩1,170 billion in 2020, primarily as a result of a decrease in general sales fees and a decrease in foreign currency credit card fees. The decrease in general sales fees was mainly due to a decrease in the number of offline transactions which have higher fees and expenses compared to online transactions. The decrease in foreign currency credit card fees was due to a decrease in credit card sales incurred in foreign transactions due to COVID-19. Asset management fees income decreased by 16.9% from ₩307 billion in 2019 to ₩255 billion in 2020, primarily due to a decrease in management fees received from specified money and real estate related trust accounts of Shinhan Bank.

Other Operating Income (Expense), Net

The following table shows, for the periods indicated, the principal components of our net operating expense.

	Year Ended December 31,		
	2019	2020	% Change
	(In billions of Won, except percentages)		
Net insurance expenses	₩ (497)	₩ (604)	21.5%
Dividend income	82	98	19.5
Net gain on financial instruments at fair value through profit or loss	1,385	273	(80.3)
Net loss on financial instruments at fair value through profit or loss (overlay approach)	(247)	(136)	(44.9)
Net gain (loss) on financial instruments designated at fair value through profit or loss	(846)	198	N/M
Net foreign currency transaction gain	441	527	19.5
Net gain on disposal of financial asset at fair value through other comprehensive income	152	274	80.3
Provision for credit loss allowance	(981)	(1,382)	40.9
General and administrative expenses	(5,135)	(5,213)	1.5
Other operating expenses, net	(1,187)	(1,371)	15.5
Net other operating expenses	<u>₩(6,833)</u>	<u>₩(7,336)</u>	<u>7.4%</u>

N/M = not meaningful

Net other operating expenses increased by 7.4% from ₩6,833 billion in 2019 to ₩7,336 billion in 2020, primarily due to a decrease in net gain on financial instruments at fair value through profit or loss by 80.3% from ₩1,385 billion in 2019 to ₩273 billion in 2020, as well as, to a lesser extent, an increase in provision for credit loss allowance by 40.9% from ₩981 billion in 2019 to ₩1,382 billion in 2020, which was partially offset as we recognized net gain on financial instruments designated at fair value through profit or loss of ₩198 billion in 2020 compared to net loss on financial instruments designated at fair value through profit or loss of ₩846 billion in 2019.

Provision for Credit Loss Allowance on Financial Assets

The following table sets forth for the periods indicated the credit loss allowance by type of financial asset.

	Year Ended December 31,		
	2019	2020	% Change
	(In billions of Won, except percentages)		
Loans:			
Retail	₩226	₩ 200	(11.5)%
Corporate	203	626	208.4
Credit card	484	452	(6.6)
Others	(2)	13	N/M
Subtotal	911	1,291	41.7
Securities ⁽¹⁾	7	5	(28.6)
Others	63	86	36.5
Total provision for credit loss allowance on financial assets	<u>₩981</u>	<u>₩1,382</u>	<u>40.9%</u>

N/M = not meaningful

Note:

(1) Consist of securities at amortized cost and securities at fair value through other comprehensive income.

Provision for credit loss allowance increased by 40.9% from ₩981 billion in 2019 to ₩1,382 billion in 2020 principally due to a 41.7% increase in credit loss allowance on loans from ₩911 billion in 2019 to ₩1,291 billion in 2020. Our credit loss allowance for loans increased primarily due to an increase in allowance for credit losses on corporate loans, which was partially offset by a decrease in allowance for credit loss on credit card loans. Allowance for credit losses on corporate loans increased mainly because of the re-estimate of probability of default reflecting forward-looking information and the additional selection of borrowers subject to individual assessment in order to proactively responding to changes in the financial environment, such as the spread of COVID-19. Allowance for credit losses on credit card loans decreased primarily as a result of a decrease in allowance for credit losses resulting from the lower rate of overdue transfers and an increase in gains on collection of bad debts.

Income Tax Expense

Income tax expense decreased by 1.0% from ₩1,269 billion in 2019 to ₩1,256 billion in 2020 primarily as a result of a decrease in profit before income taxes by 3.2% to ₩4,754 billion in 2020 from ₩4,911 billion in 2019. Our effective rate of income tax increased to 26.4% in 2020 from 25.8% in 2019.

Net Income for the Period

As a result of the foregoing, our net income for the period decreased by 4.0% from ₩3,642 billion in 2019 to ₩3,498 billion in 2020.

Other Comprehensive Income (loss) for the Period

	Year Ended December 31,		
	2019	2020	% Change
	(In billions of Won, except percentages)		
Items that are or may be reclassified to profit or loss:			
Net gain (loss) on financial assets at fair value through other comprehensive income	₩352	₩ (87)	N/M%
Net gain on financial instruments at fair value through profit or loss (overlay approach)	163	90	(44.8)
Equity in other comprehensive income (loss) of associates	3	(3)	N/M
Foreign currency translation adjustments for foreign operations . . .	106	(162)	N/M
Net change in unrealized fair value of cash flow hedges	(19)	(14)	(26.3)
Other comprehensive income of separate account	11	4	(63.6)
	<u>616</u>	<u>(172)</u>	N/M
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liability	(55)	16	N/M
Valuation gain on financial assets at fair value through other comprehensive income	19	7	(63.2)
Loss on disposal of financial assets at fair value through other comprehensive income	(6)	(28)	366.7
Changes in own credit risk on financial liabilities designated at fair value through profit of loss	(8)	3	N/M
	<u>(50)</u>	<u>(2)</u>	<u>(96.0)</u>
Total other comprehensive income (loss), net of income tax	<u>₩566</u>	<u>₩(174)</u>	<u>N/M%</u>

N/M = not meaningful

We recognized total other comprehensive loss of ₩174 billion in 2020 compared to total other comprehensive income of ₩566 billion in 2019. The change in total other comprehensive loss was primarily due to net loss on financial assets at fair value through other comprehensive income in 2020 compared to net gain on financial assets at fair value through other comprehensive income in 2019. To a lesser extent, we recognized net loss on foreign currency translation adjustments for foreign operations in 2020 compared to net gain on foreign currency translation adjustments for foreign operations in 2019, and we recognized decreased net gain on financial instruments at fair value through profit or loss (overlay approach) in 2020 compared to 2019, primarily as we recognized net loss on financial assets at fair value through other comprehensive income in 2020 compared to net gain on financial assets at fair value through other comprehensive income, as well as to a lesser extent as we recognized loss on foreign currency translation adjustments for foreign operations in 2020 compared to loss on foreign currency translation adjustments for foreign operations in 2019 and due to a decrease in net gain on financial instruments at fair value through profit or loss (overlay approach). We recognized net loss on financial assets at fair value through other comprehensive income of ₩87 billion in 2020 compared to net gain on financial assets at fair value through other comprehensive income of ₩352 billion in 2019, primarily due to fluctuations in interest rates and stock prices. We recognized loss on foreign currency translation adjustments for foreign operations of ₩162 billion in 2020 compared to gain on foreign currency translation adjustments for foreign operations of ₩106 billion in 2019, primarily due to a decline in foreign currency exchange rates amid stronger valuation of the Won. Net gain on financial instruments at fair value through profit or loss (overlay approach) decreased by 44.8% from ₩163 billion in 2019 to ₩90 billion in 2020, primarily as gain on valuation and disposal of financial instruments increased in 2020 due to a decrease in market interest rates towards the end of 2020, resulting in an increase in the fair value of financial instruments.

2019 Compared to 2018

The following table sets forth, for the periods indicated, the principal components of our operating income.

	Year Ended December 31,		
	2018	2019	% Change
	(In billions of Won, except percentages)		
Net interest income	₩ 8,580	₩ 9,738	13.5%
Net fees and commission income	1,939	2,141	10.4
Net other operating income (expense)	(6,020)	(6,833)	13.5
Operating income	<u>₩ 4,499</u>	<u>₩ 5,046</u>	<u>12.2%</u>

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31,		
	2018	2019	% Change
	(In billions of Won, except percentages)		
Interest income:			
Cash and deposits at amortized cost	₩ 155	₩ 210	35.5%
Deposits at fair value through profit or loss	34	32	(5.9)
Securities at fair value through profit or loss	624	741	18.8
Securities at fair value through other comprehensive income	759	1,078	42.0
Securities at amortized cost	730	1,061	45.3
Loans at amortized cost	11,159	12,435	11.4
Loans at fair value through profit or loss	23	57	147.8
Others	88	93	5.7
Total interest income	<u>₩13,572</u>	<u>₩15,707</u>	<u>15.7%</u>

	Year Ended December 31,		
	2018	2019	% Change
	(In billions of Won, except percentages)		
Interest expense:			
Deposits	₩3,092	₩3,645	17.9%
Borrowings	468	551	17.7
Debt securities issued	1,337	1,666	24.6
Others	95	107	12.6
Total interest expense	₩4,992	₩5,969	19.6%
Net interest income	₩8,580	₩9,738	13.5%
Net interest margin ⁽¹⁾	2.14%	2.07%	

Note:

- (1) Represents the ratio of net interest income to average interest-earning assets. See “— Average Balance Sheet and Volume and Rate Analysis — Average Balances and Related Interest.”

Interest income. Interest income increased by 15.7% from ₩13,572 billion in 2018 to ₩15,707 billion in 2019 primarily due to an increase in interest on loans at amortized cost and, to a lesser extent, an increase in interest on securities at amortized cost. Interest on loans at amortized cost increased by 11.4% from ₩11,159 billion in 2018 to ₩12,435 billion in 2019 primarily as a result of increases in the average balances of both retail loans and corporate loans and an increase in the average lending rates on retail loans as further described below. Interest on securities at amortized cost increased by 45.3% from ₩730 billion in 2018 to ₩1,061 billion in 2019 primarily due to an increase in the average balance of securities resulting from our acquisition of Orange Life Insurance.

Interest income on retail loans increased by 16.0% from ₩4,029 billion in 2018 to ₩4,672 billion in 2019, primarily due to a 11.1% increase in the average balance of retail loans from ₩115,622 billion in 2018 to ₩128,474 billion in 2019 as well as an increase in the average lending rate for retail loans from 3.48% in 2018 to 3.64% in 2019. The average balance of retail loans increased primarily as a result of increased demand in the housing market despite stricter regulations on maximum debt-to-income and loan-to-value ratios implemented by the Government on mortgage loans. In particular, the volume of mortgage and home equity loans increased as more households chose to purchase homes due to a continued increase in the amounts of long-term deposits required for housing rentals and a decrease in the supply of homes available for long-term deposit leases. The average lending rate for retail loans increased primarily as a result of the general increase in market interest rates largely driven by the increase in the base interest rate from 1.50% to 1.75% by the Bank of Korea in November 2018, notwithstanding decreases in the base interest rate by the Bank of Korea from 1.75% to 1.50% in July 2019 and from 1.50% to 1.25% in October 2019. The base rate set by the Bank of Korea largely determines the market rates for certificates of deposit, which in turn largely determines the lending rates for a substantial majority of our retail loans.

Interest income from corporate loans increased by 10.3% from ₩5,154 billion in 2018 to ₩5,686 billion in 2019, primarily due to a 10.2% increase in the average balance of such loans from ₩144,063 billion in 2018 to ₩158,797 billion in 2019, despite the average lending rate for corporate loans remaining stable. The average balance of corporate loans increased principally as a result of an increase in facilities loans as Shinhan Bank increased its target loan growth in 2019 to match an expected increase in funding, for example, upon Shinhan Bank’s designation as the primary bank for Seoul Metropolitan Government and Incheon Metropolitan City. The average lending rate for corporate loans remained stable at 3.58% for 2018 and 2019 despite a higher average market interest rate in 2019 due to an increase in loans to corporate borrowers with high credit ratings which have lower interest rates.

Interest expense. Interest expense increased by 19.6% from ₩4,992 billion in 2018 to ₩5,969 billion in 2019, due primarily to a 17.9% increase in interest expense on deposits from ₩3,092 billion in 2018 to ₩3,645 billion in 2019, as well as a 24.6% increase in interest expense on debt securities issued from ₩1,337 billion in 2018 to ₩1,666 billion in 2019.

The increase in interest expense on deposits was due to an increase in the average interest rate payable on deposits from 1.23% in 2018 to 1.33% in 2019 as well as a 9.2% increase in the average balance of deposits from ₩251,552 billion in 2018 to ₩274,807 billion in 2019. The increase in the average interest rate payable on deposits resulted mainly from an increase in the average interest rate payable on time deposits from 1.81% in 2018 to 1.92% in 2019, as well as an increase in the average interest rate payable on savings deposits from 0.56% in 2018 to 0.58% in 2019. The average interest rate payable on time deposits increased largely as a result of higher average market interest rates for 2019 compared to 2018 as described above. The increase in the average balance of deposits was primarily due to a 12.7% increase in the average balance of time deposits, which was largely a result of customers' preference for low-risk investments in light of the continuing uncertainty in financial markets.

The increase in interest expense on debt securities issued was due primarily to a 25.3% increase in the average balance of debt securities issued from ₩55,931 billion in 2018 to ₩70,087 billion in 2019, which was partially offset by a decrease in the average interest rate payable on debt securities from 2.39% in 2018 to 2.38% in 2019. The average balance of debt securities increased principally as a result of an increased funding requirements resulting from an increase in the average balance of loans.

Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. Our overall net interest margin decreased by 7 basis points from 2.14% in 2018 to 2.07% in 2019 largely due to the increase in average volume of interest-earning assets described above outpacing the increase in net interest income.

Net interest spread, which represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities, decreased by 14 basis points from 1.91% in 2018 to 1.77% in 2019 due to a 10 basis point increase in the average rate of interest on interest-bearing liabilities to 1.57% in 2019 from 1.47% in 2018 and a 4 basis point decrease in the average rate of interest on interest-earning assets to 3.34% in 2019 from 3.38% in 2018. The average rate of interest on interest-bearing liabilities increased primarily due to a 10 basis point increase in the average interest rate on deposits. The average rate of interest on interest-earning assets decreased primarily due to a 4 basis point decrease in the average interest rates on securities, which was mainly due to the reduced average interest rate on securities at amortized cost. The average volume of interest-earning assets increased by 17.3% from ₩400,974 billion in 2018 to ₩470,309 billion in 2019 largely as a result of an increase in the volume of retail and corporate loans, as well as an increase in the volume of securities resulting from our acquisition of Orange Life Insurance. The average volume of interest-bearing liabilities increased by 12.2% from ₩340,060 billion in 2018 to ₩381,422 billion in 2019 largely due to an increase in deposits, which was primarily driven by customers' preference for low-risk investments in light of the continuing uncertainty in financial markets and our efforts to attract more low cost deposits.

Fees and Commission Income (Expense), Net

The following table shows, for the periods indicated, the principal components of our net fees and commission income.

	Year Ended December 31,		
	2018	2019	% Change
	(In billions of Won, except percentages)		
Fees and commission income:			
Credit placement fees	₩ 63	₩ 67	6.3%
Commission received as electronic charge receipt	146	152	4.1
Brokerage fees	412	353	(14.3)
Commission received as agency	121	140	15.7
Investment banking fees	91	151	65.9
Commission received in foreign exchange activities	214	244	14.0
Asset management fees	235	307	30.6
Credit card fees	1,360	1,234	(9.3)
Operating lease fees	82	142	73.2
Others	571	767	34.3
Total fees and commission income	<u>₩3,295</u>	<u>₩3,557</u>	<u>8.0%</u>
Fees and commission expense:			
Credit-related fees	₩ 37	₩ 42	13.5%
Credit card fees	945	916	(3.1)
Others	374	458	22.5
Total fees and commission expense	<u>₩1,356</u>	<u>₩1,416</u>	<u>4.4%</u>
Net fees and commission income	<u>₩1,939</u>	<u>₩2,141</u>	<u>10.4%</u>

Net fees and commission income increased by 10.4% from ₩1,939 billion in 2018 to ₩2,141 billion in 2019 primarily due to increases in other fees and commission income, asset management fees income, operating lease fees income and investment banking fees income, which was partially offset by a decrease in credit card fees income and brokerage fees income.

Other fees and commission income increased by 34.3% from ₩571 billion in 2018 to ₩767 billion in 2019 primarily due to our acquisition of Orange Life Insurance. Asset management fees income increased by 30.6% from ₩235 billion in 2018 to ₩307 billion in 2019 primarily due to an increase in management fees received from specified money and real estate related trust accounts of Shinhan Bank. Operating lease fees income increased by 73.2% from ₩82 billion in 2018 to ₩142 billion in 2019, primarily due to an increase in fees and commission income from lease operations resulting from an increase in the average balance of operating leased assets. Investment banking fees income increased by 65.9% from ₩91 billion in 2018 to ₩151 billion in 2019 primarily due to increased brokerage and advisory fees for mergers and acquisitions and other corporate transactions.

Credit card fees income decreased by 9.3% from ₩1,360 billion in 2018 to ₩1,234 billion in 2019, primarily as a result of the Government's continued policies to lower credit card merchant fees. Brokerage fees income decreased by 14.3% from ₩412 billion in 2018 to ₩353 billion in 2019, primarily due to a decrease in daily average stock trading volume amidst volatile market conditions as well as a decrease in the rate of brokerage fees.

Other Operating Income (Expense), Net

The following table shows, for the periods indicated, the principal components of our net operating expense.

	Year Ended December 31,		
	2018	2019	% Change
	(In billions of Won, except percentages)		
Net insurance expenses	₩ (472)	₩ (497)	5.3%
Dividend income	88	82	(6.8)
Net gain on financial instruments at fair value through profit or loss	420	1,385	229.8
Net gain (loss) on financial instruments at fair value through profit or loss (overlay approach)	75	(247)	N/M
Net loss on financial instruments designated at fair value through profit or loss	(27)	(846)	3,033.3
Net foreign currency transaction gain	194	441	127.3
Net gain on disposal of financial asset at fair value through other comprehensive income	21	152	623.8
Provision for credit loss allowance	(748)	(981)	31.1
General and administrative expenses	(4,742)	(5,135)	8.3
Other operating expenses, net	(829)	(1,187)	43.2
Net other operating expenses	<u>₩(6,020)</u>	<u>₩(6,833)</u>	<u>13.5 %</u>

N/M = not meaningful

Net other operating expenses increased by 13.5% to ₩6,833 billion in 2019 from ₩6,020 billion in 2018, primarily due to an increase in net loss on financial instruments designated at fair value through profit or loss by 3,033.3% from ₩27 billion in 2018 to ₩846 billion in 2019 and an increase in general and administrative expenses by 8.3% from ₩4,742 billion in 2018 to ₩5,135 billion in 2019, as well as, to a lesser extent, as we recognized net loss on financial instruments at fair value through profit or loss (overlay approach) of ₩247 billion in 2019 compared to net gain on financial instruments at fair value through profit or loss (overlay approach) of ₩75 billion in 2018, which was partially offset by an increase in net gain on financial instruments at fair value through profit or loss by 229.8% from ₩420 billion in 2018 to ₩1,385 billion in 2019.

The increase in net loss on financial instruments designated at fair value through profit or loss was largely a result of an increase in disposal loss from financial instruments designated at fair value through profit or loss held by Shinhan Investment. The increase in general and administrative expenses was largely due to our acquisition of Orange Life Insurance. We recognized net loss on financial instruments at fair value through profit or loss (overlay approach) in 2019 compared to net gain on financial instruments at fair value through profit or loss (overlay approach) in 2018 as gains on valuation of financial instruments at fair value through profit or loss of Shinhan Life Insurance and Orange Life Insurance were reclassified in 2019 to other comprehensive income through the application of overlay approach. Net gain on financial instruments at fair value through profit or loss increased largely due to a decrease in market interest rates towards the end of 2019, resulting in an increase in the fair value of financial instruments.

Provision for Credit Loss Allowance on Financial Assets

The following table sets forth for the periods indicated the credit loss allowance by type of financial asset.

	Year Ended December 31,		
	2018	2019	% Change
(In billions of Won, except percentages)			
Loans:			
Retail	₩383	₩226	(41.0)%
Corporate	104	203	95.2
Credit card	202	484	139.6
Others	16	(2)	N/M
Subtotal	705	911	29.2
Securities ⁽¹⁾	14	7	(50.0)
Others	29	63	117.2
Total provision for credit loss allowance on financial assets	₩748	₩981	31.1%

N/M = not meaningful

Note:

(1) Consist of securities at amortized cost and securities at fair value through other comprehensive income.

Provision for credit loss allowance increased by 31.1% from ₩748 billion in 2018 to ₩981 billion in 2019 principally due to a 29.2% increase in credit loss allowance on loans from ₩705 billion in 2018 to ₩911 billion in 2019. Our credit loss allowance for loans increased primarily due to an increase in allowance for credit losses on corporate loans as well as credit card loans. Allowance for credit losses on corporate loans increased mainly due to an increase in delinquency ratio and credit deterioration in certain corporate borrowers, as well as an increase in the proportion of unsecured corporate loans which are subject to higher loss given default rates compared to secured corporate loans. Allowance for credit losses on credit card loans increased primarily as a result of an increase in the balance of credit card receivables.

Income Tax Expense

Income tax expense increased by 0.1% from ₩1,268 billion in 2018 to ₩1,269 billion in 2019 primarily as a result of an increase in profit before income taxes by 10.0% to ₩4,911 billion in 2019 from ₩4,466 billion in 2018. Our effective rate of income tax decreased to 25.8% in 2019 from 28.4% in 2018.

Net Income for the Period

As a result of the foregoing, our net income for the period increased by 13.9% from ₩3,198 billion in 2018 to ₩3,642 billion in 2019.

Other Comprehensive Income (loss) for the Period

	Year Ended December 31,		
	2018	2019	% Change
	(In billions of Won, except percentages)		
Items that are or may be reclassified to profit or loss:			
Gain on financial assets at fair value through other comprehensive income	₩161	₩352	118.6%
Gain (loss) on financial instruments at fair value through profit or loss (overlay approach)	(54)	163	N/M
Equity in other comprehensive income of associates	7	3	(57.1)
Foreign currency translation adjustments for foreign operations . . .	20	106	430.0
Net change in unrealized fair value of cash flow hedges	(20)	(19)	(5.0)
Other comprehensive income of separate account	<u>9</u>	<u>11</u>	<u>22.2</u>
	123	616	400.8
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liability	(93)	(55)	(40.9)
Valuation gain on financial assets at fair value through other comprehensive income	23	19	(17.4)
Loss on disposal of financial assets at fair value through other comprehensive income	(3)	(6)	100.0
Changes in own credit risk on financial liabilities designated at fair value through profit of loss	<u>2</u>	<u>(8)</u>	<u>N/M</u>
	<u>(71)</u>	<u>(50)</u>	<u>(29.6)</u>
Total other comprehensive income (loss), net of income tax	<u>₩ 52</u>	<u>₩566</u>	<u>988.5%</u>

N/M = not meaningful

Our other comprehensive income increased significantly from ₩52 billion in 2018 to ₩566 billion in 2019, primarily due to an increase in gain on financial assets at fair value through other comprehensive income, as well as to a lesser extent because we recognized gain on financial instruments at fair value through profit or loss (overlay approach) in 2019 compared to loss on financial instruments at fair value through profit or loss (overlay approach) in 2018. Gain on financial assets at fair value through other comprehensive income increased by 118.6% to ₩352 billion in 2019 from ₩161 billion in 2018 primarily due to fluctuations in interest rates and stock prices. We recognized gain on financial instruments at fair value through profit or loss (overlay approach) of ₩163 billion in 2019 compared to loss on financial instruments at fair value through profit or loss (overlay approach) of ₩54 billion in 2018, primarily as gain on valuation and disposal of financial instruments increased in 2019 due to a decrease in market interest rates towards the end of 2019, resulting in an increase in the fair value of financial instruments. Gain on foreign currency translation adjustments for foreign operations increased by 430.0% to ₩106 billion in 2019 from ₩20 billion in 2018, primarily due to an increase in foreign currency exchange rates amid depreciation in the valuation of the Won.

Results by Principal Business Segment

As of December 31, 2020, we were organized into five major business segments as follows:

- commercial banking services, which are principally provided by Shinhan Bank;
- credit card services, which are principally provided by Shinhan Card;
- securities brokerage services, which are provided by Shinhan Investment;
- life insurance services, which are provided by Shinhan Life Insurance and Orange Life Insurance; and
- others.

We report our segment information in accordance with the provisions of IFRS 8 (Operating Segments). We categorize our operating segments according to a business based approach. See Note 7 of the notes to our consolidated financial statements included in this annual report.

Operating Income by Principal Business Segment

The table below provides the income statement data for our principal business segments for the periods indicated.

	Year Ended December 31,			% Change	
	2018	2019	2020	2018/2019	2019/2020
	(In billions of Won, except percentages)				
Banking	₩3,047	₩3,162	₩2,802	3.8%	(11.4)%
Credit card	873	812	887	(7.0)	9.2
Securities	333	240	373	(27.9)	55.4
Life insurance	181	585	568	223.2	(2.9)
Others	102	169	337	65.7	99.4
Consolidation adjustment ⁽¹⁾	(37)	78	(37)	N/M	N/M
Total operating income	₩4,499	₩5,046	₩4,930	12.2%	(2.3)%

N/M = not meaningful

Note:

- (1) Consolidation adjustment consists of adjustments for inter-segment transactions.

Banking Services

The banking services segment offers commercial banking and related services and includes: (i) retail banking, which consists of banking and other services provided primarily through the retail branches of Shinhan Bank and Jeju Bank to individuals and households; (ii) corporate banking, which consists of corporate banking products and services provided through Shinhan Bank's corporate banking branches to its corporate customers, most of which are small- and medium-sized enterprises and large corporations, including members of the *chaebol* groups; (iii) international banking, which primarily consists of the operations of Shinhan Bank's overseas subsidiaries and branches; and (iv) other banking, which primarily consists of treasury business for our banking business (including internal asset and liability management and other non-deposit funding activities), securities investing and trading and derivatives trading, as well as administration of our overall banking operations.

The table below provides the income statement data for our banking services segment for the periods indicated.

	Year Ended December 31,			% Change	
	2018	2019	2020	2018/2019	2019/2020
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	₩ 5,708	₩ 5,989	₩ 6,038	4.9%	0.8%
Net fees and commission income (expense)	851	950	822	11.6	(13.5)
Net other income (expense)	(3,512)	(3,777)	(4,058)	7.5	7.4
Operating income (expense)	₩ 3,047	₩ 3,162	₩ 2,802	3.8%	(11.4)%

Comparison of 2020 to 2019

Operating income for banking services decreased by 11.4% from ₩3,162 billion in 2019 to ₩2,802 billion in 2020.

Net interest income increased by 0.8% from ₩5,989 billion in 2019 to ₩6,038 billion in 2020 primarily due to increases in net interest income for international banking and other banking services, which was partially offset by a decrease in net interest income for retail banking services and corporate banking. More specifically:

- Net interest income for retail banking decreased by 7.3% from ₩2,620 billion in 2019 to ₩2,429 billion in 2020 primarily due to a decrease in Shinhan Bank's net interest margin which was partially offset by an increase in the average volume of retail loans. The decrease in Shinhan Bank's net interest margin was largely due to the decrease in net interest income resulting from decreases in base interest rate by the Bank of Korea from 1.25% to 0.75% in March 2020 and from 0.75% to 0.50% in May 2020, despite the increase in average volume of interest-earning assets. The average volume of retail loans increased largely due to an increase in home mortgage loans.
- Net interest income for corporate banking decreased by 2.5% from ₩2,353 billion in 2019 to ₩2,295 billion in 2020 primarily due to a decrease in the average lending rate for corporate loans, notwithstanding increase in the average balance of corporate loans. The average lending rate for corporate loans decreased primarily as a result of the general decrease in market interest rates largely driven by the decrease in the base interest rate by the Bank of Korea in March 2020 and May 2020 as discussed above. The average balance of corporate loans increased principally as a result of an increase in facilities loans.
- Net interest income for international banking increased by 3.6% from ₩746 billion in 2019 to ₩773 billion in 2020 primarily due to an increase in the average balance of loans extended by Shinhan Bank's overseas subsidiaries, particularly in Vietnam.
- Net interest income for other banking services increased by 100.4% from ₩270 billion in 2019 to ₩541 billion in 2020, primarily due to an increase in interest income on securities by the Securities Management department of Shinhan Bank.

Net fees and commission income decreased by 13.5% from ₩950 billion in 2019 to ₩822 billion in 2020 primarily due to a decrease in net fees and commissions for others banking services, and to a lesser extent, a decrease in net fees and commissions for retail banking services. Net fees and commissions for others banking services decreased primarily due to an decrease in trust management fees. Net fees and commissions for retail banking services decreased primarily due to an increase in the proportion of online banking transactions, for which the Bank generally charges lower fees and commissions notwithstanding an increase in the overall volume of transactions.

Net other expense increased by 7.4% from ₩3,777 billion in 2019 to ₩4,058 billion in 2020 primarily due to an increase in net other expense for others banking services, and to a lesser extent, an increase in net other expense for international banking services. Net other expense for other banking services increased mainly due to an increase in net foreign currency transaction gain. Net other expense for international banking services increased primarily due to an increase in expenses related to the expansion of Shinhan Bank's overseas network.

Comparison of 2019 to 2018

Operating income for banking services increased by 3.8% from ₩3,047 billion in 2018 to ₩3,162 billion in 2019.

Net interest income increased by 4.9% from ₩5,708 billion in 2018 to ₩5,989 billion in 2019 primarily due to increases in net interest income for corporate banking, international banking and other banking services, which was partially offset by a decrease in net interest income for retail banking services. More specifically:

- Net interest income for retail banking decreased by 0.4% from ₩2,631 billion in 2018 to ₩2,620 billion in 2019 primarily due to a decrease in Shinhan Bank's net interest margin which was

partially offset by an increase in the average volume of retail loans. The decrease in Shinhan Bank's net interest margin was largely due to the increase in average volume of interest-earning assets outpacing the increase in net interest income as described above. The average volume of retail loans increased largely due to an increase in home mortgage loans.

- Net interest income for corporate banking increased by 3.1% from ₩2,282 billion in 2018 to ₩2,353 billion in 2019 primarily due an increase in the average balance of corporate loans while the average lending rate on corporate loans remained stable. The average balance of corporate loans increased principally as a result of an increase in facilities loans. The average lending rate for corporate loans remained stable despite a higher average market interest rate in 2019 due to an increase in loans to corporate borrowers with high credit ratings which have lower interest rates.
- Net interest income for international banking increased by 18.6% from ₩629 billion in 2018 to ₩746 billion in 2019 primarily due to an increase in the average balance of loans extended by Shinhan Bank's overseas subsidiaries, particularly in Vietnam.
- Net interest income for other banking services increased by 62.7% from ₩166 billion in 2018 to ₩270 billion in 2019, primarily due to an increase in interest earned on assets managed by the treasury department of Shinhan Bank.

Net fees and commission income increased by 11.6% from ₩851 billion in 2018 to ₩950 billion in 2019 primarily due to an increase in net fees and commissions for corporate banking services, and to a lesser extent, an increase in net fees and commissions for other banking services. Net fees and commissions for corporate banking services increased primarily due to an increase in investment banking fees and commissions principally resulting from an increased volume of mergers and acquisitions, SOC projects and other corporate transactions. Net fees and commissions for other banking services increased primarily due to an increase in trust management fees.

Net other expense increased by 7.5% from ₩3,512 billion in 2018 to ₩3,777 billion in 2019 primarily due to an increase in net other expense for other banking services, and to a lesser extent, an increase in net other expense for international banking services. Net other expense for other banking services increased mainly due to a decrease in net gain on financial instruments at fair value through profit of loss. Net other expense for international banking services increased primarily due to an increase in expenses related to the expansion of Shinhan Bank's overseas network.

Credit Card Services

The credit card services segment consists of the credit card business of Shinhan Card, including its installment finance and automobile leasing businesses.

	Year Ended December 31,			% Change	
	2018	2019	2020	2018/2019	2019/2020
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	₩ 1,583	₩ 1,754	₩ 1,755	10.8%	0.1%
Net fees and commission income (expense)	433	403	483	(6.9)	19.9
Net other income (expense)	(1,143)	(1,345)	(1,351)	17.7	0.4
Operating income (expense)	<u>₩ 873</u>	<u>₩ 812</u>	<u>₩ 887</u>	<u>(7.0)%</u>	<u>9.2%</u>

Comparison of 2020 to 2019

Operating income for the credit card business increased by 9.2% from ₩812 billion in 2019 to ₩887 billion in 2020.

Net interest income increased by 0.1% from ₩1,754 billion in 2019 to ₩1,755 billion in 2020 primarily due to an increase in the average balance of loans as a result of the expansion of operations, such as purchasing operating assets, and to a lesser extent, an increase in the average balance of foreign currency loans as a result of an increase in the amount of foreign subsidiaries offering loans. The increase in net interest income was partially offset by a decrease in interest income on credit card loans resulting from a decrease in the interest rates on credit card loans.

Net fees and commission income increased by 19.9% from ₩403 billion in 2019 to ₩483 billion in 2020 primarily as a result of an increase in fees and commission income from lease operations as a result of expansion of operating assets. Credit card fees expense decreased as a result of a decrease in the number of offline transactions which have higher fees and expenses compared to online transactions. The increase in net fees and commission income was partially offset due to a decrease in income from credit card fees. The decrease in income from credit card fees was attributed to a decrease in foreign currency credit card fees. The decrease in foreign currency credit card fees was due to the decrease in credit card sales incurred in foreign transactions due to COVID-19.

Net other expense increased by 0.4% from ₩1,345 billion in 2019 to ₩1,351 billion in 2020, primarily due to a decrease in gains on hedging items and an increase in losses on hedging items, and, to a lesser extent, an increase in depreciation expense on operating leases. The decrease in gains on hedging items and the increase in losses on hedging items were primarily due to a decline in foreign currency exchange rates amid stronger valuation of the Won. Depreciation expense on operating leases increased mainly due to the expansion of operations, such as purchasing operating assets including leases classified as operating. The increase in net other expense was partially offset by an increase in net foreign currency transaction gain resulting from a decline in foreign currency exchange rates.

Comparison of 2019 to 2018

Operating income for the credit card business decreased by 7.0% from ₩873 billion in 2018 to ₩812 billion in 2019.

Net interest income increased by 10.8% from ₩1,583 billion in 2018 to ₩1,754 billion in 2019 primarily due to an increase in the average balance of credit card receivables, which was partially offset by an increase in interest expense on borrowings and bonds resulting from increases in the average balances of such liabilities amid increased need for working capital amidst asset growth.

Net fees and commission income decreased by 6.9% from ₩433 billion in 2018 to ₩403 billion in 2019 primarily as a result of a decrease in credit card commission income due to the Government's continued policies to lower credit card merchant fees, which was partially offset by an increase in fees and commission income from lease operations due an increase in the average balance of operating leased assets.

Net other expense increased by 17.7% from ₩1,143 billion in 2018 to ₩1,345 billion in 2019, primarily due to an increase in provision for credit loss allowance and an increase in depreciation expense on the operating leased assets. Provision for credit loss allowance increased primarily as a result of an increase in the balance of credit card receivables. Depreciation expense increased primarily as a result of increase in the average balance of operating leased assets.

Securities Brokerage Services

Securities brokerage services segment primarily reflects securities brokerage and dealing services on behalf of customers, which is conducted by Shinhan Investment, our principal securities brokerage subsidiary.

	Year Ended December 31,			% Change	
	2018	2019	2020	2018/2019	2019/2020
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	₩ 429	₩ 458	₩ 517	6.8%	12.9%
Net fees and commission income (expense)	389	351	544	(9.8)	55.0
Net other income (expense)	(485)	(569)	(688)	17.3	20.9
Operating income (expense)	<u>₩ 333</u>	<u>₩ 240</u>	<u>₩ 373</u>	<u>(27.9)%</u>	<u>55.4%</u>

Comparison of 2020 to 2019

Operating income for securities brokerage services increased by 55.4% from ₩240 billion in 2019 to ₩373 billion in 2020.

Net interest income increased by 12.9% from ₩458 billion in 2019 to ₩517 billion in 2020 primarily due to an increase in interest income on securities measured at fair value through profit or loss and, to a lesser extent, an increase in interest income on loans measured at amortized cost. The increase in interest income on securities measured at fair value through profit or loss was due to an increase in interest income from consolidated structured entities as a result of an increase in the average balance of investment in beneficiary certificate as the size of commitments in consolidated structured entities increased. Interest income from loans measured at amortized cost increased mainly due to an increase in the average balance of credit loans to households attributed to an increase in the size of customers' credit loans resulting from the booming stock market in Korea, and, to a lesser extent, an increase in the average balance of foreign currency corporate loans attributed to an increase in the amount of foreign currency loans to the consolidated structured entities as a result of an increase in the size of foreign currency commitments in consolidated structured entities. The increase in net interest income was partially offset by a decrease in interest income from cash and due from banks as a result of a decrease in interest rate.

Net fees and commission income increased by 55.0% from ₩351 billion in 2019 to ₩544 billion in 2020 primarily due to an increase in fees and commission received on brokerage as a result of an increase in daily average stock trading volume resulting from the booming stock market in Korea during the current period, which was partially offset by an increase in fees and commission expenses for legal and advisory fees as a result of increased legal disputes, including those involving Lime Asset products sold by Shinhan Bank and Shinhan Investment.

Net other expense increased by 20.9% from ₩569 billion in 2019 to ₩688 billion in 2020 due primarily to an increase in provision for credit loss allowance, which was attributed to an increase in allowance for credit losses including allowance for loans related to overseas real estate assets and allowance for loans to structured entities.

Comparison of 2019 to 2018

Operating income for securities brokerage services decreased by 27.9% from ₩333 billion in 2018 to ₩240 billion in 2019.

Net interest income increased by 6.8% from ₩429 billion in 2018 to ₩458 billion in 2019 primarily due to an increase in the average debt securities classified as financial assets at fair value through profit or loss, as well as an increase in interest income from consolidated structured entities due to an increase in the number of such entities.

Net fees and commission income decreased by 9.8% from ₩389 billion in 2018 to ₩351 billion in 2019 primarily due to a decrease in fees and commission received on brokerage resulting from a decrease in daily average stock trading volume amidst volatile market conditions, as well as a decrease in the rate of brokerage fees.

Net other expense increased by 17.3% from ₩485 billion in 2018 to ₩569 billion in 2019 due primarily to an increase in salaries as a result of increases in the number of employees as well as average wages.

Life Insurance Services

Life insurance services segment consists of life insurance services provided by Shinhan Life Insurance and Orange Life Insurance.

	Year Ended December 31,			% Change	
	2018	2019	2020	2018/2019	2019/2020
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	₩ 762	₩ 1,648	₩ 1,609	116.3%	(2.4)%
Net fees and commission income (expense)	70	167	162	138.6	(3.0)
Net other income (expense)	(651)	(1,230)	(1,203)	88.9	(2.2)
Operating income (expense)	<u>₩ 181</u>	<u>₩ 585</u>	<u>₩ 568</u>	<u>223.2%</u>	<u>(2.9)%</u>

Comparison of 2020 to 2019

Operating income for life insurance services decreased by 2.9% from ₩585 billion in 2019 to ₩568 billion in 2020.

Net interest income decreased by 2.4% from ₩1,648 billion in 2019 to ₩1,609 billion in 2020 due primarily to a decrease in interest income on securities measured at fair value through other comprehensive income resulting from the decreased average balances of government bond and corporate bond. The decrease in net interest income was partially offset due to an increase in interest income on securities measured at amortized cost as a result of an increase in the average balance of government bond in the process of the ALM (Asset Liability Management) in order to reduce the gap of maturity duration between assets and liabilities.

Net fees and commission income decreased by 3.0% from ₩167 billion in 2019 to ₩162 billion in 2020 due primarily to an increase in fees and commission expense resulting from an increase in the rate of premium reserve (guaranteed interest benefit), which was partially offset by an increase in fee income earned from our management of separate accounts.

Net other expense decreased by 2.2% from ₩1,230 billion in 2019 to ₩1,203 billion in 2020 primarily due to an increase in gains on hedging items as well as a decrease in losses on hedging items. The increase in gains on hedging items and the decrease in losses on hedging items were primarily due to a decline in foreign currency exchange rates amid stronger valuation of the Won.

Comparison of 2019 to 2018

Operating income for life insurance services increased by 223.2% from ₩181 billion in 2018 to ₩585 billion in 2019.

Net interest income increased by 116.3% from ₩762 billion in 2018 to ₩1,648 billion in 2019 due primarily to an increase in the volume of average earning assets resulting from our acquisition of Orange Life Insurance.

Net fees and commission income increased by 138.6% from ₩70 billion in 2018 to ₩167 billion in 2019 due primarily to an overall increase in fee income earned from our management of separate accounts, primarily resulting from our acquisition of Orange Life Insurance, despite a decrease in fee income earned from the management of separate accounts by Shinhan Life Insurance.

Net other expense increased by 88.9% from ₩651 billion in 2018 to ₩1,230 billion in 2019 primarily due to an increase in net insurance expenses resulting from our acquisition of Orange Life Insurance as well as a decrease in premiums received by Shinhan Life Insurance for new contracts underwritten, which was partially offset by a decrease in provisions for insurance reserves resulting from such changes.

Others

Other segment primarily reflects all other activities of Shinhan Financial Group, as the holding company, and our other subsidiaries, including the results of operations of Shinhan Capital, Shinhan Credit Information, Shinhan BNP Paribas Asset Management, Shinhan Alternative Investment Management, Shinhan Savings Bank, Asia Trust Co. Ltd., Shinhan REITs Management and back-office functions maintained at the holding company.

	Year Ended December 31,			% Change	
	2018	2019	2020	2018/2019	2019/2020
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	₩ 96	₩ 128	₩ 167	33.3%	30.5%
Net fees and commission income (expense)	199	272	368	36.7	35.3
Net other income (expense)	(193)	(231)	(198)	19.7	(14.3)
Operating income (expense)	<u>₩ 102</u>	<u>₩ 169</u>	<u>₩ 337</u>	<u>65.7%</u>	<u>99.4%</u>

Comparison of 2020 to 2019

Operating income for others increased by 99.4% from ₩169 billion in 2019 to ₩337 billion in 2020.

Net interest income increased by 30.5% from ₩128 billion in 2019 to ₩167 billion in 2020 primarily due to an increase in interest income from Shinhan Capital resulting from increases in the average balance of loans, and an increase in interest income from consolidated structured entities resulting from an increase in the average balance of financial assets at fair value through profit or loss.

Net fees and commission income increased by 35.3% from ₩272 billion in 2019 to ₩368 billion in 2020 primarily due to an increase in income from Asia Trust Co., Ltd. resulting from the Group's strengthening the non-banking portfolio through real estate business line. The increased income from Asia Trust Co., Ltd. was mainly due to the increased number of land trusts managed by Asia Trust Co., Ltd.

Net other expense decreased by 14.3% from ₩231 billion in 2019 to ₩198 billion in 2020, primarily due to an increase in gains and losses related to financial instruments measured at fair value through profit or loss, which were mainly recognized by Shinhan Financial Group and Shinhan Capital.

Comparison of 2019 to 2018

Operating income for others increased by 65.7% from ₩102 billion in 2018 to ₩169 billion in 2019.

Net interest income increased by 33.3% from ₩96 billion in 2018 to ₩128 billion in 2019 primarily due to an increase in interest income from Shinhan Savings Bank and Shinhan Capital resulting from increases in their average balances of total loans, and, to a lesser extent, an increase in interest income from consolidated structured entities resulting from an increase in the number of consolidated structured entities.

Net fees and commission income increased by 36.7% from ₩199 billion in 2018 to ₩272 billion in 2019 primarily due to an increase in asset management fees resulting from our acquisition of Asia Trust Co. Ltd.

Net other expense increased by 19.7% from ₩193 billion in 2018 to ₩231 billion in 2019, primarily due to an increase in general and administrative expenses resulting from our acquisition of Asia Trust Co. Ltd.

Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets.

	As of December 31,			% Change	
	2018	2019	2020	2018/2019	2019/2020
	(In billions of Won, except percentages)				
Cash and due from banks at amortized cost	₩ 17,349	₩ 28,424	₩ 33,411	63.8%	17.5%
Financial assets at fair value through profit or loss	43,535	53,163	59,091	22.1	11.2
Derivative assets	1,794	2,829	5,634	57.7	99.2
Securities at fair value through other comprehensive income	38,314	59,381	58,316	55.0	(1.8)
Securities at amortized cost	28,478	45,582	47,283	60.1	3.7
Loans at amortized cost	299,609	323,245	356,222	7.9	10.2
Property and equipment, net	3,004	4,083	3,990	35.9	(2.3)
Intangible assets	4,320	5,559	5,481	28.7	(1.4)
Investments in associates	671	1,453	2,658	116.5	82.9
Current tax receivables	45	88	52	95.6	(40.9)
Deferred tax assets	427	218	215	(48.9)	(1.4)
Investment property	475	489	615	2.9	25.8
Asset for defined benefit obligations	—	2	18	—	800.0
Other assets	21,572	27,879	32,194	29.2	15.5
Assets held for sale	8	25	54	212.5	116.0
Total assets	<u>₩459,601</u>	<u>₩552,420</u>	<u>₩605,234</u>	<u>20.2%</u>	<u>9.6%</u>

2020 Compared to 2019

Our assets increased by 9.6% from ₩552,420 billion as of December 31, 2019 to ₩605,234 billion as of December 31, 2020, principally due to increases in loans at amortized cost, financial assets at fair value through profit or loss, cash and due from banks at amortized cost, other assets and derivative assets.

Our loans at amortized cost increased by 10.2% to ₩356,222 billion as of December 31, 2020 from ₩323,245 billion as of December 31, 2019, due primarily to an increase in corporate loans and, to a lesser extent an increase in retail loans.

Our Financial assets at fair value through profit or loss increased by 11.2% to ₩59,091 billion as of December 31, 2020 from ₩53,163 billion as of December 31, 2019, due primarily to an increase in the balance of debt securities measured at fair value through profit or loss, such as beneficiary certificates, government bonds, public bonds and corporate bonds.

Our cash and due from banks at amortized cost increased by 17.5% to ₩33,411 billion as of December 31, 2020 from ₩28,424 billion as of December 31, 2019, due primarily to an increase in reserve deposits with the Bank of Korea to account for debt securities with approaching maturities.

Our Other assets increased by 15.5% to ₩32,194 billion as of December 31, 2020 from ₩27,879 billion as of December 31, 2019, due primarily to an increase in receivables.

Our derivative assets increased by 99.2% to ₩5,634 billion as of December 31, 2020 from ₩2,829 billion as of December 31, 2019, primarily due to an increase in derivative assets in foreign currency resulting from a decline in foreign currency exchange rates amid stronger valuation of the Won.

2019 Compared to 2018

Our assets increased by 20.2% from ₩459,601 billion as of December 31, 2018 to ₩552,420 billion as of December 31, 2019, principally due to increases in securities at fair value through other comprehensive income, loans at amortized cost, securities at amortized cost and cash and due from banks at amortized cost.

Our securities at fair value through other comprehensive income increased by 55.0% to ₩59,381 billion as of December 31, 2019 from ₩38,314 billion as of December 31, 2018 primarily as a result of our acquisition of Orange Life Insurance.

Our loans at amortized cost increased by 7.9% to ₩323,245 billion as of December 31, 2019 from ₩299,609 billion as of December 31, 2018, due primarily to an increase in retail loans and corporate loans.

Our securities at amortized cost increased by 60.1% to ₩45,582 billion as of December 31, 2019 from ₩28,478 billion as of December 31, 2018 primarily as a result of our acquisition of Orange Life Insurance.

Our cash and due from banks at amortized cost increased by 63.8% to ₩28,424 billion as of December 31, 2019 from ₩17,349 billion as of December 31, 2018, due primarily to an increase in reserve deposits with the Bank of Korea to account for debt securities with approaching maturities.

Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities.

	As of December 31,			% Change	
	2018	2019	2020	2018/2019	2019/2020
	(In billions of Won, except percentages)				
Deposits	₩265,000	₩294,874	₩326,417	11.3%	10.7%
Financial liabilities at fair value through profit or loss	1,420	1,632	1,437	14.9	(11.9)
Financial liabilities designated at fair value through profit or loss (IFRS 9)	8,536	9,409	8,456	10.2	(10.1)
Derivative liabilities	2,440	2,303	5,017	(5.6)	117.8
Borrowings	29,819	34,863	41,594	16.9	19.3
Debt securities issued	63,228	75,363	75,134	19.2	(0.3)
Liability for defined benefit obligations	127	121	63	(4.7)	(47.9)
Provisions	508	557	805	9.6	44.5
Current tax payable	430	513	390	19.3	(24.0)
Deferred tax liabilities	22	452	580	1,954.5	28.3
Liabilities under insurance contracts	26,219	52,164	53,459	99.0	2.5
Other liabilities	25,200	38,238	45,525	51.7	19.1
Total liabilities	422,949	510,489	558,877	20.7	9.5
Total equity attributable to equity holders of the Group	35,726	39,179	44,070	9.7	12.5
Non-controlling interests	926	2,752	2,287	197.2	(16.9)
Total equity	36,652	41,931	46,357	14.4	10.6
Total liabilities and equity	₩459,601	₩552,420	₩605,234	20.2%	9.6%

2020 Compared to 2019

Our total liabilities increased by 9.5% from ₩510,489 billion as of December 31, 2019 to ₩558,877 billion as of December 31, 2020, primarily due to an increase in deposits (which principally consist of customer deposits) and an increase in other liabilities and an increase in borrowings and, to a lesser extent, an increase in derivative liabilities.

Our deposits increased by 10.7% from ₩294,874 billion as of December 31, 2019 to ₩326,417 billion as of December 31, 2020, primarily due to an increase in time and savings deposits largely resulting from customers' preference for low-risk investments in light of the continuing uncertainty in financial markets.

Our other liabilities increased by 19.1% from ₩38,238 billion as of December 31, 2019 to ₩45,525 billion as of December 31, 2020, primarily due to an increase in domestic exchanges payables and account payables.

Our borrowings increased by 19.3% from ₩34,863 billion as of December 31, 2019 to ₩41,594 billion as of December 31, 2020 primarily as a result of an increase of borrowings in Won including borrowings from the Bank of Korea and other borrowings in Won.

Our derivative liabilities increased by 117.8% from ₩2,303 billion as of December 31, 2019 to ₩5,017 billion as of December 31, 2020, primarily due to an increase in derivative liabilities in foreign currency resulting from a decline in foreign currency exchange rates amid stronger valuation of the Won.

Total equity increased by 10.6% from ₩41,931 billion as of December 31, 2019 to ₩46,357 billion as of December 31, 2020, largely due to an increase in retained earnings and an increase in paid in capital resulting from common stock issued by the Group.

2019 Compared to 2018

Our total liabilities increased by 20.7% from ₩422,949 billion as of December 31, 2018 to ₩510,489 billion as of December 31, 2019, primarily due to an increase in deposits (which principally consist of customer deposits) and an increase in liabilities under insurance contracts and an increase in other liabilities and, to a lesser extent, an increase in debt securities issued.

Our deposits increased by 11.3% from ₩265,000 billion as of December 31, 2018 to ₩294,874 billion as of December 31, 2019, primarily due to an increase in time and savings deposits largely resulting from customers' preference for low-risk investments in light of the continuing uncertainty in financial markets.

Our liabilities under insurance contracts increased by 99.0% from ₩26,219 billion as of December 31, 2018 to ₩52,164 billion as of December 31, 2019 primarily as a result of our acquisition of Orange Life Insurance.

Our other liabilities increased by 51.7% from ₩25,200 billion as of December 31, 2018 to ₩38,238 billion as of December 31, 2019, primarily due to an increase in separate account liabilities resulting from our acquisition of Orange Life Insurance.

Our debt securities issued increased by 19.2% from ₩63,228 billion as of December 31, 2018 to ₩75,363 billion as of December 31, 2019, primarily due to an increase in debentures issued by Shinhan Bank and Shinhan Card.

Total equity increased by 14.4% from ₩36,652 billion as of December 31, 2018 to ₩41,931 billion as of December 31, 2019, largely due to an increase in retained earnings and non-controlling interests.

ITEM 5.B. Liquidity and Capital Resources

We are exposed to liquidity risk arising from the funding of our lending, trading and investment activities and in the management of trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see “Item 4.B. Business Overview — Risk Management — Market Risk Management — Market Risk Management for Non-trading Activities — Liquidity Risk Management.” In our opinion, the working capital is sufficient for our present requirements.

The following table sets forth our capital resources as of December 31, 2020.

	<u>As of December 31, 2020</u> (In billions of Won)
Deposits	₩326,417
Long-term debt	75,089
Call money	1,760
Borrowings from the Bank of Korea	5,351
Other short-term borrowings	24,360
Asset securitizations	11,066
Stockholders’ equity ⁽¹⁾	16,502
Total	<u>₩460,545</u>

Note:

(1) Includes capital stock, share premium, and hybrid bonds issued.

We obtain funding from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits obtained from our banking operations, and we from time to time issue equity and debt securities. In addition, our subsidiaries acquire funding through call money, borrowings from the Bank of Korea, other short-term borrowings, corporate debentures, other long-term debt and asset-backed securitizations.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail customer deposits. Customer deposits accounted 71.1% of our total funding as of December 31, 2018, 70.1% of our total funding as of December 31, 2019 and for 70.9% of our total funding as of December 31, 2020. Historically, except in limited circumstances, largely due to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of a low interest rate environment and volatile stock market conditions, a substantial portion of such customer deposits were rolled over upon maturity and accordingly provided a stable source of funding for our banking subsidiaries. However, in the face of attractive alternative investment opportunities such as during a bullish run of the stock market, customers may transfer a significant amount of bank deposits to alternative investment products in search of higher returns, which may result in temporary difficulties in finding sufficient funding on commercial terms favorable to us. 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. 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.

While our banking subsidiaries generally have not faced, and currently are not facing, liquidity difficulties in any material respect, if we or our banking subsidiaries are unable to obtain the funding we need on terms commercially acceptable to us for an extended period of time for reasons of Won devaluation or otherwise, we may not be able to ensure our financial viability, meet regulatory requirements, implement our strategies or compete effectively. See “Item 3.D. Risk Factors — Risks Related to Our Overall Business — 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.”

As of December 31, 2018, 2019 and 2020, ₩5,645 billion, ₩6,015 billion and ₩6,816 billion, or 2.2%, 2.1% and 2.1%, respectively, of Shinhan Bank's total deposits were deposits made by litigants in connection with legal proceedings in Korean courts. Court deposits carry interest rates which are generally lower than market rates.

In addition, we obtain funding through borrowings and the issuances of debt and equity securities, primarily through Shinhan Bank. Our borrowings consist mainly of borrowings from financial institutions, the Government and Government-affiliated funds. Call money, which is available in both Won and foreign currencies, is obtained from the domestic call loan market, a short-term loan market for loans with maturities of less than one month. As for our long-term debt, it is principally in the form of corporate debt securities issued by Shinhan Bank. Since 1999, Shinhan Bank has actively issued and continues to issue long-term debt securities with maturities of over one year in the Korean fixed-income market. Shinhan Bank and we have maintained one of the highest credit ratings in the domestic fixed-income market since their inception in 1999 and 2001, respectively. As Shinhan Bank maintains one of the highest debt ratings in the fixed-income market in Korea, we believe that Shinhan Bank will be able to obtain replacement funding through the issuance of long-term debt securities. Shinhan Bank's interest rates on long-term debt securities are in general 20 to 30 basis points higher than the interest rates offered on their deposits. However, since long-term debt is not subject to premiums paid for deposit insurance and the Bank of Korea reserves, we estimate that our funding costs on long-term debt securities are generally on par with our funding costs on deposits. In addition, our company, as well as Shinhan Bank may also issue long-term debt securities denominated in foreign currencies in overseas markets. Our company and Shinhan Bank each have a global medium term notes program under which foreign currency-denominated notes may be issued with an aggregate program limit of US\$5 billion and US\$6 billion, respectively. As of December 31, 2018, 2019 and 2020, our long-term debt amounted to ₩60,753 billion, ₩73,299 billion and ₩75,089 billion, respectively.

We also have funding requirements for our credit card activities. We obtain funding for our credit card activities from a variety of sources, primarily in Korea. The principal sources of funding for Shinhan Card are debentures, commercial papers (including call money), borrowings from the holding company and third-parties, which amounted to ₩20,215 billion, ₩1,810 billion, ₩1,935 billion and ₩339 billion, or 83.2%, 7.4%, 8.0%, and 1.4%, respectively, of the funding for our credit card activities, as of December 31, 2020. Unlike other credit card companies, Shinhan Card has the benefit of obtaining funding at favorable rates through loans from Shinhan Financial Group, which currently maintains the highest credit rating assigned by local rating agencies. Shinhan Card aims to further diversify its funding sources and more actively tap the domestic and international capital markets to ensure access to liquidity as needed.

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 generally.

There can be no assurance that we or our subsidiaries will maintain our current credit ratings if, among other reasons, the global or Korean economy were to face another downturn, there are any changes in our corporate governance or our businesses significantly deteriorate. Our failure to maintain current credit ratings and outlooks could increase the cost of our funding, limit our access to capital markets and other borrowings, and require us to post additional collateral in financial transactions, any of which could adversely affect our liquidity, net interest margins and profitability.

Secondary funding sources also include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to ₩25,639 billion and ₩29,002 billion and ₩31,471 billion, as of December 31, 2018, 2019 and 2020, respectively, each representing 6.9%, 6.9% and 6.8%, respectively, of our total funding as of such dates.

We may also from time to time obtain funding through issuance of equity securities. For example, On September 29, 2020, partly in response to the prolonged COVID-19 pandemic and to increase our loss absorption capacity, we issued 39,130,000 common shares to two private equity funds, thereby increasing our paid-in capital by ₩195.7 billion. As a result of such offering, which was substantially fully subscribed and resulted in a capital increase of approximately 7.5%, we raised approximately ₩1,158 billion (before underwriting commissions and other offering expenses).

In limited situations, we may also issue convertible and/or preferred shares. For example, in August 2003, in order to partly fund our acquisition of Chohung Bank, we raised a total of ₩2,552 billion through domestic private placements of redeemable preferred shares and redeemable convertible preferred shares to domestic financial institutions and governmental entities in Korea, all of which shares have since been redeemed or converted. In addition, in January 2007, partly to fund the acquisition of LG Card, we raised a total of ₩3,750 billion through domestic private placements of redeemable preferred shares and redeemable convertible preferred shares, all of which have been redeemed as of the date hereof. In April 2011, we issued redeemable preferred shares to fund redemption of such securities, and in April 2016, we redeemed the redeemable preferred shares issued in April 2011. In February 2019, we raised a total of ₩750 billion through domestic private placements of convertible preferred shares. For further details of our preferred shares, see “Item 10.B. Memorandum and Articles of Incorporation — Description of Preferred Stock.”

Pursuant to laws and regulations in Korea, we may redeem our preferred stock to the extent of our retained earnings of the previous fiscal year, net of certain reserves. At this time, we expect that cash from our future operations would be adequate to provide us with sufficient capital resources to enable us to redeem our preferred stock on or prior to their scheduled maturities. In the event there is a short-term shortage of liquidity to make the required cash payments for redemption as a result of, among other things, failure to receive dividend payments from our operating subsidiaries on time or as a result of significant expenditures resulting from future acquisitions, we plan to raise cash liquidity through the issuance of long-term debt in the Korean fixed-income market in advance of the scheduled maturity on our preferred stock. To the extent we need to obtain additional liquidity, we plan to do so through the issuance of long-term corporate debentures or further preferred stock and/or the use of our other secondary funding sources.

We generally may not acquire our own shares except in certain limited circumstances such as a capital reduction. However, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Companies Act, we may purchase our own shares on the KRX KOSPI Market of the Korea Exchange or through a tender offer, or retrieve our own shares from a trust company upon termination of a trust agreement subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and reserves for such fiscal year, subtracted by the sum of (a) the purchase price of treasury stock acquired if any treasury stock has been purchased after the end of the preceding fiscal year pursuant to the Commercial Act or the Financial Investment Services and Capital Markets Act, (b) the amount subject to a trust contract, and (c) the amount of dividends approved at the ordinary general shareholders’ meeting after the end of the preceding fiscal year and the amount of retained earnings reserve required under the Commercial Act; plus if any treasury stock has been disposed of after the end of the preceding fiscal year, the acquisition cost of such treasury stock, and (2) the purchase of such shares shall meet the requisite ratio under the Financial Holding Companies Act and regulations thereunder. In addition, pursuant to the Financial Investment Services and Capital Markets Act, in certain limited circumstances, dissenting holders of shares have the right to require us to purchase their shares.

Contractual Obligations, Commitments and Guarantees

In the ordinary course of our business, we have certain contractual cash obligations and commitments which extend for several years. As we are able to obtain liquidity and funding through various sources as described in “— Liquidity and Capital Resources” above, we do not believe that these contractual cash obligations and commitments will have a material effect on our liquidity or capital resources.

Contractual Cash Obligations

The following table sets forth our contractual cash obligations as of December 31, 2020.

	As of December 31, 2020						Total
	Payments Due by Period ⁽¹⁾						
	Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 Years	
	(In billions of Won)						
Deposits	₩187,300	₩28,358	₩36,579	₩59,864	₩14,894	₩ 2,355	₩329,350
Borrowings	14,670	3,784	2,920	5,463	10,692	4,393	41,922
Debt securities issued . . .	5,873	6,262	5,040	11,457	43,713	6,454	78,799
Lease liability	26	39	53	97	309	69	593
Total	<u>₩207,869</u>	<u>₩38,443</u>	<u>₩44,592</u>	<u>₩76,881</u>	<u>₩69,608</u>	<u>₩13,271</u>	<u>₩450,664</u>

Note:

- (1) Reflects all estimated contractual interest payments due on our interest-bearing deposits, borrowings, debt securities issued and lease liability, and the estimated contractual interest payments on borrowings and debt securities that are on a floating rate basis as of December 31, 2020 were computed as if the interest rate used on the last applicable date (for example, the interest payment date for such floating rate loans immediately preceding the determination date) were the interest rate applicable throughout the remainder of the term.

Commitments and Guarantees

In the normal course of business, our subsidiaries make various commitments and guarantees to meet the financing needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letter of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the counterparty draws down the commitment or we should fulfill our obligation under the guarantee and the counterparty fails to perform under the contract. See “Item 4.B. Business Overview — Description of Assets and Liabilities — Credit-Related Commitments and Guarantees.”

The following table sets forth our commitments and guarantees as of December 31, 2020. These commitments, apart from certain guarantees and acceptances, are not included within our consolidated statements of financial position.

	As of December 31, 2020			
	Commitment Expiration by Period			
	Less than 1 Year	1-5 Years	More than 5 Years	Total
	(In billions of Won)			
Commitments to extend credit ⁽¹⁾	₩ 97,920	₩1,237	₩ 355	₩ 99,512
Commercial letters of credit ⁽²⁾	2,652	48	—	2,700
Financial guarantees ⁽³⁾	1,851	965	65	2,881
Performance guarantees ⁽⁴⁾	5,376	2,244	5	7,625
Liquidity facilities to SPEs ⁽⁵⁾	1,176	559	268	2,003
Acceptances ⁽⁶⁾	473	—	—	473
Endorsed bills ⁽⁷⁾	7,326	—	—	7,326
Unused credit limits on credit cards	83,175	—	—	83,175
Other	1,888	339	2,330	4,557
Total	<u>₩201,837</u>	<u>₩5,392</u>	<u>₩3,023</u>	<u>₩210,252</u>

Notes:

- (1) Commitments to extend credit represent unfunded portions of authorizations to extend credit in the form of loans. The commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments. Commitments to extend credit, including credit lines, are in general subject to provisions that allow us to withdraw such commitments in the event there are material adverse changes affecting an obligor.
- (2) Commercial letters of credit are undertakings on behalf of customers authorizing third parties to draw drafts on us up to a stipulated amount under specific terms and conditions. These are generally short-term and collateralized by the underlying shipments of goods to which they relate.
- (3) Financial guarantees are contracts that require us to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.
- (4) Performance guarantees are issued to guarantee customers' tender bids on construction or similar projects or to guarantee completion of such projects in accordance with contractual terms. They are also issued to support a customer's obligation to supply products, commodities, maintenance or other services to third parties.
- (5) Liquidity facilities to SPEs represent irrevocable commitments to provide contingent credit lines including commercial paper purchase agreements to special purpose entities for which we serve as the administrator.
- (6) Acceptances represent guarantees by us to pay a bill of exchange drawn on a customer. We expect most acceptances to be presented, but reimbursement by the customer is normally immediate.
- (7) Endorsed bills represent notes transferred to third parties by us. We are obligated to fulfill the duty of payment if the person primarily liable does not honor the bill on the due date.

See also Note 43 of the notes to our consolidated financial statements included in this annual report.

Capital Adequacy

The following table sets forth a summary of our capital and capital adequacy ratios as of December 31, 2018, 2019 and 2020 based on Basel III.

	As of December 31,		
	2018	2019	2020
	(In millions of Won, except percentages)		
Tier I Capital:			
Tier I CE Capital	₩ 28,696,267	₩ 28,561,568	₩ 32,461,864
Paid-in capital	2,645,053	2,645,053	2,882,231
Capital reserve	9,494,769	9,494,769	10,692,543
Retained earnings	22,959,440	25,525,821	27,777,169
Non-controlling interests in consolidated subsidiaries	77,847	70,398	66,966
Others	(6,480,842)	(9,174,473)	(8,957,045)
Additional Tier I Capital	1,981,609	3,138,262	3,805,372
Total Tier I Capital	₩ 30,677,876	₩ 31,699,830	₩ 36,267,236
Tier II Capital:			
Allowances for credit losses	599,913	479,393	700,892
Subordinated debt	140,000	105,000	70,000
Others	2,575,272	3,430,347	2,670,949
Total Tier II capital	₩ 3,315,185	₩ 4,014,740	₩ 3,441,841
Total Capital	₩ 33,993,061	₩ 35,714,570	₩ 39,709,077
Risk-weighted assets			
Credit risk	₩201,623,530	₩226,670,310	₩220,626,623
Market risk	9,995,964	11,660,212	11,768,520
Operational risk	17,058,611	18,561,142	19,926,283
Total risk-weighted assets	₩228,678,105	₩256,891,664	₩252,321,426
Capital adequacy ratio	14.87%	13.90%	15.74%
Tier I capital adequacy ratio	13.42%	12.34%	14.37%
Common equity capital adequacy ratio	12.55%	11.12%	12.87%

ITEM 5.C. Research and Development, Patents and Licenses, etc.

Not applicable.

ITEM 5.D. Trend Information

These matters are discussed under Items 4.B., 5.A. and 5.B. above where relevant.

ITEM 5.E. Off-Balance Sheet Arrangements

We have several types of off-balance sheet arrangements, including guarantees for loans, debentures, trade financing arrangements, guarantees for other financings, credit lines, letters of credit and credit commitments. In the normal course of our banking activities, we make various commitments and guarantees to meet the financing needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letters of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account party draws down the commitment or we should fulfill our obligation under the guarantee and the account party fails to

perform under the contract. See “Item 4.B. Business Overview — Description of Assets and Liabilities — Credit-Related Commitments and Guarantees.”

Details of our off-balance sheet arrangements are provided in Note 43 of the notes to our consolidated financial statements included in this annual report.

ITEM 5.F. Tabular Disclosure of Contractual Obligations

See “Item 5.B. Liquidity and Capital Resources — Contractual Obligations, Commitments and Guarantees.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

ITEM 6.A. Directors and Senior Management

Executive Directors

Our executive director is as follows:

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>	<u>Director Since</u>	<u>Date Term Ends⁽¹⁾</u>
Cho Yong-byoung	Jun. 30, 1957	Chief Executive Officer	March 23, 2017	March 2023

Note:

- (1) The date on which the term will end will be the date of the general shareholders’ meeting in the relevant year.

Cho Yong-byoung is our Chief Executive Officer. Prior to being elected to his current position on March 23, 2017, Mr. Cho served as the president and chief executive officer of Shinhan Bank from 2015. Mr. Cho also served as the chief executive officer of Shinhan BNP Paribas Asset Management in 2013 and as the deputy president of Shinhan Bank in 2011. Mr. Cho received a bachelor’s degree in law from Korea University.

Non-Executive and Outside Directors

Non-executive directors are directors who are not our employees and do not hold executive officer positions with us. Outside directors are non-executive directors who also satisfy the requirements set forth under the Financial Investment Services and Capital Markets Act to be independent of our major shareholders, affiliates and management. Our non-executive directors are selected based on the candidates’ talents and skills in diverse areas, such as law, finance, economics, management and accounting. Currently, 13 non-executive directors are in office, all of whom were nominated by our board of directors and approved at a general meeting of shareholders.

Our non-executive and outside directors are as follows:

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>	<u>Director Since</u>	<u>Date Term Ends⁽¹⁾</u>
<i>Jin Ok-dong</i>	Feb. 21, 1961	Non-Executive Director	March 27, 2019	March 2023
<i>Park Ansoon</i>	Jan. 24, 1945	Outside Director	March 23, 2017	March 2022
<i>Bae Hoon</i>	Mar. 30, 1953	Outside Director	March 25, 2021	March 2023
<i>Byeon Yang-ho</i>	Jul. 30, 1954	Outside Director	March 27, 2019	March 2022
<i>Sung Jae-ho</i>	Mar. 18, 1960	Outside Director	March 27, 2019	March 2022
<i>Lee Yong Guk</i>	May 11, 1964	Outside Director	March 25, 2021	March 2023
<i>Lee Yoon-jae</i>	Nov. 3, 1950	Outside Director	March 27, 2019	March 2022
<i>Choi Kyong-rok</i>	May 26, 1966	Outside Director	March 22, 2018	March 2022
<i>Choi Jae Boong</i>	Feb. 18, 1965	Outside Director	March 25, 2021	March 2023
<i>Huh Yong-hak</i>	Sep. 10, 1958	Outside Director	March 27, 2019	March 2022
<i>Kwak Su Keun</i>	Aug. 16, 1953	Outside Director	March 25, 2021	March 2023
<i>Yoon Jaewon</i>	Aug. 29, 1970	Outside Director	March 26, 2020	March 2022
<i>Jin Hyun-duk</i>	Sep. 10, 1955	Outside Director	March 26, 2020	March 2022

Note:

(1) The date on which each term will end will be the date of the general shareholders' meeting in the relevant year.

Jin Ok-dong has been our non-executive director since March 27, 2019. Mr. Jin is currently the chief executive officer of Shinhan Bank and previously served as the deputy president of Shinhan Financial Group from 2017 to 2018, the deputy president of Shinhan Bank in 2017 and the chief executive officer of Shinhan Bank Japan from 2015 to 2016. Mr. Jin received a master's degree in business administration from Chung Ang University.

Park Ansoon has been our outside director since March 23, 2017. Mr. Park currently serves as the chairman of Taisei Group Co., Ltd. and the chairman of the Korean Residents Union in Japan. Mr. Park served as the chief executive officer from 1993 to 2012 and held various executive roles at Taisei Group Co., Ltd. from 1968 to 2018. Mr. Park received a bachelor's degree in philosophy from Waseda University.

Bae Hoon has been our outside director since March 25, 2021. Mr. Bae is a Korean lawyer and Certified Public Accountant in Japan and currently serves as a representative attorney at Orbis Legal Profession Corporation. Mr. Bae received a master's degree in business administration from Kobe University.

Byeon Yang-ho has been our outside director since March 27, 2019. Mr. Byeon is currently a company advisor at VIG Partners and also served as a non-executive director of Tong Yang Life Insurance. Mr. Byeon received a Ph.D. in economics from Northern Illinois University.

Sung Jae-ho has been our outside director since March 27, 2019. Mr. Sung is currently a professor at Sung Kyun Kwan University School of Law. Mr. Sung previously served as an outside director of NICE Holdings from 2018 to 2019 and Shinhan Card from 2015 to 2019, and chairman of Korea Council of International Law. Mr. Sung received a Ph.D. in law from Sung Kyun Kwan University.

Lee Yong Guk has been our outside director since March 25, 2021. Mr. Lee is a clinical professor at Seoul National University, School of Law. Mr. Lee was previously an attorney at Cleary Gottlieb Steen & Hamilton LLP for 27 years. Mr. Lee received a J.D. from Harvard University Law School.

Lee Yoon-jae has been our outside director since March 27, 2019. Mr. Lee served as an outside director for various Korean companies, such as LG, KT&G and S-Oil from 2006 to 2015. In addition, he held the chief executive officer position at KorEI from 2001 to 2010. Mr. Lee received a master's degree in business administration from Stanford Graduate School of Business.

Choi Kyong-rok has been our outside director since March 22, 2018. Mr. Choi currently serves as the chief executive officer of CYS Corporation. Mr. Choi served as an outside director of Shinhan Life Insurance from 2010 to 2015. Mr. Choi received a master's degree in computational science from Keio University.

Choi Jae Boong has been our outside director since March 25, 2021. Mr. Choi currently serves as a professor of mechanical engineering at Sung Kyun Kwan University, College of Engineering and director of Human-centered Convergence Design BK(Brain Korea)21+ Project, which is a human resource development program initiated by the Government. Mr. Choi received a Ph.D in mechanical engineering from University of Waterloo.

Huh Yong-hak has been our outside director since March 27, 2019. Mr. Huh currently serves as the chief executive officer of First Bridge Strategy Limited since 2015. Mr. Huh served as the chief investment officer of alternative investment of the Hong Kong Monetary Authority from 2008 to 2014. Mr. Huh received a master's degree in international affairs from Columbia University.

Kwak Su Keun has been our outside director since March 25, 2021. Mr. Kwak currently serves as a honorary professor of accounting at Seoul National University, Business School and chair of Corporate Governance Advisory Board at Korea Listed Companies Association. Mr. Kwak received a Ph.D in business administration from University of North Carolina Chapel Hill.

Yoon Jaewon has been our outside director since March 26, 2020. Ms. Yoon is currently a professor at Hongik University College of Business Administration and member of the committee on development tax system as well as the committee on national accounting policy of the Ministry of Economy and Finance. Ms. Yoon previously served as a non-executive judge at the Tax Tribunal from 2013 to 2019. Ms. Yoon received a Ph.D in accounting from Korea University.

Jin Hyun-duk has been our outside director since March 26, 2020. Mr. Jin currently serves as the chief executive officer of Phoedra Co., Ltd. since 1988 and councilor of the Korea Educational Foundation. Mr. Jin was previously a professor at Sakushin-gakuin University and Utsunomiya University. Mr. Jin received a master's degree in business administration from Keio Business School.

Any director wishing to enter into a transaction with Shinhan Financial Group or any of its subsidiaries in his or her personal capacity is required to obtain the prior approval of our board of directors. The director having an interest in the transaction may not vote at the meeting of our board of directors at which the relevant transaction is subject to vote for approval.

Executive Officers

In addition to the executive directors who are also our executive officers, we currently have the following executive officers.

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>	<u>In Charge of</u>
Yi Sunny	Mar. 25, 1962	Deputy President and Chief Digital Officer	Digital Planning Team
Heo Young Taeg	Aug. 13, 1961	Deputy President and Chief Management Officer	Business Management Team 1, 2, 3
Jang Dong-ki	Jan. 2, 1964	Deputy President	Global Markets & Securities Business Group
Lee Byeong-cheol	Jan. 22, 1963	Deputy President	Pension Business Group
Roh Yong-hoon	Mar. 16, 1964	Deputy President and Chief Financial Officer	Finance Management Team Accounting Team Investor Relations Team Internal Control on Financial Reporting Team

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>	<u>In Charge of</u>
An Hyo-ryul	May 26, 1965	Deputy President	Wealth Management Business Group
Wang Ho-min	Mar. 4, 1964	Deputy President and Chief Compliance Officer	Compliance Team
Lee Een-kyoon	Apr. 1, 1967	Deputy President and Chief Operation Officer	Shinhan Leadership Center Management Support Team ICT Planning Team
Park Sung-hyun	Nov. 8, 1965	Deputy President and Chief Strategy & Sustainability Officer	Strategic Planning Team ESG Planning Team
Ahn Jun Sik	May 1, 1965	Deputy President and Chief Public Relations Officer	Brand PR Division
Jung Keun Soo	Apr. 11, 1966	Deputy President	Global Investment Banking Business Group
Kim Soung Jo	Jan. 18, 1967	Deputy President	Group Audit
Kang Shin Tae	Apr. 5, 1965	Deputy President	Global Business Management Group
Bang Dong-kwon	Feb. 10, 1966	Executive Director and Chief Risk Officer	Risk Management Team Risk Model Validation Team Credit Review Team
Kim Hye Joo	May 31, 1970	Executive Director and Chief Bigdata Officer	Group Bigdata Strategy

None of the executive officers have any significant activities outside Shinhan Financial Group.

Yi Sunny has been our deputy president and chief digital officer since February 5, 2020. Mr. Yi previously served as the executive officer of Future Strategy Research Institute of Shinhan Financial Group. Before joining Shinhan Financial Group, he was a founder and CEO of Accion Consulting and Investment and served as the global director and managing partner of Bain & Company's Seoul office. Mr. Yi received a Ph.D. in business administration from Business School Lausanne and aSSIST.

Heo Young Taeg has been our deputy president and chief management officer since January 1, 2021. Mr. Heo previously served as the chief executive officer of Shinhan Capital and the head of global business at Shinhan Bank. Mr. Heo received a bachelor's degree in business administration from Korea University.

Jang Dong-ki has been our deputy president since January 1, 2018. Mr. Jang previously served as Chief Financial Officer of Shinhan Financial Group, the head of finance management team, managing director and the head of the capital market and trading division of Shinhan Bank. Mr. Jang received a bachelor's degree in economics from Seoul National University.

Lee Byeong-cheol has been our deputy president since January 1, 2019. Mr. Lee is currently the head of group pension business. Mr. Lee previously served as a managing director of Shinhan Bank. Mr. Lee received a bachelor's degree in law from Korea National Open University.

Roh Yong-hoon has been our deputy president and Chief Financial Officer since January 1, 2020. Mr. Roh previously served as the head of global business division of Shinhan Bank and the head of global strategy team of Shinhan Financial Group. Mr. Roh received a bachelor's degree in business administration from Yonsei University.

An Hyo-ryul has been our deputy president since June 1, 2020. Mr. An is currently the head of group wealth management business. Mr. An previously served as a managing director and the head of management planning

and consumer protection group of Shinhan Bank. Mr. An received a bachelor's degree in business administration from Korea University.

Wang Ho-min has been our deputy president and chief compliance officer since January 1, 2019. Mr. Wang previously served as the branch manager of Southern Jam-sil branch, Seoul Southern District Court branch and the head of corporate culture development team. Mr. Wang received a bachelor's degree in law from Hankuk University of Foreign Studies.

Lee Een-kyoon has been our deputy president and chief operation officer since January 1, 2019. Mr. Lee previously served as the head of management support team and the head of secretary's office of Shinhan Bank. Mr. Lee received a bachelor's degree in English literature from Hanyang University.

Park Sung-hyun has been our deputy president and chief strategy & sustainability officer since January 1, 2020. Mr. Park previously served as the head of strategic planning team of Shinhan Financial Group. Mr. Park received a master of laws from Northwestern University and bachelor's degree in economics from Seoul National University.

Ahn Jun Sik has been our deputy president and chief public relations officer since January 1, 2021. Mr. Ahn previously served as the head of Seocho Division at Shinhan Bank. Mr. Ahn received a bachelor's degree in economics from Pusan National University.

Jung Keun Soo has been our deputy president and the head of Group and Global Investment Banking group since January 1, 2021. Mr. Ahn previously served as the managing director of investment and finance division at Shinhan Bank. Mr. Jung received a bachelor's degree in Chinese language and literature from Korea University.

Kim Soung Jo has been our deputy president since January 1, 2021. Mr. Kim previously served as the head of audit team at Shinhan Financial Group. Mr. Kim received a bachelor's degree in economics from Seoul National University.

Kang Shin-tae has been our deputy president and the head of group global business since January 1, 2021. Mr. Kang previously served as the head of large corporate banking group at Shinhan Bank. Mr. Kang received a bachelor's degree in economics from Seoul National University.

Bang Dong-kwon has been our executive director and chief risk officer since January 1, 2020. Mr. Bang previously served as the head of risk management department of Shinhan Bank. Mr. Bang received a bachelor's degree in English language and literature from Sung Kyun Kwan University.

Kim Hyejoo has been our executive director and chief bigdata officer since January 1, 2021. Ms. Kim previously served as the head of AI and Bigdata at KT and the head of CRM at Samsung Electronics. Ms. Kim received a master's degree in business administration and bachelor's degree in economics from Seoul National University.

There are no family relationships among our directors and/or executive officers.

ITEM 6.B. Compensation

The aggregate remuneration and benefits-in-kind paid by us to our chairman, our executive directors, our non-executive directors and our executive officers for the year ended December 31, 2020 was ₩4.0 billion, consisting of ₩2.8 billion in salaries and wages and ₩1.1 billion in bonus payments.

We do not have service contracts with any of our directors or executive officers providing for benefits upon termination of their employment with us. We do not pay any severance payment to our chairman or directors

upon their retirement, but we pay fixed sums of severance payment to other members of senior management pursuant to internal guidelines on severance payments to members of senior management. In 2020, we accrued ₩0.1 billion for retirement bonus.

Prior to April 1, 2010, we granted stock options to our chairman, our president and chief executive officer and other directors and executive officers. Effective April 1, 2010, we ceased granting stock options. On March 18, 2015, the exercise period for all outstanding stock options expired, except for a limited number of stock options for which exercise of such stock options (and hence the expiration of the exercise period as well) were suspended by a resolution of the board of directors in December 2010. In May 2017 and September 2017, by a resolution of the board of directors, we lifted such suspension for a portion of the stock options. As of December 31, 2020, we have no stock options that remain unexercisable. We recorded ₩2.0 million of accrued expense for stock options in 2020.

During the period from March 20, 2007 to December 31, 2013, we granted “performance units” to certain high-ranking officers of select group companies. These performance units are performance-based cash compensation, the per-unit value of which is initially determined at the time of grant subject to adjustment after a fixed number of years based on the operating and financial performance of the relevant group company over the same or another fixed term, at the end of which a cash amount equal to the adjusted number of the performance units is paid out. For performance units granted prior to April 1, 2010, the performance review period was three years, and the payout was made at the end of the three-year term. For performance units granted on or after April 1, 2010 until December 31, 2013, the applicable performance review period is generally four years (and to a limited extent, five years), and the payment is made at the end of such four- or five-year term. We ceased granting performance units since January 1, 2014.

Since April 1, 2010, we have also granted “performance shares” to certain high-ranking officers of select group companies. The performance shares are conceptually similar to the performance units granted since April 1, 2010, in that the number of performance shares is based on the operating and financial performance of the relevant group company, except that the number of performance shares granted is adjusted on the basis of movements in the market price of our shares. The aggregate amount of performance shares granted to a given grantee is generally equal to the expected incentive compensation payable to such grantee for three years (in the case of performance shares granted prior to January 1, 2014) and one year (in the case of performance shares granted since January 1, 2014) of service starting from the grant date, which initial amount is computed based on the expected performance of the grantee’s company and the expected price movements of our shares over the applicable adjustment period, which is generally four years (and to a limited extent, five years). The performance shares are paid out in cash at the end of the applicable adjustment period (even if employment is terminated prior to such date), and the grantee is contractually and in accordance with our internal regulations required to use the payout solely to purchase our shares in the market at the then-prevailing market price (in the case of performance shares granted prior to January 1, 2014).

Neither performance units nor performance shares have been granted to outside directors. In 2020, we recognized no accrued expenses for performance units and ₩7.2 billion as accrued expenses for performance shares.

Under the Financial Supervisory Service’s standards for preparing corporate disclosure forms, which standards were amended in December 2016, we are required to disclose in our Korean annual report the individual annual compensation (including stock options) paid by us to our directors and statutory auditors if the individual annual compensation for such persons is ₩500 million or greater.

In 2020, Cho Yong-byoung, our Chief Executive Officer, received ₩1,251 million, consisting of ₩800 million in salaries and wages and ₩450 million of incentive compensation. The incentive compensation was granted in consideration of achievements during 2019, including the establishment of the One Shinhan collaboration system, the additions of Orange Life Insurance and Asia Trust to the Group’s business portfolio,

the expansion of global banking- and non-banking businesses in core Asian countries and the establishment of Shinhan AI, an artificial intelligence-based investment advisory company, strengthening the Group's digital competitiveness. These factors contributed in the Group recording during 2019 the highest net income since its inception. In addition, in 2020, Mr. Cho was granted 20,351 performance shares. The exercisability of these performance shares will be determined based on a review of our business performance and share price movements during four years, beginning with the fiscal year in which such shares were granted.

The Group determines long-term incentive compensation by conducting performance evaluations over a four-year period. Performance measures include quantitative measures, such as total shareholder return, profitability, risk-adjusted return, nonperforming loan ratios before sales and write-offs and efficiency ratios, as well as qualitative measures such as the achievement of pre-established strategic initiatives. The maximum number of performance shares that may be granted to directors of the board of the Group in respect of the fiscal year 2021 has been set at 30,000 shares per director.

ITEM 6.C. Board Practices

Board of Directors

Our board of directors, which currently consists of one executive director, one non-executive director and 12 outside directors, has the ultimate responsibility for the management of our affairs.

Our Articles of Incorporation provide for no less than three but no more than 15 directors, the number of outside directors must be more than 50% of the total number of directors, and we must maintain at least three outside directors. All directors are elected for a term not exceeding three years as determined by the shareholders' meeting, except that outside directors are elected for a term not exceeding two years, provided that the term of re-election shall not exceed one year and the term cannot be extended in excess of six years. The aggregate term served as an outside director of us or any of our subsidiaries shall not exceed nine years.

Terms are renewable and are subject to the Korean Commercial Code, the Financial Holding Companies Act, the Act on Corporate Governance of Financial Companies and related regulations. See "Item 6.A. Directors and Senior Management" above for information concerning the terms of office of our directors and executive officers.

Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of the chairman and chief executive officer or a director designated by the board.

Currently, there are no outstanding service contracts between any of our directors or executive officers and us or any of our subsidiaries providing for benefits upon termination of employment by such director or executive officer.

Committees of the Board of Directors

We currently have seven management committees that serve under the board:

- the Risk Management Committee;
- the Audit Committee;
- the Remuneration Committee;
- the Committee for Recommending Candidates for Independent Directors and Members of Audit Committee;
- the Committee for Recommending Candidates for CEO;

- the Environment, Social and Governance (ESG) Strategy Committee; and
- the Committee for Managing Subsidiary's Business.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of shareholders.

Risk Management Committee

The Risk Management Committee currently consists of four outside directors, namely Byeon Yang-ho (Chair), Huh-Yong-hak, Lee Yong Guk and Choi Jae Boong. The committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The committee holds regular meetings every quarter.

Audit Committee

The Audit Committee currently consists of four outside directors, namely Yoon Jaewon (Chair), Kwak Su Keun, Sung Jae-ho and Lee Yoon-jae. The committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors and our internal audit-related officers. The committee also reviews our financial information, audit examinations, key financial statement issues and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors for each general meeting of shareholders. The committee holds regular meetings every quarter.

Remuneration Committee

The Remuneration Committee currently consists of four outside directors, namely Lee Yong Guk (Chair), Byeon Yang-ho, Bae Hoon and Sung Jae-ho. At least one-half of the members of this committee must be outside directors and currently all members of Remuneration Committee are outside directors. This committee is responsible for reviewing and approving the management's evaluation and compensation programs. The committee meetings are called by the chairman of this committee, who must be an outside director.

Committee for Recommending Candidates for Independent Directors and Members of Audit Committee

The Committee for recommending candidates for independent directors and members of audit committee currently consists of five outside directors, namely Huh Yong-hak (Chair), Lee Yong Guk, Yoon Jaewon, Choi Jae Boong, and Choi Kyong-rok. Members of this committee will be appointed by our board of directors only to the extent necessary to recommend and nominate candidates for our outside director positions, audit committee members and related matters. However, when the procedure for final recommendation of outside director and audit committee member candidates commences, all outside directors are called to participate in the committee and in this case, all outside directors are deemed as enrolled. The committee meetings are called by the chairman of this committee, who must be an outside director. This committee is responsible and authorized for: (i) establishment, review and reinforcement of policies for outside director and audit committee member selection, (ii) recommendation of outside director and audit committee member candidates for approval at the general shareholders' meeting and (iii) continual recruitment and screening of potential outside director candidates.

Committee for Recommending Candidates for CEO

The Committee for recommending candidates for Chief Executive Officer (CEO) was established in March 2012 and currently consists of six directors, namely Sung Jae-ho (Chair), Jin Hyun-duk, Choi Kyong-rok, Lee Yoon-jae, Byeon Yang-ho and Huh Yong-hak. However, when the meeting for final selection of candidates for Chief Executive Officer, all outside directors are called to participate in the committee and in this case, all outside directors are deemed as enrolled. This committee is responsible for matters concerning the recommendation of candidates for the CEO including establishing and reviewing our management succession plan and its operation, setting and evaluating the qualifications and criteria for the CEO and CEO candidate pool and other matters necessary for improving our overall corporate governance structure. The chair of the committee must be an outside director, and the incumbent CEO may be restricted from participating and voting on matters related to the CEO selection.

Environmental, Social and Governance (ESG) Strategy Committee

The ESG Strategy Committee was established in March 2015 and currently consists of five directors, namely Kwak Su Keun (Chair), Lee Yoon-jae, Choi Jae-boong, Yoon Jaewon and Cho Yong-byoung. This committee is responsible for setting the corporate policy for sustainable management, corporate disclosure of sustainability report and discussing specific business agenda in relation to socially responsible management and other matters such as corporate strategy toward climate change.

Committee for Managing Subsidiary's Business

The Committee for managing subsidiary's business was established in March 2021 and currently consists of five directors, namely Cho Yong-byoung (Chair), Kwak Su Keun, Byeon Yang-ho, Sung Jae-ho and Park Ansoon. This committee is responsible for matters concerning the evaluation of subsidiary management leadership, establishment of subsidiary CEO qualifications, verification and recommendation of subsidiary CEO candidates and other matters deemed necessary by the committee.

ITEM 6.D. Employees

At the holding company level, we had 156, 157 and 152 regular employees as of December 31, 2018, 2019 and 2020, respectively, almost all of whom are employed within Korea. Our subsidiaries had 20,971, 19,850 and 21,500 regular employees as of December 31, 2018, 2019 and 2020, respectively, almost all of whom are employed within Korea. In addition, we had seven, seven and three non-regular employees at the holding company level as of December 31, 2018, 2019 and 2020, respectively, and 1,490, 2,190 and 1,436 non-regular employees at the subsidiary level as of December 31, 2018, 2019 and 2020, respectively. Of the total number of regular and non-regular employees at both the holding company and subsidiaries, approximately 0.53% were managerial or executive employees.

9,749 employees of Shinhan Bank and 314 employees of Jeju Bank were members of the Korean Financial Industry Union as of December 31, 2020. 2,141 employees of Shinhan Card were members of the Korean Federation of Clerical and Financial Labor Union as of December 31, 2020. 1,505 employees of Shinhan Investment, 1,207 employees of Shinhan Life Insurance and 478 employees of Orange Life Insurance were members of the Korea Finance & Service Workers' Union as of December 31, 2020.

Under Korean law, we may not terminate full time employees except under limited circumstances.

Since our acquisition of Chohung Bank in 2003, we have not experienced any general employee work stoppages and consider our employee relations to be good.

Under the Korean National Pension Law, we annually contribute an amount equal to 4.5% of employee wages, and each employee contributes 4.5% of his or her wages, to the National Pension Management

Corporation. In addition, pursuant to the Employee Retirement Security Act, we operate a retirement pension system under which we make annual contributions to pension funds managed by financial institutions (which replaced our former retirement pension system under which we managed the pension fund in-house) that provide employees both regular pension payments and a lump sum payment upon termination of employment. We believe that our retirement pension system confers the following benefits: (1) insulation of employees from the risk of default on their pension payments as the pension funds are deposited with large financial institutions; (2) offer of varied forms of payment, i.e., regular pension payments and a lump sum payment, upon termination of employment; (3) offer to employees the option to make investment decisions for his or her individual pension account and (4) elimination of the ability of employees to cash in his or her retirement fund prematurely, thereby guaranteeing such employee a lump sum payment upon termination of employment. Under this retirement pension system, we and our subsidiaries can opt for either a defined benefit plan or a defined contribution plan, or a combination of both. Under the defined benefit plan, the amount of pension payable upon an employee's retirement is fixed in advance, and the employer is responsible for making the requisite payments to the pension fund and making investment decisions in relation to the fund assets. Under the defined contribution plan, the employee sets aside a fixed percentage or amount of his salaries to the pension fund and exercises investment decisions for his or her individual pension account. As of December 31, 2018, 2019 and 2020, we recognized liabilities for defined benefit obligations of ₩127 billion, ₩119 billion and ₩44 billion, respectively. See Note 25 of the notes to our consolidated financial statements included in this annual report.

ITEM 6.E. Share Ownership

As of April 1, 2021, the persons who are currently our directors or executive officers, as a group, beneficially held an aggregate of 1,383,133 shares of our common stock, representing approximately 0.27% of our outstanding common stock as of such date. None of these persons individually held more than 1% of our outstanding common stock as of such date.

Members of the employee stock ownership association have certain pre-emptive rights in relation to our shares that are publicly offered under the Financial Investment Services and Capital Markets Act. As of December 31, 2020, the employee stock ownership association owned 24,788,139 shares of our common stock.

Prior to April 1, 2010, we granted stock options to our chairman, our president and chief executive officer and other directors and executive officers. Effective April 1, 2010, we ceased granting stock options. On March 18, 2015, the exercise period for all outstanding stock options expired, except for a limited number of stock options for which exercise of such stock options (and hence the expiration of the exercise period as well) were suspended by a resolution of the board of directors in December 2010. In May 2017 and September 2017, by a resolution of the board of directors, we lifted such suspension for a portion of the stock options. As of December 31, 2020, there were no unexercisable stock options.

On February 1, 2019, we acquired a 59.15% interest in Orange Life Insurance. 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. As part of the comprehensive stock exchange, we transferred 980,780 shares of our common stock to Orange Life Insurance in exchange for 1,485,697 treasury shares of Orange Life Insurance held by Orange Life Insurance in accordance with the exchange ratio for the comprehensive stock exchange. Pursuant to paragraph (2) of Article 342-2 of the Korean Commercial Code, Orange Life Insurance must dispose of these shares of our common stock within six months from the acquisition date. In addition, we also transferred 5,514,807 shares of our common stock to Orange Life Insurance in exchange for 8,353,891 shares of Orange Life Insurance which were purchased by Orange Life Insurance as a result of the exercise of appraisal rights by dissenting shareholders of Orange Life Insurance. Pursuant to paragraph (1) of Article 62-2 of the Financial Holding Company Act, Orange Life Insurance must dispose of these shares of our common stock within three years from the acquisition date. The acquisition date of these shares of common stock is December 30, 2020. Such disposals may have an effect on the price of our common

shares and our American depositary shares. Orange Life Insurance disposed all of such shares as of January 28, 2021.

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. As part of the small-scale stock exchange, we transferred 7,153 shares of our common stock to Neoplux in exchange for 80,090 treasury shares of Neoplux held by Neoplux in accordance with the exchange ratio for the small-scale stock exchange. Pursuant to paragraph (2) of Article 342-2 of the Korean Commercial Code, Neoplux must dispose of these shares of our common stock within six months from the acquisition date. In addition, we also transferred 1,755 shares of our common stock to Neoplux in exchange for 19,653 shares of Neoplux which were purchased by Neoplux as a result of the exercise of appraisal rights by dissenting shareholders of Neoplux. Pursuant to paragraph (1) of Article 62-2 of the Financial Holding Company Act, Neoplux must dispose of these shares of our common stock within three years from the acquisition date. The acquisition date of these shares of common stock is December 30, 2020. Such disposals may have an effect on the price of our common shares and our American depositary shares.

On September 29, 2020, partly in response to the prolonged COVID-19 pandemic and to increase our loss absorption capacity, we issued 39,130,000 common shares to two private equity funds, thereby increasing our paid-in capital by ₩195.7 billion.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

ITEM 7.A. Major Shareholders

The following table sets forth certain information relating to the beneficial ownership of our common shares as of December 31, 2020.

<u>Name of Shareholder</u>	<u>Number of Common Shares Beneficially Owned</u>	<u>Beneficial Ownership (%)</u>
National Pension Service	50,666,140	9.81%
BlackRock Fund Advisors ⁽¹⁾	29,028,502	5.62
Shinhan Financial Group Employee Stock Ownership Association	24,788,139	4.80
Centennial Investment Limited	20,440,000	3.96
BNP Paribas SA	18,690,310	3.62
Supreme, L.P.	18,690,000	3.62
Citibank, N.A. (ADR Department)	14,885,417	2.88
The Government of Singapore	9,747,771	1.89
Vanguard Total International Stock Index	6,389,977	1.24
People's Bank of China	5,729,646	1.11
Others	<u>317,543,652</u>	<u>61.47%</u>
Total	<u>516,599,554</u>	<u>100.00%</u>

Notes:

(1) Based on Form SC 13G filed by BlackRock, Inc. on February 1, 2021.

As of December 31, 2020, the number of treasury shares held by us is 6,350 common shares, which do not have voting rights. Other than those listed above, no other person or entity known by us, jointly or severally, directly or indirectly own more than 1% of our issued and outstanding voting securities or otherwise exercise control or could exercise control over us. None of our shareholders have different voting rights.

As of the date hereof, our total authorized share capital is 1,000,000,000 shares, par value ₩5,000 per share.

As of December 31, 2020, the latest date on which we closed our shareholders' registry, 605 shareholders of record were notated as U.S. persons, holding in the aggregate 19.3% of our then total outstanding shares (including Citibank, N.A., as the depository for our American depository shares, each representing one share of our common stock effective October 15, 2012, prior to which each American depository share represented two common shares).

ITEM 7.B. Related Party Transactions

Since the beginning of the preceding three financial years, none of our directors or officers has or had any transactions with us that are or were unusual in their nature or conditions or significant to our business, other than as set forth below and also described in Note 45 of the notes to our consolidated financial statements included in this annual report.

In December 2001, BNP Paribas acquired 4.00% of our common stock in return for an investment of approximately ₩155 billion in cash pursuant to an alliance agreement. Under the terms of the alliance agreement, for so long as BNP Paribas does not sell or otherwise transfer (except to any of its wholly-owned subsidiaries) any portion of its ownership interest in our common stock and maintains, after any issuances of new shares by us from time to time, its shareholding percentage of not less than 3.5% of our issued common stock, we are required to call a meeting of our shareholders to recommend that one nominee of BNP Paribas be elected to our board of directors. In addition, under the alliance agreement, BNP Paribas has the right to subscribe for new issuances of our common shares in the event that such new issuances would result in the dilution of the shareholding percentage of BNP Paribas below 3.5%. As of December 31, 2020, BNP Paribas held 18,690,310 shares, or 3.62% of our total common stock.

As of December 31, 2018, 2019 and 2020, we had principal loans outstanding to our directors, executive officers and their affiliates in the principal amount of ₩3.3 billion, ₩4.4 billion and ₩5.1 billion, which were made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features.

ITEM 7.C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

ITEM 8.A. Consolidated Statements and Other Financial Information

See "Item 18. Financial Statements" and our consolidated financial statements included in this annual report.

Legal Proceedings

We and our subsidiaries are involved in various legal actions and regulatory proceedings arising from the normal course of business. As of December 31, 2020, we and our subsidiaries were defendants in pending lawsuits (including any government proceedings) in the aggregate claim amount of ₩320 billion, for which we recorded a provision of ₩12 billion and ₩3 billion, respectively, as other provisions and insurance contract liabilities (reserve for claims) for litigations, etc.

In January 2017, the Financial Supervisory Service notified Shinhan Investment of an institutional warning and imposed an administrative fine of ₩852 million for alleged prohibited trading of entrusted properties. In

October 2018, the Financial Supervisory Service requested Shinhan Bank to submit supporting documents in connection with allegations of inadequate compliance controls. In November 2018, the Financial Supervisory Service notified Shinhan Bank of an institutional caution for alleged deficiencies in its customer due diligence and imposed an administrative fine of ₩100 million citing negligence in carrying out its customer verification obligations. In August 2019, the Financial Supervisory Service imposed an administrative fine of ₩1.9 billion on Orange Life Insurance citing failure to report changes in its form agreements. In December 2019, the Financial Supervisory Service notified Shinhan Bank of an institutional caution and imposed an administrative fine of ₩3 billion for alleged prohibited activities, including promotional activities for specified money trusts, investment solicitation for derivatives and management of trust properties. In January 2020, the Financial Supervisory Service notified Shinhan Life Insurance of an institutional caution and imposed an administrative fine of ₩266 million for allegedly omitting certain information regarding the level of expenses deducted from premiums paid when selling savings insurance products over the telephone. In February 2021, the Financial Supervisory Service notified Shinhan Bank of an institutional warning and imposed an administrative fine of ₩2.1 billion for alleged violation of internal regulations and procedures by failing to comply with required reporting processes in connection with Shinhan Bank's designation as the primary bank for Seoul Metropolitan Government in 2018.

It has been reported in the press that certain employees of Shinhan Bank have been indicted by the Prosecutors' Office for allegedly illegally influencing the hiring process of new employees and manipulating hiring standards for certain candidates. As of the date hereof, six current and former employees of Shinhan Bank, each of whom had occupied positions within Shinhan Bank's recruiting department between 2013 and 2016, have been indicted for alleged illegal hiring activities while they occupied such positions at Shinhan Bank. In addition to these employees, on September 17, 2018, the Prosecutors' Office also indicted our current Chief Executive Officer, who previously served as Shinhan Bank's president, chief executive officer and executive director from March 2015 through March 2017, for alleged illegal hiring activities while he occupied such position at Shinhan Bank. On January 22, 2020, the Seoul Eastern District Court found him partially guilty on charges of influence-peddling and issued a six-month prison term, suspended for two years, which has been appealed to a higher court. The appeal is ongoing as of the date of this annual report. We believe that we have robust and fair internal procedures for hiring new employees. As part of Shinhan Bank's efforts to enhance fairness and transparency of its hiring practices, Shinhan Bank has adopted the model hiring procedures promulgated by the Korea Federation of Banks, and beginning in 2018 has established a hiring committee consisting of third-party human resources experts and internal compliance officers.

In August 2019, the Financial Supervisory Service launched an investigation into Lime Asset, Korea's largest hedge fund managing approximately ₩4.1 trillion in assets as of December 31, 2020, including with regards to allegations that Lime Asset had concealed the fact that it had changed the multi-manager trade finance fund's investment method and concealed losses in their trade finance funds. Beginning in October 2019, Lime Asset suspended withdrawals from certain of its funds, freezing approximately ₩1.7 trillion in total as of the end of 2019, according to the Financial Supervisory Service. According to Financial Supervisory Service investigations, Lime Asset's ₩211 billion trade finance fund was found to have been associated with a debacle involving the IIG, a New York-based investment adviser charged with securities fraud and running a Ponzi scheme. On November 26, 2019, the SEC revoked the registration of IIG for allegedly overvaluing defaulted loans in the fund's portfolio to conceal losses in its flagship hedge fund and selling at least \$60 million in fake loan assets to clients. According to the Financial Supervisory Service, Lime Asset signed a contract with a Singaporean commodity trader, which took over Lime Asset's ownership stake in an IIG fund in June 2019, with the Singaporean entity issuing promissory notes to Lime Asset, and Lime Asset did not properly disclose to its investors such change in the fund's investment target from the IIG fund to promissory notes.

Certain investors in funds of Lime Asset have filed dispute mediation claims to the Financial Supervisory Service and criminal and civil claims against Lime Asset, as well as against financial institutions that have sold such products, claiming they learned of the change in the trade finance fund's investment method and losses only in October 2019 and that they were also misguided and not fully informed of the risks associated with these funds

when investing in such products. The Financial Supervisory Service conducted a comprehensive audit in November and December 2019. In February 2020, the Prosecutors' Office of Korea announced that they had launched an investigation into Lime Asset as well as Shinhan Investment and also searched Shinhan Bank's headquarters on July 1, 2020 in connection with this matter. The Financial Supervisory Service is continuing investigations into Lime Asset as well as financial institutions that have sold Lime Asset products, including Shinhan Bank and Shinhan Investment, and is expected to impose regulatory sanctions on institutions and employees for improper solicitation and inadequate internal controls. In November 2020, the Financial Supervisory Service imposed a partial business suspension on Shinhan Investment and suspension from duties and a cautionary warning to its two former CEOs. On April 22, 2021, the sanctions committee of the Financial Supervisory Service recommended a partial business suspension and fine of ₩8.7 billion on Shinhan Bank, a cautionary warning to the CEO of Shinhan Bank, an institutional caution and fine of ₩50 million on Shinhan Financial Group and a caution to the CEO of Shinhan Financial Group in connection with Shinhan Bank's alleged improper solicitation of troubled Lime Asset funds and management's oversight in risk management. The partial business suspension on Shinhan bank and the fines on Shinhan Bank and Shinhan Financial Group recommended by the sanctions committee will be deliberated at the Securities and Futures Commission of the Financial Services Commission and will be confirmed if approved at a regular meeting of the Financial Services Commission.

On September 25, 2020, the Seoul Southern District Court found a former employee of Shinhan Investment partially guilty on charges of conspiring to conceal from investors Lime Asset's losses and change in investment target and imposed a sentence of eight years imprisonment and ₩300 million fine. In May 2020, Shinhan Investment announced that its board of directors has resolved to compensate certain investors for amounts ranging between 30% to 70% (in the case of retail investors) and 20% to 50% (in the case of institutional investors) of the amount of such investor's investment in Lime Asset products. In June 2020, Shinhan Bank announced that its board of directors has resolved to make prepayments to investors in certain Lime Asset funds that have reached maturity in an amount equal to 50% of such investor's investment in the relevant product. On June 30, 2020, the Financial Supervisory Service's dispute settlement committee recommended through a non-binding ruling for brokerages to return 100% of the amount of investors' investment in certain of Lime Asset products sold after November 2018 in the aggregate of approximately ₩161 billion. In October 2020, the board of directors of Shinhan Investment resolved to accept the non-binding ruling for certain Lime Asset's trade finance funds sold around November 2018. With these resolutions by the board of directors of Shinhan Investment, the total amount of compensation to investors of Lime Asset funds that Shinhan Investment has agreed to pay has reached ₩76.9 billion. On April 19, 2021, the Financial Supervisory Service's dispute settlement committee recommended through a non-binding ruling for Shinhan Bank to compensate investors of certain Lime Asset products (Lime Credit Insured Funds) it had sold by applying a 55% base compensation ratio, with adjustments depending on particular facts, such as the nature of the investor (e.g., whether retail or institutional investor, the age and experience level of the investor, etc.) and adequacy of documentation, which would result in compensation of such investors for amounts ranging from between 40% to 80% of the loss they have suffered on such products. On April 21, 2021, the board of directors of Shinhan Bank resolved to accept the non-binding ruling for such Lime Asset products sold by Shinhan Bank. As a result, Shinhan Bank recognized an additional ₩53.2 billion in non-operating expenses.

From May 2017 to December 2018, Shinhan Investment sold approximately ₩390.7 billion of certain German Heritage DLS Products. As of December 31, 2020, the principal amount of German Heritage DLS Products that have become eligible for payment but for which payment has been delayed is ₩379.9 billion. The German Heritage DLS Products are derivative-linked trust products where performance is based on underlying Singapore funds that invest in Germany's old downtown development projects. Since July 2019, maturity payments have been delayed on the German Heritage DLS Products as recovery on the underlying funds has been delayed. In March 2020, Shinhan Investment announced that its board of directors has resolved to make prepayments to investors who have consented to the extension of maturity in an amount equal to 50% of the amount of such investor's investments in the German Heritage DLS Products. During the fiscal year 2020, we recognized ₩138.2 billion in non-operating expenses as provisions for potential future compensation in

connection with the sale of German Heritage DLS Products. However, we may suffer additional losses or record additional provisions during 2021 or beyond in connection with the sale of German Heritage DLS Products, and there is no guarantee that such amounts, if any, will not be significant.

The prepayments to be made by Shinhan Bank and Shinhan Investment to investors of Lime Asset funds and German Heritage DLS Products, respectively, as explained above, will be settled at the time of recovery of the underlying funds. If the amount recovered on the underlying fund is less than the amount prepaid to investors, Shinhan Bank and Shinhan Investment may not be able to recover from investors the amount of the prepaid amount that is in excess of the recovered amount and accordingly suffer losses. Depending on the performance of such underlying funds, we may record provisions for credit loss allowance to account for expected future losses.

In response to increased incidents involving alleged improper sales of financial products such as those involving Lime Asset products and German Heritage DLS Products, we have taken additional measures to improve our internal control systems and prevent similar incidents. Shinhan Bank and Shinhan Investment have each updated their internal controls and performance evaluation systems and have made improvements to various stages of the sales cycle for financial products. For example, Shinhan Bank and Shinhan Investment have both upgraded their product review departments (which were initially under the investment products and services divisions) to independent divisions, thereby facilitating independent review and thorough assessment of the merits of financial products prior to such products being sold through sales channels. In addition, we have modified the composition of key performance indicators used as a basis for personnel evaluations and promotions to move away from simply increasing the volume of sales, thereby further incentivizing employees to adhere to prudent sales practices and avoid speculative or high risk sales. Both Shinhan Bank and Shinhan Investment have currently halted the sales and addition of financial products categorized as high risk products and plan to re-commence sales only after improved and updated risk management systems and internal controls are put in place.

As of the date hereof, our management believes that these proceedings will not have a material adverse effect on our financial condition, equity or results of operations. However, although we plan to rigorously defend our positions in the lawsuits or other regulatory proceedings against us, it is difficult to predict the final outcome of these proceedings and the potential impact these proceedings and related events may have on our financial condition, equity or results of operations. The total amount in dispute may increase during the course of litigation, and other lawsuits may be brought against us based on similar allegations. Accordingly, we cannot assure you that these proceedings and related events will not have an adverse effect on our business, financial condition and results of operations. For further details of these and other litigations, see Note 43 of the notes to our consolidated financial statements.

Dividend Policy

For a detailed description on the dividend policy, please see “Item 10.B. Memorandum and Articles of Incorporation — Description of Share Capital — Dividends.”

ITEM 8.B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

ITEM 9.A. Offer and Listing Details

Market Prices of Common Stock and American Depositary Shares

The principal trading market for our common shares is the KRX KOSPI Market Division of the Korea Exchange, where our common shares were listed on September 10, 2001. Our American depositary shares have been listed on the New York Stock Exchange since September 16, 2003 and are identified by the symbol “SHG.”

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Exchange for our common stock since 2014, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our American depositary shares since 2014.

	Korea Exchange			New York Stock Exchange		
	Closing Price per Common Stock		Average Daily Trading Volume	Closing Price per ADS		Average Daily Trading Volume
	High	Low	(Shares)	High	Low	(ADSs)
2016	47,700	36,100	839,260	40.88	29.66	84,952
2017	55,400	44,800	998,487	48.76	36.81	85,658
2018	53,400	39,050	1,024,181	50.35	34.78	101,168
2019	48,000	38,350	987,989	40.54	32.23	85,258
First Quarter	44,250	38,350	1,095,137	39.21	34.41	102,985
Second Quarter	48,000	43,700	940,505	40.54	37.09	76,157
Third Quarter	46,300	39,650	1,000,596	39.17	32.23	90,708
Fourth Quarter	45,800	40,900	922,144	39.62	34.19	71,657
2020	42,750	22,200	2,366,124	37.45	17.37	144,214
First Quarter	42,750	22,200	1,941,682	37.45	17.37	161,626
Second Quarter	35,750	26,550	2,448,915	29.49	21.63	163,218
Third Quarter	33,800	27,200	1,954,918	28.86	22.97	147,969
Fourth Quarter	34,650	27,200	2,854,741	31.96	23.20	104,264
October	31,500	27,950	3,146,680	27.57	23.20	116,732
November	34,650	31,150	3,415,701	31.24	27.72	79,155
December	34,600	32,000	2,876,154	31.96	29.53	115,114
2021 (through April 20)	37,700	30,650	2,679,874	33.78	27.67	127,389
January	34,200	30,650	3,759,342	31.43	27.67	122,374
February	34,100	31,350	2,379,508	30.18	28.06	97,553
March	37,450	33,250	2,784,524	33.54	29.57	153,330
April (through April 20)	37,700	36,350	1,359,510	33.78	32.94	132,431

Source: Korea Exchange; New York Stock Exchange.

ITEM 9.B. Plan of Distribution

Not applicable.

ITEM 9.C. Markets

The Korea Exchange

Pursuant to the Korea Stock and Futures Exchange Act, as of January 27, 2005, the Korea Stock Exchange, which began its operations in 1956, the KRX KOSDAQ, which began its operation on July 1, 1996, and the

Korea Futures Exchange (as an exchange operating futures market and options market), which began its operation on February 1, 1999, were unified to form the Korea Exchange.

The Korea Exchange was established in a form of a limited liability stock company in accordance with the Korean Commercial Code with the minimum paid-in capital of ₩100 billion in accordance with the Financial Investment Services and Capital Markets Act. Historically, the Korea Exchange was the only exchange authorized under the Financial Investment Services and Capital Markets Act. On May 28, 2013, however, the Financial Investment Services and Capital Markets Act was amended to implement a license system under which a license may be granted to an exchange upon satisfaction of certain requirements. In addition, the Financial Services Commission has authorized the establishment of alternative trading systems that engage in the trading of listed beneficial certificates, among other things, for a multiple number of parties through electronic means. Notwithstanding the foregoing regulatory developments, the Korea Exchange is presently the only duly licensed exchange in Korea and there have been no definitive developments regarding newly licensed exchanges or alternative trading systems in Korea. The Korea Exchange operates and supervises four market divisions, the KRX KOSPI Market Division, the KRX KOSDAQ Market Division, the KRX Futures Market Division and the KRX KONEX Market Division. It has its principal office in Busan.

As of December 31, 2020, the aggregate market value of equity securities listed on the KOSPI was approximately ₩1,980.5 trillion. The average daily trading volume of equity securities for 2020 was approximately 895.3 million shares with an average transaction value of ₩12,200.4 billion.

Even though the Financial Investment Services and Capital Markets Act prescribed that the Korea Exchange be established in a form of a limited liability stock company, the Korea Exchange is expected to play a public role as a public organization. In order to safeguard against a possible conflict, the Financial Investment Services and Capital Markets Act has placed restrictions on the ownership and operation of the Korea Exchange and any newly established exchanges approved by the Financial Services Commission as follows:

- Any person's ownership of shares in the Korea Exchange is limited to 5% or less except for an investment trust company or investment company established under the Financial Investment Services and Capital Markets Act, or the Government. However, more than 5% ownership in Korea Exchange is permitted if necessary for forming a strategic alliance with a foreign stock or futures exchange and such amount of ownership is approved by the Financial Services Commission on grounds that such ownership may contribute to the efficiency and soundness of capital markets and the distribution of shares held by shareholders;
- The number of outside directors on the board of directors of the Korea Exchange shall be more than half of the total number of directors;
- Any amendment to the Articles of Incorporation, transfer or consolidation of business, spin off, stock swap in its entirety or transfer of shares in its entirety of the Korea Exchange will receive prior approval from the Financial Services Commission; and
- In the event the Financial Services Commission determines that the chief executive officer of the Korea Exchange is not appropriate for the position, the Financial Services Commission can request the Korea Exchange upon reasonable cause, within one month from the chief executive officer's election, to dismiss the chief executive officer. Subsequently, the chief executive officer will be suspended from performing his duties and the Korea Exchange will elect a new chief executive officer within two months from the request.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector of the Korean economy and its actions may depress or boost the stock market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index (“KOSPI”) every ten seconds, which is an index of all equity securities listed on the Korea Exchange. Historical movements in KOSPI are set out in the following.

	<u>Opening⁽¹⁾</u>	<u>High</u>	<u>Low</u>	<u>Closing</u>
2001	503.31	715.93	463.54	693.70
2002	698.00	943.54	576.49	627.55
2003	633.03	824.26	512.30	810.71
2004	821.26	939.52	713.99	895.92
2005	893.71	1,383.14	866.17	1,379.37
2006	1,389.27	1,464.70	1,192.09	1,434.46
2007	1,435.26	2,085.45	1,345.08	1,897.13
2008	1,853.45	1,901.13	892.16	1,124.47
2009	1,157.40	1,723.17	992.69	1,682.77
2010	1,696.14	2,051.00	1,552.79	2,051.00
2011	2,070.08	2,228.96	1,652.71	1,825.74
2012	1,826.37	2,049.28	1,769.31	1,997.05
2013	2,031.10	2,059.58	1,780.63	2,011.34
2014	1,967.19	2,082.61	1,886.85	1,915.59
2015	1,926.44	2,173.41	1,829.81	1,961.31
2016	1,918.76	2,068.72	1,835.28	2,026.46
2017	2,026.16	2,557.97	2,026.16	2,467.49
2018	2,479.65	2,598.19	1,996.05	2,041.04
2019	2,010.00	2,248.63	1,909.71	2,197.67
2020	2,175.17	2,873.47	1,457.64	2,873.47
2021 (through April 21)	2,944.45	3,171.66	2,944.45	3,220.70

Source: Korea Exchange

Note:

(1) The figures represent the daily closing price of the first trading day of the respective year.

Shares are quoted “ex-dividend” on the first trading day of the relevant company’s accounting period. “Ex-dividend” refers to a share no longer carrying the right to receive the following dividend payment because the settlement date occurs after the record date for determining which shareholders are entitled to receive dividends. “Ex-rights” refers to shares no longer carrying the right to participate in the following rights offering or bonus issuance because the settlement date occurs after the record date for determining which shareholders are entitled to new shares. The calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted “ex-dividend” and “ex-rights,” permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 30% of the previous day’s closing price of the shares, rounded down as set out below:

<u>Previous Day’s Closing Price</u>	<u>Rounded Down to Won</u>
Less than 1,000	1
1,000 to less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies with brokerage licenses.

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table.

<u>Year</u>	<u>Number of Listed Companies</u>	<u>Total Market Capitalization</u>		<u>Average Daily Trading Volume, Value</u>		
		<u>(Millions of Won)</u>	<u>(Thousands of Dollars)⁽¹⁾</u>	<u>Thousands of Shares</u>	<u>(Millions of Won)</u>	<u>(Thousands of Dollars)⁽¹⁾</u>
2000	704	₩ 188,041,490	\$ 148,414,751	306,163	₩ 2,602,211	\$ 2,053,837
2001	689	258,850,070	194,784,979	473,241	1,997,420	1,520,685
2002	683	258,680,756	218,056,778	857,245	3,041,598	2,563,937
2003	684	355,362,626	298,123,008	542,010	2,216,636	1,859,594
2004	683	412,588,139	398,597,371	372,895	2,232,109	2,156,419
2005	702	655,074,595	648,588,708	467,629	3,157,662	3,126,398
2006	731	704,587,508	757,620,976	279,096	3,435,180	3,693,742
2007	746	951,917,907	1,017,223,666	363,846	5,540,151	5,920,229
2008	765	576,927,703	457,153,489	355,440	5,190,180	4,112,663
2009	770	887,935,183	763,060,356	485,657	5,795,552	4,980,495
2010	777	1,141,885,458	1,009,981,831	380,859	5,619,768	4,970,607
2011	791	1,041,999,162	899,438,206	353,760	6,863,146	5,924,166
2012	784	1,154,294,167	1,085,638,395	486,480	4,823,643	4,536,739
2013	777	1,185,973,724	1,123,826,139	328,325	3,993,422	3,784,158
2014	773	1,192,252,867	1,092,907,569	278,082	3,983,580	3,651,646
2015	770	1,242,832,089	1,062,885,563	455,256	5,351,734	4,576,870
2016	779	1,308,440,374	1,087,015,348	376,773	4,523,044	3,757,617
2017	774	1,605,820,912	1,504,422,814	340,457	5,325,760	4,989,470
2018	788	1,343,971,858	1,207,630,387	397,972	6,548,622	5,884,286
2019	799	1,475,909,366	1,277,290,667	470,723	4,989,807	4,318,309

Year	Number of Listed Companies	Total Market Capitalization		Average Daily Trading Volume, Value		
		(Millions of Won)	(Thousands of Dollars) ⁽¹⁾	Thousands of Shares	(Millions of Won)	(Thousands of Dollars) ⁽¹⁾
2020	795	1,980,543,162	1,823,536,656	895,256	12,200,417	11,233,235
2021 (through April 21) . . .	798	2,213,595,419	1,985,465,440	1,389,734	19,093,491	17,125,744

Source: Korea Exchange

Note:

(1) Converted at the Noon Buying Rate at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies

Under Korean law, the relationship between a customer and a financial investment company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a financial investment company, the customer of the financial investment company is entitled to the proceeds of the securities sold by the financial investment company. In addition, the Financial Investment Services and Capital Markets Act recognizes the ownership of a customer in securities held by a financial investment company in such customer's account.

When a customer places a sell order with a financial investment company which is not a member of the Korea Exchange and this financial investment company places a sell order with another financial investment company which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company. Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

In addition, under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a financial investment company which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

As the cash deposited with a financial investment company is regarded as belonging to the financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company if a bankruptcy or reorganization procedure is instituted against the financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay each investor up to ₩50 million per financial institution in case of the financial investment company's bankruptcy, liquidation, cancellation of securities business license or other insolvency

events. The premiums related to this insurance are paid by financial investment companies. Pursuant to the Financial Investment Services and Capital Markets Act, a financial investment company with a dealing or brokerage license is required to deposit the cash received from its customers with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by securities companies with the Korea Securities Finance Corporation is prohibited. In addition, in the event of bankruptcy or dissolution of the financial investment company, the cash so deposited shall be withdrawn and paid to the customer prior to payment to other creditors of the financial investment company.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Services Commission, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Under current Korean laws and regulations, the depositary is required to obtain our prior consent for the number of shares of our common stock to be deposited in any given proposed deposit that exceeds the difference between:

- (1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and
- (2) the number of shares of our common stock on deposit with the depositary at the time of such proposed deposit. We have agreed to grant such consent to the extent that the total number of shares on deposit with the depositary would not exceed 40,432,628 at any time.

Reporting Requirements for Holders of Substantial Interests

Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (which we refer to collectively as “Equity Securities”), together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding shares (including Equity Securities of us held by such persons) is required to report the status of the holdings and the purpose of the holdings (for example, whether intending to seek management control) to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership level. In addition, any change in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding Equity Securities or change in the purpose of the holdings is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change (within 10 days of the end of the month in which the change occurred, in the case of a person with no intent to seek management control and within 10 days of the end of the quarter in which the change occurred, in the case of an institutional investor prescribed by the Financial Services Commission).

Violation of these reporting requirements may subject a person to criminal sanctions such as administrative sanctions, fines, imprisonment and/or a loss of voting rights with respect to the portion of ownership of Equity

Securities exceeding 5% of the total outstanding shares. In addition, the Financial Services Commission may order the disposal of the unreported Equity Securities. Any persons who reports management control as the purpose for its holdings is prohibited from acquiring additional shares or from exercising voting rights during the following five days following the reporting date.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding shares (which we refer to as a “major stockholder”) must report the status of his/her shareholding to the Korea Securities Futures Commission and the Korea Exchange within five days after he/she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities Futures Commission and the Korea Exchange within five days after the change occurred, provided that the obligation to report such change shall be exempt if the number shares that changed in ownership is less than 1,000 shares and the aggregate amount of such shares that changed in ownership is less than ₩10 million. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment. Any single stockholder or persons who have a special relationship with such stockholder that jointly acquire more than 10% (4% in case of non-financial business group companies) of the voting stock of a Korean financial holding company who controls national banks will be subject to reporting or approval requirements pursuant to the Financial Holding Company Act. See “Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Restrictions on Financial Holding Company Ownership.”

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws and Financial Services Commission regulations, as amended (collectively, the “Investment Rules”), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Stock Market Division of the Korea Exchange or on the KOSDAQ Market Division of the Korea Exchange, unless prohibited by specific laws. Foreign investors may trade shares listed on the Stock Market Division of the Korea Exchange or on the KOSDAQ Market Division of the Korea Exchange only through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares (which we refer to as “Converted Shares”) by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders’ rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded subject to certain exceptions; and
- sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract.

For over-the-counter transactions of shares between foreigners outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (including Converted Shares and shares being issued for initial listing on the Stock Market Division of the Korea Exchange or on KOSDAQ Market Division of the Korea Exchange) to register its identity with the Financial Supervisory Service prior to making any such investment. The registration requirement does not, however, apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Strategy and Finance under the Korean Securities and Exchange Act. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale. A foreign investor must ensure that any acquisition or sale by it of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares, trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by himself or his standing proxy, or, in the case of sale and purchase of shares at fair value between foreigners, who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), asset management companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise stockholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), the Korea Securities Depository, asset management companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Furthermore, an investment by a foreign investor in 10% or more of the issued and outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Commerce, Industry and Energy of Korea. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of such restrictions applicable to Korean banks, see “Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Banks — Restrictions on Bank Ownership.”

ITEM 9.D. Selling Shareholders

Not applicable.

ITEM 9.E. Dilution

Not applicable.

ITEM 9.F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

ITEM 10.A. Share Capital

Not applicable.

ITEM 10.B. Memorandum and Articles of Incorporation

We are a financial holding company established under the Financial Holding Company Act. As set forth in our Articles of Incorporation, our objects and purposes as a financial holding company are, among others, to operate and manage financial companies or companies engaged in similar lines of business, to provide financial support to, or investments in, our subsidiaries and to develop and jointly sell products with our subsidiaries. We are registered with the commercial registry office of Seoul Central District Court.

Our articles of incorporation, which was last amended on March 25, 2021, is annexed to this annual report as Exhibit 1.1.

Description of Share Capital

This section provides information relating to our capital stock, including brief summaries of material provisions of our Articles of Incorporation, the Korean Commercial Code, the Financial Investment Services and Capital Markets Act, the Financial Holding Companies Act and certain related laws of Korea, all as currently in effect. The following summaries are intended to provide only summaries and are subject to the full text of the Articles of Incorporation and the applicable provisions of the Financial Investment Services and Capital Markets Act, the Korean Commercial Code, and certain other related laws of Korea.

General

As of December 31, 2020 and as of the date hereof, our authorized share capital is 1,000,000,000 shares. Our Articles of Incorporation provide that we are authorized to issue shares of preferred stock up to one-half of

all of the issued and outstanding shares. Furthermore, through an amendment of the Articles of Incorporation, we have created new classes of shares in addition to the common shares and the preferred shares. As of December 31, 2020, the number of our issued and outstanding common shares was 516,599,554.

On January 25, 2007, we issued 28,990,000 Series 10 redeemable preferred shares and 14,721,000 Series 11 redeemable convertible preferred shares as part of our funding for the acquisition of LG Card, all of which were redeemed on January 25, 2012. On April 21, 2011, as part of funding for partial redemption of the Series 10 redeemable preferred stock and the Series 11 redeemable convertible preferred stock, we issued 11,100,000 shares of the Series 12 non-voting redeemable preferred stock, all of which were redeemed on April 21, 2016. On May 1, 2019, as part of funding for the acquisition of Orange Life Insurance, we issued 17,482,000 shares of non-voting convertible preferred stock through third-party allotment at a price of ₩42,900. In addition, we issued 8,232,906 shares of common stock in relation to a comprehensive stock exchange between Shinhan Financial Group and Orange Life Insurance on January 28, 2020. See “— Description of Preferred Stock.”

From April 29, 2020 to May 28, 2020, we acquired 5,035,658 treasury shares which we retired entirely on June 1, 2020. On September 29, 2020, partly in response to the prolonged COVID-19 pandemic and to increase our loss absorption capacity, we issued 39,130,000 common shares to two private equity funds, thereby increasing our paid-in capital by ₩195.7 billion. On December 30, 2020, as part of the small-scale stock exchange for the acquisition of the remaining interest in Neoplux, we issued 72,719 shares of common stocks.

All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. As of March 31, 2020, our authorized but unissued share capital was 308,767,224 shares. We may issue the unissued shares without further shareholder approval but subject to a board resolution as provided in the Articles of Incorporation. See “— Distribution of Free Shares.” Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares. The par value of our common shares per share is ₩5,000.

Dividends

Dividends are distributed to shareholders in proportion to the number of shares of the relevant class of capital stock owned by each shareholder following approval by the shareholders at an annual general meeting of shareholders. We pay full annual dividends on newly issued shares (such as the common shares representing the American depository shares (“ADSs”)) for the year in which the new shares are issued. We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. Once declared, the annual dividend must be paid to the stockholders of record as of the end of the preceding fiscal year within one month after the annual general meeting unless otherwise resolved thereby. Annual dividends may be distributed either in (i) cash or (ii) shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the total annual dividends (including dividends in shares). In addition to the annual dividend, we may also distribute cash dividends to the stockholders of record as of the end of March, June and September of each year upon a resolution by the board of directors. Under the Korean Commercial Code we do not have an obligation to pay any annual dividend unclaimed for five years from the scheduled payment date.

In addition, under the Financial Investment Services and Capital Markets Act and our Articles of Incorporation, we may pay quarterly dividends to our shareholders of record as of the end of March, June and September of each year upon the resolution of the board of directors. The quarterly dividend, if any, will be paid to the shareholders in cash. Our Articles of Incorporation stipulates that any quarterly dividends shall not exceed the net assets as of the end of the immediately preceding fiscal year, after deducting (i) the paid-in capital as of the end of the immediately preceding fiscal year, (ii) the aggregate amount of the capital reserves and earned surplus reserves, accumulated up to the end of the immediately preceding fiscal year, (iii) unrealized profits as prescribed under the Enforcement Decree of the Commercial Code, (iv) the amount resolved to be distributed as dividends at the Ordinary General Meeting of Shareholders held in respect of the immediately preceding fiscal year, (v) voluntary reserves accumulated for specific purposes in accordance with the relevant provisions of these

Articles of Incorporation or by the resolution of the General Meetings of Shareholders as of the end of the immediately preceding fiscal year, (vi) earned surplus reserves that account for at least 10% of the net profits of the relevant fiscal year until such reserves equal the aggregate amount of its stated capital and (vii) the aggregate amount of quarterly dividends paid during the current fiscal year, if any.

Under the Financial Holding Companies Act and the regulations thereunder, a financial holding company may not pay an annual dividend unless it has set aside as its legal reserve an amount equal to at least one-tenth of its net income after tax and shall set aside such amount as its legal reserve until its legal reserve reaches at least the aggregate amount of its stated capital.

Other than as set forth above and the dividend rights granted to preferred shareholders as further described in “— Description of Preferred Stock,” our articles of incorporation do not provide special rights to our common or preferred shareholders to share in our profits. For information regarding Korean taxes on dividends, see “Item 10.E. Taxation — Korean Taxation.”

Distribution of Free Shares

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its shareholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed to all of the shareholders pro rata. Our Articles of Incorporation require the same types of preferred shares to be distributed to the holders of preferred shares in case of distribution of free shares. For information regarding the treatment under Korean tax laws of free share distributions, see “Item 10.E. Taxation — Korean Taxation — Taxation of Dividends on Shares of Common Stock or American Depositary Shares.”

Preemptive Rights and Issuance of Additional Shares

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all shareholders who have preemptive rights and who are listed on the shareholders’ register as of the record date. Our shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in the Articles of Incorporation, we may issue new shares by resolution of board of directors to persons other than existing shareholders if those shares are (1) publicly offered (where the number of such shares so offered may not exceed 50% of our total number of issued and outstanding shares); (2) preferentially allocated to the members of the ESOA pursuant to relevant provisions of the Financial Investment Services and Capital Markets Act; (3) issued for the purpose of issuing depositary receipts pursuant to relevant provisions of the Financial Investment Services and Capital Markets Act (where the number of such shares so issued may not exceed 50% of our total number of issued and outstanding shares); (4) issued to directors or employees as a result of exercise of stock options we granted to them pursuant to the Korean Commercial Code; (5) issued to a financial investment company, a private equity fund or a special purpose company under the Financial Investment Services and Capital Markets Act; or (6) issued to any specified foreign investors, foreign or domestic financial institutions or alliance companies for operational needs such as introduction of advanced financial technology, improvement of its or subsidiaries’ financial structure and funding or strategic alliance (where such number of shares so issued may not exceed 50% of our total number of issued and outstanding shares). Under the Korean Commercial Code, a company may vary, without stockholders’ approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the shareholders’ register is closed) prior to the record date. We will notify the shareholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a shareholder fails to subscribe on or before such deadline, the shareholder’s preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur. Under the

Financial Investment Services and Capital Markets Act, if a listed company intends to issue new shares by way of allotment to shareholders, it must issue a certificate of preemptive right to the newly issued shares. Furthermore, the company must list the newly issued shares on the Korea Exchange for a certain period of time or designate a securities company to broker and/or deal in such newly issued shares in order to ensure that they are properly distributed. In the event certain shareholder forfeit their right to subscribe to newly issued shares, the company may allot the forfeited shares to a third party under certain conditions, including in relation to the purchase price of such shares, although in principle, the company must withdraw the forfeited shares. Under the Korean Commercial Code, when a company issues new shares by way of allotment to a third party, such company must notify its stockholders or make public notice of the conditions and other details of such new shares not less than two weeks prior to the relevant subscription payment date. Under the Financial Investment Services and Capital Markets Act, however, a listed company may substitute such notification or public notice by disclosing the material fact in a report publicly filed with the listing authorities.

Under the Financial Investment Services and Capital Markets Act, members of a company's employee stock ownership association, whether or not they are shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. However, this right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares to be newly issued and shares then outstanding. As of December 31, 2020, the employee stock ownership association owned 24,788,139 shares, or 4.80%, of our common stock.

General Meeting of Shareholders

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of shareholders may be held when necessary or at the request of our Audit Committee. In addition, under the Korean Commercial Code, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least six months of an aggregate of 1.5% or more of the outstanding shares with voting rights of the listed company, subject to a board resolution or court approval. Furthermore, under the Act on the Corporate Governance of Financial Companies of Korea and its sub-regulations, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least six months of an aggregate of 1.5% (0.75% in the case of a financial holding company (i) whose total assets at the end of the latest fiscal year is ₩5 trillion or more and (ii) who is in control of two or more subsidiaries, each with total assets of ₩2 trillion or more) or more of the outstanding shares of the company, subject to a board resolution or court approval. Meeting agendas are determined by the board of directors or proposed by holders of an aggregate of 3% or more of the outstanding shares with voting rights by way of a written proposal to the board of directors at least six weeks prior to the meeting. In addition, under the Korean Commercial Code, the meeting agenda may be proposed by the shareholders holding shares for at least six months of an aggregate of 1% (0.5% in the case of a listed company whose capital at the end of the latest operating year is ₩100 billion or more) or more of the outstanding shares of the listed company. Furthermore, under the Act on the Corporate Governance of Financial Companies and its sub-regulations, the meeting agenda may be proposed by the shareholders holding shares for at least six months of an aggregate of 0.1%. Written notices stating the date, place and agenda of the meeting must be given to the shareholders at least two weeks prior to the date of the general meeting of shareholders; provided, that, notice may be given to holders of 1% or less of the total number of issued and outstanding shares which are entitled to vote, by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers or by using an electronic method defined under the Korean Commercial Code and related regulations at least two weeks in advance of the meeting. Currently, we use *The Korea Economic Daily* and *Maeil Business Newspaper* for the publication of such notices. Shareholders who are not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders, and they are not entitled to attend or vote at such meeting.

The general meeting of shareholders is held at our executive office (which is our registered executive office) or, if necessary, may be held anywhere in the vicinity of our executive office.

Voting Rights

Holders of common shares are entitled to one vote for each share. However, voting rights with respect to common shares that we hold and common shares that are held by a corporate shareholder, more than one-tenth of the outstanding capital stock of which is directly or indirectly owned by such shareholder, may not be exercised. Unless stated otherwise in a company's Articles of Incorporation, the Korean Commercial Code permits holders of an aggregate of 3% (1%, in case of a company whose total assets as at the end of the latest fiscal year is ₩2 trillion or more) or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our Articles of Incorporation currently do not prohibit cumulative voting. If a listed company's total assets amounted to ₩2 trillion or more as of the end of the latest fiscal year, the company is required to establish and maintain an audit committee, whose members must be composed of directors of such company as appointed at a shareholders meeting. At least one member of the audit committee must be an outside director of such company. If the aggregate number of voting shares held by any shareholder exceeds 3% of the total number of issued and outstanding voting shares, then the shareholder may not exercise its voting rights with respect to the shares it holds in excess of such 3% threshold to elect or remove a member of the audit committee. In case the shareholder is the company's largest shareholder, the shareholder and its specially related persons (as defined under the relevant laws) may not exercise their voting rights with respect to the shares they collectively hold in excess of the 3% threshold to elect or remove the audit committee member who is not an outside director of the company. If the listed company's total assets amounted to ₩100 billion or above but below ₩2 trillion as of the end of the latest fiscal year, the company is required to appoint at least one standing director or one director to its audit committee through a shareholders' meeting. If the aggregate number of voting shares held by any shareholder of such company exceeds 3% of the total number of issued and outstanding voting shares, then the shareholder may not exercise its voting rights with respect to the shares it holds in excess of the 3% threshold to elect or remove the company's statutory auditor.

The Korean Commercial Code and our Articles of Incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those common shares present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding common shares. Holders of non-voting shares (other than enfranchised non-voting shares) are not entitled to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. The Korean Commercial Code provides that a company's articles of incorporation may prescribe conditions for enfranchisement of non-voting shares. For example, if our general shareholders' meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general shareholders' meeting immediately following the meeting adopting such resolution until the end of the meeting to declare to pay such dividend with respect to the preferred shares. Holders of such enfranchised preferred shares have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

The Korean Commercial Code provides that to amend the Articles of Incorporation (which is also required for any change to the authorized share capital of the company) and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority must also represent at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the Articles of Incorporation or any merger or consolidation of a company or in certain other cases which affect the rights or interest of the shareholders of the preferred shares, a

resolution must be adopted by a separate meeting of shareholders of the preferred shares. Such a resolution may be adopted if the approval is obtained from shareholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A shareholder may exercise his voting rights by proxy given to another shareholder. If a particular shareholder intends to obtain proxy from another shareholder, a reference document specified by the Financial Supervisory Service must be sent to the shareholder giving proxy, with a copy furnished to the company's executive office or the branch office, transfer agent and the Financial Services Commission. The proxy must present the power of attorney prior to the start of the general meeting of shareholders.

Rights of Dissenting Shareholders

Pursuant to the Financial Investment Services and Capital Markets Act, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business or if we merge or consolidate with another company), dissenting holders of shares have the right to require us to purchase their shares. Pursuant to the Financial Holding Companies Act, the Financial Investment Services and Capital Markets Act and the Korean Commercial Code, if a financial holding company acquires a new direct or indirect subsidiary through the exchange or transfer of shares except in limited circumstances, the dissenting holders of such shares have the right to require us to purchase their shares. To exercise such a right, shareholders must submit to us a written notice of their intention to dissent prior to the general meeting of shareholders. Within 20 days (or 10 days under certain circumstances according to the Financial Holding Companies Act) after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request in writing that we purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the end of such request period at a price to be determined by negotiation between the shareholder and us. If we cannot agree on a price with the shareholder through such negotiations, the purchase price will be the arithmetic mean of (1) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for two months prior to the date of the adoption of the relevant board of directors' resolution, (2) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for one month prior to the date of the adoption of the relevant board of directors' resolution and (3) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for one week prior to the date of the adoption of the relevant board of directors' resolution. If we or the dissenting shareholder who requested purchase of their shares do not accept such purchase price, we or the shareholder may request to the court to adjust such purchase price.

Register of Shareholders and Record Dates

We maintain the register of our shareholders at our transfer agent's office in Seoul, Korea. The Korea Securities Depository as our transfer agent, registers transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed for the period from January 1 of each year up to January 15 of such year. Further, the Korean Commercial Code and the Articles of Incorporation permit us upon at least two weeks' public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to the shares. The trading of shares and the delivery of certificates in respect thereof may continue while the register of shareholders is closed.

Other Shareholder Rights

Our articles of incorporation do not have sinking fund provisions or provisions creating liability to further capital calls. Other than to amend our articles of incorporation in accordance with the Korean Commercial Code,

no particular action is necessary to change the rights of holders of our capital stock. In addition, our articles of incorporation do not have specific provisions for governing changes in capital or which would have an effect of delaying, deferring or preventing a change in control of us and that would operate only with respect to a merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

Directors

Under the Korean Commercial Code and our articles of incorporation, any director wishing to enter into a transaction with us or our subsidiaries in his or her personal capacity is required to obtain the prior approval of the board of directors, and any director having an interest in the transaction may not vote at the meeting of the board of directors to approve the transaction.

Neither our articles of incorporation nor applicable Korean laws have provisions relating to (i) the directors' power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body (ii) borrowing powers exercisable by the directors and how such borrowing powers can be varied; (iii) retirement or non-retirement of directors under an age limit requirement; or (iv) the number of shares required for a director's qualification.

Description of Preferred Stock

On January 25, 2007, as part of funding our acquisition of LG Card, we issued 28,990,000 Series 10 non-voting redeemable preferred shares. On January 25, 2012, we redeemed all of the Series 10 preferred shares.

On January 25, 2007, as part of funding our acquisition of LG Card, we issued 14,721,000 Series 11 non-voting redeemable convertible preferred shares. On January 25, 2012, we redeemed all of the Series 11 preferred shares.

On April 21, 2011, as part of funding for preferred stocks due to be redeemed in January 2012, we issued 11,100,000 Series 12 non-voting redeemable preferred shares for the subscription price of ₩100,000 per share, or ₩1,110 billion in the aggregate. On April 21, 2016, we redeemed all of the Series 12 redeemable preferred shares.

On May 1, 2019, as part of funding for the acquisition of Orange Life Insurance, we issued 17,482,000 shares of non-voting convertible preferred stock through third-party allotment at a price of ₩42,900.

Annual Report

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange an annual business report (containing audit report and audited annual nonconsolidated and consolidated financial statements) within 90 days after the end of our fiscal year as well as a semiannual business report within 45 days after the end of the first six months of our fiscal year and quarterly business reports within 45 days after the end of the first three months and nine months of our fiscal year, respectively (in each case, containing review report and reviewed interim nonconsolidated and consolidated financial statements). Copies of such reports are available for public inspection at the websites of the Financial Services Commission and the Korea Exchange.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. In order to exercise shareholders' rights, the transferee must have his name and address registered on the registry of shareholders. For this purpose, shareholders are required to file with us their name, address and seal. Nonresident shareholders must notify us of the name of their proxy in Korea to which our notice can be sent.

Under the Financial Services Commission regulations, nonresident shareholders may appoint a standing proxy and may not allow any person other than the standing proxy to exercise rights regarding the acquired share or perform any task related thereto on his behalf, subject to certain exceptions. Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians are authorized to act as standing proxy and provide related services. Certain foreign exchange controls and securities regulations apply to the transfer of shares by nonresidents or non-Koreans. See “Item 10.D. Exchange Controls.” As to the ceiling on the aggregate shareholdings of a single shareholder and persons who have a special relationship with such shareholder, please see “Item 4.B. Business Overview — Supervision and Regulation — Principal Regulations Applicable to Financial Holding Companies — Restrictions on Financial Holding Company Ownership.”

Acquisition of Treasury Shares

Under the Korean Commercial Code, we may acquire our own shares upon resolution of the general meeting of the shareholders or resolution of the board of directors pursuant to Article 165-3 of the Financial Investment Services and Capital Markets Act by either (i) purchasing them on a stock exchange or (ii) purchasing a number of shares, other than the redeemable shares as set forth in Article 345, Paragraph (1) of the Korean Commercial Code, from each shareholder in proportion to its existing shareholding ratio through the methods set forth in the Presidential Decree, provided that the total purchase price does not exceed the amount of our profit that may be distributed as dividends in respect of the immediately preceding fiscal year. In addition, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Companies Act, we may purchase our own shares on the KRX KOSPI Market of the Korea Exchange, through a tender offer, or through a trust agreement with a trust company, or retrieve our own shares from a trust company upon termination of a trust agreement, subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and reserves for such fiscal year, subtracted by the sum of (a) the purchase price of treasury stock acquired if any treasury stock has been purchased after the end of the preceding fiscal year pursuant to the Commercial Act or the Financial Investment Services and Capital Markets Act, (b) the amount subject to trust agreements, and (c) the amount of dividends approved at the ordinary general shareholders’ meeting after the end of the preceding fiscal year and the amount of retained earnings reserve required under the Commercial Act; plus if any treasury stock has been disposed of after the end of the preceding fiscal year, the acquisition cost of such treasury stock and (2) the purchase of such shares shall meet the requisite capital ratio under the Financial Holding Companies Act and the guidelines issued by the Financial Services Commission. In general, under the Financial Holding Companies Act, our subsidiaries are not permitted to acquire our shares.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will be distributed to shareholders in proportion to the number of shares held by such shareholders. Holders of preferred shares may have preferences over holders of common shares in liquidation.

ITEM 10.C. Material Contracts

None.

ITEM 10.D. Exchange Controls

General

The Foreign Exchange Transaction Act of Korea the related Presidential Decree and the regulations under such Act and Decree (collectively the “Foreign Exchange Transaction Laws”) herein, regulate investment in

Korean securities by nonresidents and issuance of securities by Korean companies outside Korea. Under the Foreign Exchange Transaction Laws, nonresidents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Strategy and Finance of Korea. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities by Korean companies outside Korea.

Under the Foreign Exchange Transaction Laws, (1) if the Government determines that it is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other situations equivalent thereto, the Ministry of Strategy and Finance may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and (2) if the Government determines that international balance of payments and international finance face or are likely to face serious difficulty or the movement of capital between Korea and abroad will cause or is likely to cause serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Strategy and Finance may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in such transactions at certain Korean governmental agencies or financial institutions, in each case subject to certain limitations.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to make a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a financial investment company with a securities dealing or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a nonresident of Korea must be deposited either in a Won account with the investor's financial investment company with a securities dealing or brokerage license or in his Won account. Funds in the investor's Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses by any one person exceeding US\$10,000 per day needs to be reported to the governor of the Financial Supervisory Service by the foreign exchange bank at which the Won account is maintained. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, financial companies with a securities dealing, brokerage or collective investment license may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

ITEM 10.E. Taxation

The following summary is based upon tax laws, regulations, rulings, decrees, income tax conventions (treaties), administrative practice and judicial decisions of Korea and the United States as of the date of this annual report, and is subject to any change in Korean or United States law that may come into effect after such date. Investors in shares of common stock or American depositary shares are advised to consult their own tax advisers as to the Korean, United States or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;
- a corporation having its head office, principal place of business, or place of effective management in Korea (a Korean corporation); or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Taxation of Dividends on Shares of Common Stock or American Depositary Shares

We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (including local income surtax). If you are a qualified resident and a beneficial owner of the dividends in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See “— Tax Treaties” below for a discussion of treaty benefits. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, such distribution may be subject to a Korean withholding tax.

Taxation of Capital Gains from Transfer of Common Shares or American Depositary Shares

As a general rule, capital gains earned by non-residents upon transfer of our common shares or American depositary shares (“ADSs”) are subject to a Korean withholding tax at the lower of (1) 11% (including local income surtax) of the gross proceeds realized or (2) 22% (including local income surtax) of the net realized gain, subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs associated with common shares or ADSs, unless exempt from Korean income taxation under an applicable tax treaty between Korea and the country of your tax residence. See “— Tax Treaties” below for a discussion on treaty benefits. Even if you do not qualify for the exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you meet certain requirements for the exemption under Korean domestic tax laws discussed in the following paragraphs.

You will not be subject to the Korean income taxation on capital gains realized upon a transfer of our common shares through the Korea Exchange if you (1) have no permanent establishment in Korea and (2) do not own and have never owned (together with any shares owned by any entity with which you have a special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five consecutive calendar years prior to the calendar year in which the sale occurs.

Under Korean tax law, ADSs are viewed as shares of stock for capital gains tax purposes. Accordingly, capital gains from sale or disposition of ADSs are taxed (if taxable) as if such gains are from sale or disposition of shares of our common stock. It should be noted that (i) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided

that the issuance of ADSs is deemed to be an overseas issuance under the STTCL, but (ii) in the case where an owner of the underlying shares of stock transfers ADSs after conversion of the underlying shares into ADSs, the exemption under the STTCL described in (i) will not apply. In the case where an owner of the underlying shares of stock transfers the ADSs after conversion of the underlying shares of stock into ADSs, such person is obligated to file corporate income tax returns and pay tax unless a purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays the tax on capital gains derived from transfer of ADSs, as discussed below.

If you are subject to tax on capital gains with respect to a sale of common shares or ADSs, the purchaser or, in the case of a sale of common shares on the Korea Exchange or through a financial investment company with a brokerage license in Korea, the financial investment company is required to withhold Korean tax from the sales proceeds in an amount equal to 11% (including local income surtax) of the gross realization proceeds and to remit the withheld tax to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition costs and certain direct transaction costs associated with common shares or ADSs. See the discussion under “— Tax Treaties” below for an explanation of claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries, including the United States, which reduce or exempt Korean withholding tax on the income derived by residents of such treaty countries. For example, under the Korea-U.S. income tax treaty, reduced rates of Korean withholding tax on dividends of 16.5% or 11.0%, respectively (including local income surtax), depending on your shareholding ratio, and an exemption from Korean withholding tax on capital gains are generally available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment or Holding Companies) of the Korea-U.S. income tax treaty, such reduced rates and exemption do not apply if (1) you are a United States corporation, (2) by reason of any special measures the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (3) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-U.S. income tax treaty, the exemption on capital gains does not apply if (a) you have a permanent establishment in Korea and any shares of common stock in which you hold an interest and which gives rise to capital gains are effectively connected with such permanent establishment, (b) you are an individual and you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your common shares or ADSs giving rise to capital gains are effectively connected with such fixed base or (c) you are an individual and you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser, the financial investment company, or other withholding agent, as the case may be, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser, the financial investment company, or other withholding agent, as the case may be, must withhold tax at the normal rates. Furthermore, in order for you to claim the benefit of a tax rate reduction or tax exemption on certain Korean source income (e.g., dividends or capital gains) under an applicable tax treaty as the beneficial owner of such Korean source income, Korean tax law requires you (or your agent) to submit an application (in the case for reduced withholding tax rate, an “application for entitlement to reduced tax rate,” and in the case for exemption from withholding tax, an “application for tax exemption”) with a certificate of your tax residency issued by the competent authority of your country of tax residence, subject to certain exceptions (together, the “BO application”). For example, a U.S. resident would be required to provide a Form 6166 as a certificate of tax residency with the application for entitlement to reduced tax rate or the application for tax exemption, as the case

may be. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle that is not the beneficial owner of such income (an “OIV”), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO application to such OIV, which in turn must submit an OIV report and a schedule of beneficial owners (and the BO applications collected from each beneficial owner, if such beneficial owner is applying for tax exemption) to the withholding agent prior to the payment date of such income. Effective from January 1, 2020, an OIV that was not established for the purpose of unjustifiably reducing income tax liabilities in Korea and bears tax liabilities in the country of its residence is deemed to be a beneficial owner of Korean source income for income tax purposes. The benefits under a tax treaty between Korea and the country of such OIV’s residence will apply with respect to the relevant income paid to such OIV, subject to certain application requirements as prescribed by the Corporate Income Tax or Individual Income Tax Law. In the case of a tax exemption application, the withholding agent is required to submit such application (together with the applicable OIV report in the event the income will be paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you would be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax, which ranges from 10% to 50% recently, assessable based on the value of the ADSs or shares of common stock and the identity of the individual against whom the tax is assessed.

If you die while holding a common share or donate a subscription right or a common share, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Securities Transaction Tax

If you transfer common shares through the Korea Exchange in 2021 or 2022, you will be subject to a securities transaction tax at the rate of 0.08% (no such securities transaction tax to be imposed on transfers from and after January 1, 2023) and an agriculture and fishery special surtax at the rate of 0.15% of the sales price of common shares. If your transfer of common shares is not made through the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.43% if the transfer is made in 2021 or 2022 (to be reduced to 0.35% for transfers from and after January 1, 2023) but will not be subject to an agriculture and fishery special surtax.

Depositary receipts, which the ADSs constitute, are included in the scope of securities transfer subject to securities transaction tax. Nonetheless, transfer of depositary receipts listed on a foreign securities exchange similar to the Korea Exchange (e.g., the New York Stock Exchange, the NASDAQ National Market) will not be subject to the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by a transferor of common shares. When a transfer is effected through a securities settlement company in Korea, such settlement company is generally required to withhold and remit the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and remit the tax. Where a transfer is affected by a non-resident who has no permanent establishment in Korea by a method other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Non-reporting or underreporting of securities transaction tax will generally result in the imposition of penalties equal to 20% to 60% of the non-reported or 10% to 60% of underreported tax amount and a failure to timely pay securities transaction tax due will result in penalties of 9.125% per annum of the due but unpaid tax. The penalty is imposed on the party responsible for paying the securities transaction tax or, if the securities transaction tax is to be withheld, on the party that has the withholding obligation.

Certain United States Federal Income Tax Consequences

The following summary describes certain U.S. federal income tax considerations for beneficial owners of our common shares or ADSs that hold the common shares or ADSs as capital assets and are “U.S. holders.” You are a “U.S. holder” if you are for U.S. federal income tax purposes:

- (i) an individual citizen or resident of the United States;
- (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or District of Columbia;
- (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source;
- (iv) a trust that is subject to the primary supervision of a court within the United States and has one or more U.S. persons with authority to control all substantial decisions of the trust; or
- (v) a trust that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

In addition, this summary only applies to you if you are a U.S. holder that is a resident of the United States for purposes of the current income tax treaty between the United States and Korea (the “Treaty”), your common shares or ADSs are not, for purposes of the Treaty, effectively connected with a permanent establishment in Korea and you otherwise qualify for the full benefits of the Treaty.

This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”) and regulations (including proposed regulations), rulings and judicial decisions thereunder as of the date hereof, as well as the Treaty, all of which are subject to change, perhaps retroactively. It is for general purposes only and you should not consider it to be tax advice. In addition, it is based in part on representations by the ADS depository and assumes that each obligation under the deposit agreement will be performed in accordance with its terms. This summary does not represent a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances, and does not address the Medicare tax on net investment income, U.S. federal estate and gift taxes or the effects of any state, local or non-U.S. tax laws. In addition, it does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

- a bank;
- a dealer in securities or currencies;
- an insurance company or one of certain financial institutions;
- a regulated investment company;
- a real estate investment trust;
- a tax-exempt entity;
- a trader in securities that has elected to use a mark-to-market method of accounting for your securities holdings;
- a person holding common shares or ADSs as part of a hedging, conversion, constructive sale or integrated transaction or a straddle;

- a person liable for the alternative minimum tax;
- a partnership or other pass-through entity for U.S. federal income tax purposes;
- a person who owns or is deemed to own 10% or more of our stock (by vote or value);
- a person required to accelerate the recognition of any item of gross income with respect to our common shares or ADSs as a result of such income being recognized on an applicable financial statement; or
- a person whose functional currency is not the U.S. Dollar.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds our common shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares or ADSs, you are urged to consult your tax advisor.

You should consult your own tax advisor concerning the particular U.S. federal tax consequences to you of the ownership and disposition of common shares or ADSs, as well as any consequences arising under the laws of any other taxing jurisdiction.

American Depositary Shares

If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying common shares that are represented by such ADSs. Accordingly, deposits or withdrawals of common shares for ADSs will not be subject to U.S. federal income tax.

Distributions on Common Shares or American Depositary Shares

Subject to the discussion below under “Passive Foreign Investment Company Rules,” the gross amount of distributions on our common shares or ADSs (including amounts withheld to reflect Korean withholding tax) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day you actually or constructively receive it, in the case of our common shares, or the day actually or constructively received by the ADS depository, in the case of ADSs. Such dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code.

With respect to non-corporate U.S. holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The U.S. Treasury Department has determined that the Treaty meets these requirements, and we believe we are eligible for the benefits of the Treaty. A foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. Our common shares will generally not be considered readily tradable for these purposes. U.S. Treasury Department guidance indicates that securities such as our ADSs, which are listed on the New York Stock Exchange, are treated as readily tradable on an established securities market in the United States for these purposes. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. Non-corporate U.S. holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Furthermore, non-corporate U.S. holders will not be eligible for the

rate reduction if we are a passive foreign investment company (as discussed below under “Passive Foreign Investment Company Rules”) in the taxable year in which such dividends are paid or were a passive foreign investment company in the preceding taxable year. If you are a non-corporate U.S. holder, you should consult your own tax advisor regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in Korean Won will equal the U.S. Dollar value of the Korean Won received calculated by reference to the exchange rate in effect on the date you receive the dividend, in the case of our common shares, or the date received by the ADS depository, in the case of ADSs, regardless of whether the Korean Won are converted into U.S. Dollars. If the Korean Won received as a dividend are converted into U.S. Dollars on the date they are received, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the Korean Won received are not converted into U.S. Dollars on the day of receipt, you will have a basis in the Korean Won equal to their U.S. Dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Korean Won will be treated as United States source ordinary income or loss.

Subject to certain significant conditions and limitations, Korean taxes withheld from dividends (at a rate not exceeding the rate provided in the Treaty) will be treated as foreign income taxes eligible for credit against your U.S. federal income tax liability. See “— Korean Taxation — Tax Treaties” for a discussion of the Treaty rate. Korean taxes withheld in excess of the rate provided in the Treaty will not be eligible for credit against your U.S. federal income tax until you exhaust all effective and practical remedies to recover such excess withholding, including the seeking of competent authority assistance from the Internal Revenue Service. For purposes of the foreign tax credit, dividends paid on our common shares or ADSs will be treated as income from sources outside the United States and will generally constitute passive category income. If you do not elect to claim a credit for any foreign taxes paid during a taxable year, you may instead elect, subject to certain limitations, to claim a deduction in respect of such foreign taxes, provided that you apply this election to all foreign taxes paid or accrued in the taxable year.

Further, in certain circumstances, if you have held our common shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on our common shares or ADSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction of your adjusted basis in our common shares or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of our common shares or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to determine earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will be reported and generally be treated as a dividend (as discussed above).

Distributions of our common shares or ADSs or rights to subscribe for our common shares or ADSs that are received as part of a pro rata distribution to all of our shareholders (including holders of ADSs) generally will not be subject to U.S. federal income tax to recipient common shareholders (including holders of ADSs). Consequently, such distributions will not give rise to foreign source income and you will not be able to use the foreign tax credit arising from any Korean withholding tax unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other income derived from foreign sources.

Disposition of Common Shares or American Depositary Shares

For U.S. federal income tax purposes, you will recognize gain or loss upon the sale, exchange or other disposition of our common shares or ADSs in an amount equal to the difference between the amount realized

upon the sale, exchange or other disposition and your adjusted tax basis in our common shares or ADSs, as the case may be. Subject to the discussion below under “— Passive Foreign Investment Company Rules,” such gain or loss will generally be capital gain or loss and will generally be long-term capital gain or loss if at the time of sale, exchange or other disposition, our common shares or ADSs have been held for more than one year. Long-term capital gains of non-corporate U.S. holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize on the sale, exchange or other disposition of our common shares or ADSs will generally be treated as United States source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Korean tax imposed on the disposition of our common shares or ADSs unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

You should note that any Korean securities transaction tax imposed upon a disposition of our common shares or ADSs generally will not be treated as a creditable foreign tax for U.S. federal income tax purposes.

Passive Foreign Investment Company Rules

Based upon the past and projected composition of our income and assets and valuation of our assets, including goodwill, we do not believe that we were a PFIC for 2020, and we do not expect to be a PFIC in 2021 or to become one in the foreseeable future, although there can be no assurance in this regard. However, PFIC status is a factual determination that is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in composition of our income or assets or valuation of our assets. Because we have valued our goodwill based on the market value of our common shares and ADSs, a decrease in the price of our common shares and ADSs may also result in our becoming a PFIC.

In general, we will be considered a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income; or
- at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). Certain proposed U.S. Treasury regulations and other administrative pronouncements from the Internal Revenue Service provide special rules for determining the character of income and assets derived in the active conduct of a banking business for purposes of the PFIC rules. Specifically, these rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. Although we believe we have adopted a reasonable interpretation of the proposed U.S. Treasury regulations and administrative pronouncements, there can be no assurance that the Internal Revenue Service will follow the same interpretation. You should consult your own tax advisor regarding the application of these rules.

If we own at least 25% by value of another corporation’s stock, we will be treated, for purposes of the PFIC rules, as owning our proportionate share of the assets and receiving our proportionate share of the income of that corporation.

If we are a PFIC for any taxable year during which you hold our common shares or ADSs (and you do not make a timely mark-to-market election, as described below), you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from the sale or other disposition (including a pledge) of our common shares or ADSs. These special tax rules generally will apply even if we cease to be a PFIC in future years. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for our common shares or ADSs will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for our common shares or ADSs;

- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we are a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In certain circumstances, you could make a mark-to-market election, under which in lieu of being subject to the special rules discussed above, you will include gain on our common shares or ADSs on a mark-to-market basis as ordinary income, provided that our common shares or ADSs are regularly traded on a qualified exchange or other market. Our common shares are listed on the Korea Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the common shares are or will continue to be “regularly traded” for purposes of the mark-to-market election. Our ADSs are currently listed on the New York Stock Exchange, which constitutes a qualified exchange, although there can be no assurance that the ADSs are or will be “regularly traded.” If you make a valid mark-to-market election, for each year that we are a PFIC you will include as ordinary income the excess of the fair market value of your common shares or ADSs at the end of the year over your adjusted tax basis in the common shares or ADSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the common shares or ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, in each year that we are a PFIC any gain you recognize upon the sale or other disposition of your common shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

A U.S. holder’s adjusted tax basis in common shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the common shares or ADSs are no longer regularly traded on a qualified exchange or other market or the Internal Revenue Service consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable with respect to your particular circumstances.

In addition, a holder of common shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the company as a “qualified electing fund” under Section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit holders to make this election.

If we are a PFIC for any taxable year during which you hold our common shares or ADSs and any of our non-U.S. subsidiaries is also a PFIC, you will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of the PFIC rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

If you hold our common shares or ADSs in any year in which we are classified as a PFIC, you will generally be required to file Internal Revenue Service Form 8621.

Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or were a PFIC in the preceding taxable year. You should consult your tax advisor concerning the determination of our PFIC status and the U.S. federal income tax consequences of holding our common shares or ADSs if we are considered a PFIC in any taxable year.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our common shares or ADSs and the proceeds from the sale, exchange or other disposition of our common shares or ADSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

FATCA

Under Sections 1471 through 1474 of the Code (such Sections commonly referred to as “FATCA”), certain entities in a broadly defined class of foreign financial institutions (“FFIs”) may be subject to a 30% United States withholding tax on certain United States source payments made to the FFI, unless the FFI is a “participating FFI,” which is generally defined as an FFI that (i) enters into an agreement with the Internal Revenue Service pursuant to which it agrees to comply with a complicated and expansive reporting regime or (ii) complies with the requirements of an intergovernmental agreement entered into by the United States and another jurisdiction regarding the implementation of FATCA (an “IGA”), or the FFI is otherwise deemed compliant with or exempt from FATCA.

The FATCA legislation also contains complex provisions requiring certain participating FFIs to withhold on certain “foreign passthru payments” made to FFIs that are not participating FFIs or otherwise exempt from FATCA withholding and to holders that fail to provide the information required by FATCA. Although the definition of a “foreign passthru payment” is still reserved under current regulations, the term generally refers to payments that are from non-United States sources but that are “attributable to” certain United States payments described above. Pursuant to proposed U.S. Treasury regulations (upon which taxpayers may rely until final regulations are issued), withholding on foreign passthru payments, if applicable, would not be required with respect to payments made before the date that is two years after the date of publication of final regulations defining the term foreign passthru payment. It is unclear whether or to what extent payments on our common shares or ADSs would be considered foreign passthru payments that are subject to withholding under FATCA.

On June 10, 2015, the United States and Korea entered into an IGA to implement the foregoing requirements. The IGA is intended to result in the automatic exchange of tax information through reporting by FFIs to the Internal Revenue Service. Prospective investors should consult their tax advisors regarding the application of the FATCA rules to an investment in our common shares.

ITEM 10.F. Dividends and Paying Agents

Not applicable.

ITEM 10.G. Statements by Experts

Not applicable.

ITEM 10.H. Documents on Display

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. You may inspect and copy these materials,

including this annual report and the exhibits thereto, at SEC’s Public Reference Room 100 Fifth Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission’s web site at <http://www.sec.gov>.

ITEM 10.I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Item 4.B. Business Overview — Risk Management” for quantitative and qualitative disclosures about market risk.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

ITEM 12.A. Debt Securities

Not applicable.

ITEM 12.B. Warrants and Rights

Not applicable.

ITEM 12.C. Other Securities

Not applicable.

ITEM 12.D. American Depositary Shares

Depository Fees and Charges

Under the terms of the Deposit Agreement in respect of our American depositary shares (“ADSs”), the holder of ADSs may be required to pay the following fees and charges to Citibank, N.A., acting as depositary for our ADSs:

Item	Services	Fees	Paid by
1	Issuance of ADSs upon deposit of common shares (excluding issuances contemplated by items 3(b) and 5 below	Up to US\$5.00 per 100 ADSs (or fraction thereof) issued	Person depositing common shares or person receiving ADSs
2	Delivery of deposited securities against surrender of ADSs	Up to US\$5.00 per 100 ADSs (or fraction thereof) surrendered	Person surrendering ADSs for purpose of withdrawal of deposited securities or person to whom deposited securities are delivered
3	Distribution of (a) cash dividends or (b) ADSs pursuant to stock dividends	No fee, to the extent prohibited by the exchange on which the ADSs are listed. If the charging of such fee is not prohibited, the fees specified in item 4 below shall be payable	Person to whom distribution is made

<u>Item</u>	<u>Services</u>	<u>Fees</u>	<u>Paid by</u>
4	Distribution of (a) cash proceeds (i.e., upon sale of rights and other entitlements) or (b) free shares in the form of ADSs (not constituting a stock dividend)	Up to US\$2.00 per 100 ADSs (or fraction thereof) held	Person to whom distribution is made
5	Distribution of securities other than ADSs or rights to purchase additional ADSs (i.e., spinoff shares)	Up to US\$5.00 per 100 ADSs (or fraction thereof) distributed	Person to whom distribution is made
6	Depository Services	Unless prohibited by the exchange on which the ADSs are listed, up to US\$2.00 per 100 ADSs (or fraction thereof) held as of the last day of each calendar year, except to the extent of any cash dividend fee(s) charged under paragraph (3)(a) above during the applicable calendar year	Person holding ADSs on last day of calendar year
7	Distribution of ADSs pursuant to exercise of rights to purchase additional ADSs	Up to US\$2.00 per 100 ADSs (or fraction thereof) held	Person who exercises such rights

Holders and beneficial owners of ADSs, persons depositing common shares for deposit and persons surrendering ADSs for cancellation and for the purpose of withdrawing deposited securities shall be responsible for the following charges:

- (i) taxes (including applicable interest and penalties) and other governmental charges;
- (ii) such registration fees as may from time to time be in effect for the registration of common shares or other deposited securities on the share register and applicable to transfers of common shares or other deposited securities to or from the name of the custodian, the depository or any nominees upon the making of deposits and withdrawals, respectively;
- (iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing common shares or holders and beneficial owners of ADSs;
- (iv) the expenses and charges incurred by the depository in the conversion of foreign currency;
- (v) such fees and expenses as are incurred by the depository in connection with compliance with exchange control regulations and other regulatory requirements applicable to common shares, deposited securities, ADSs and ADRs; and
- (vi) the fees and expenses incurred by the depository, the custodian or any nominee in connection with the servicing or delivery of deposited securities.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depository by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depository and by the brokers (on behalf of their clients) delivering the ADSs to the depository for cancellation. The brokers in turn charge these transaction fees to their clients.

Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date. The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depository charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depository sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company (DTC), the depository generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depository banks.

In the event of refusal to pay the depository fees, the depository may, under the terms of the Deposit Agreement, refuse the requested service until payment is received or may set-off the amount of the depository fees from any distribution to be made to the ADS holder.

The fees and charges the ADS holders may be required to pay may vary over time and may be changed by us and by the depository. The ADS holders will receive prior notice of such changes.

Depository Payments for the Fiscal Year 2020

In 2020, we received the following payments from Citibank, N.A., acting as depository for our ADSs:

Reimbursement of settlement infrastructure fees (including DTC fees)	US\$	—
Reimbursement of proxy process expenses (printing, postage and distribution)	US\$	66,653.47
Legal expenses	US\$	—
Contributions towards our investor relations efforts (i.e. non-deal roadshows, investor conferences and IR agency fees) and legal expenses incurred in connection to the preparation of our Form 20-F for the fiscal year 2018		<u>US\$239,274.81</u>
Total:		<u>US\$305,928.28</u>

Note: The amounts provided above are after deduction of applicable of U.S. taxes.

ITEM 13. *DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES*

Not applicable.

ITEM 14. *MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS*

Not applicable.

ITEM 15. *CONTROLS AND PROCEDURES*

Disclosure Control

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2020. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding

of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the design and operation of our disclosure controls and procedures as of December 31, 2020 were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decision regarding required disclosure.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for our company. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the framework established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Internal Control-Integrated Framework (2013) suspended the original framework issued by COSO in 1992 on December 15, 2014. We adopted the 2013 Framework on December 15, 2014. Further details of the changes made are set out below. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company’s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company’s receipts and expenditures are being made only in accordance with authorizations of a company’s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

The effectiveness of our internal control over financial reporting has been audited by Samil PricewaterhouseCoopers, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2020. Samil PricewaterhouseCoopers has issued an attestation report on the effectiveness of our internal control over financial reporting an independent registered public accounting firm, as stated in its report included herein, which expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2020.

Attestation Report of the Independent Registered Public Accounting Firm

Samil PricewaterhouseCoopers’s attestation report on the effectiveness of internal control over financial reporting can be found on page F-2 of this annual report.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Audit Committee currently consists of four outside directors, namely Yoon Jaewon (Chair), Sung Jae-ho, Kwak Su Keun and Lee Yoon-jae. Our board of directors has determined that Yoon Jaewon, the chair of our Audit Committee is an “audit committee financial expert,” as such term is defined by the regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Yoon Jaewon, Sung Jae-ho, Kwak Su Keun and Lee Yoon-jae are independent as such term is defined in Section 303A.02 of the NYSE Listed Company Manual, Rule 10A-3 under the Exchange Act and the Korea Stock Exchange listing standards.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions as required under Section 406 of the Sarbanes-Oxley Act of 2002, together with an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. We have not granted any waiver, including an implicit waiver, from a provision of the code of ethics to any of the above-mentioned officers during our most recently completed fiscal year. As a further detailed guideline to the code of ethics, we have also adopted a code of ethics applicable to all the officers and employees of our holding company and our subsidiaries and established a supplemental code of behavior for all officers and employees of our holding company and our subsidiaries in order to provide additional guideline for the performance of their work-related duties as well as their daily behavior. Our code of ethics is available on our website www.shinhangroup.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees billed for professional services rendered by our principal auditors for the years ended December 31, 2018, 2019 and 2020, for various types of services and a brief description of the nature of such services. KPMG Samjong Accounting Corp., a Korean independent registered public accounting firm, was our principal auditors for the year ended December 31, 2018 and 2019. Samil PricewaterhouseCoopers, a Korean independent registered public accounting firm, was our principal auditors for the year ended December 31, 2020 and we currently expect Samil PricewaterhouseCoopers to serve as our principal auditors for the year ended December 31, 2021.

Type of Services	Aggregate Fees Billed During the Year Ended December 31,			Nature of Services
	2018	2019	2020	
	(In millions of Won)			
Audit fees	₩8,009	₩10,659	₩11,751	Audit service for Shinhan Financial Group and its subsidiaries.
Audit related fees	40	30	244	Assurance services rendered in the ordinary course of our business
Tax fees	209	35	152	Tax return and consulting advisory service.
All other fees	—	284	—	All other services which do not meet the three categories above.
Total	<u>₩8,258</u>	<u>₩11,008</u>	<u>₩12,147</u>	

Our Audit Committee generally pre-approves all engagements of our principal accountants pursuant to policies and procedures adopted by it. Our Audit Committee has adopted the following policies and procedures for consideration and approval of requests to engage our principal accountants to perform audit and non-audit

services. Engagement requests for audit and non-audit services for us or our subsidiaries must, in the first instance, be submitted to our Audit Team. If the request relates to services that would impair the independence of our principal accountants, the request must be rejected. If the engagement request relates to audit and permitted non-audit services, it must be forwarded to the Audit Committee for consideration. To facilitate the consideration of engagement requests between its meetings, the Audit Committee has delegated approval authority of the following: (i) permitted non-audit services to our holding company, (ii) audit services to our subsidiaries and (iii) permitted non-audit services to our subsidiaries, to one of its members who is “independent” as defined by the Securities and Exchange Commission and the New York Stock Exchange. Such member in our case is Yoon Jaewon, the chair of our Audit Committee, and she is required to report any approvals made by them to the Audit Committee at its next meeting. Our Audit Committee meets regularly once every quarter.

Any other audit or permitted non-audit service must be pre-approved by the Audit Committee on a case-by-case basis. Our Audit Committee did not pre-approve any non-audit services under the de minimis exception of Rule 2.01(c)(7)(i)(C) of Regulation S-X as promulgated by the Securities and Exchange Commission.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table sets forth information regarding purchases by us of our common shares during the period covered by this annual report.

<u>Period</u>	<u>Total Number of Shares Purchased⁽¹⁾</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (as of end of period)</u>
January 1 to January 31, 2020	—	₩ —	—	\$ —
February 1 to February 29, 2020	—	—	—	—
March 1 to March 31, 2020	—	—	—	—
April 1 to April 30, 2020	500,000	30,616	500,000	111,875,046
May 1 to May 31, 2020	4,535,658	29,696	4,535,658	—
June 1 to June 30, 2020	—	—	—	—
July 1 to July 31, 2020	—	—	—	—
August 1 to August 31, 2020	—	—	—	—
September 1 to September 30, 2020	—	—	—	—
October 1 to October 31, 2020	—	—	—	—
November 1 to November 30, 2020	—	—	—	—
December 1 to December 31, 2020	—	—	—	—
Total	<u>5,035,658</u>	<u>₩29,788</u>	<u>5,035,658⁽²⁾</u>	<u>\$ 0</u>

Note:

- (1) Comprises common shares that were purchased through a broker in a series of open-market transactions in Korea in the periods indicated above, pursuant to the announcement made by us on Form 6-K dated March 26, 2020.
- (2) From April 29, 2020 to May 28, 2020, we acquired 5,035,658 treasury shares which we retired entirely on June 1, 2020.

Other than as described above, neither we nor any “affiliated purchaser,” as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Pursuant to an amendment to Act on External Audit of Stock Companies effective November 1, 2018, where certain listed companies, such as us, have appointed at such company's discretion the independent auditor (as defined under the Certified Public Accountant Act of Korea, for the audit of our financial statements in Korea prepared in conformity with IFRS as adopted by Korea) for a period of six consecutive fiscal years, the Securities and Futures Commission may request such company to appoint or substitute as independent auditor an accounting firm as designated by the Securities and Futures Commission. Absent extenuating circumstances, in which case the company may request the Securities and Futures Commission to re-designate an accounting firm, the company is required to comply with such request.

As we had appointed KPMG Samjong as our independent auditor for the previous six fiscal years, on October 14, 2019, the Securities and Futures Commission designated Samil PricewaterhouseCoopers ("PwC") as our independent auditor for the fiscal years ended December 31, 2020, 2021 and 2022. Upon such request, our Audit Committee evaluated the suitability and independence of PwC, concluding there were no extenuating circumstances which would require us to request re-designation. Accordingly, on December 12, 2019, our Audit Committee approved the appointment of PwC as our independent auditor for the audit of our financial statements in Korea prepared in conformity with IFRS as adopted by Korea for the fiscal years ended December 31, 2020, 2021 and 2022, and our Audit Committee also approved the appointment of PwC as our independent registered public accounting firm for the audit of our financial statements in conformity with IFRS as issued by the IASB for the fiscal year ended December 31, 2020. PwC's appointment is effective from January 1, 2020. KPMG Samjong's engagement as our independent auditor and independent registered public accounting firm expired upon the completion of the audit of our consolidated financial statements as of and for the year ended December 31, 2019, and no separate dismissal process was required for KPMG Samjong. However, resolutions by the audit committee are required for each of our subsidiaries, which our subsidiaries have obtained as necessary.

KPMG Samjong's reports on our consolidated financial statements for each of the fiscal years ended December 31, 2019 and 2018 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles, except as follows: KPMG Samjong's report on our consolidated financial statements as of and for each of the years in the two-year period ended December 31, 2019 contained a separate paragraph stating that "We were not engaged to audit, review or apply any procedures to the adjustments to retrospectively apply the change in accounting described in Note 27 (i) and (j)."

During the two most recent fiscal years ended December 31, 2019 and 2018, there were: (i) no disagreements between us and KPMG Samjong on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG Samjong, would have caused KPMG Samjong to make reference to the subject matter of the disagreements in its reports on the consolidated financial statements of Shinhan Financial Group; and (ii) no "reportable events" as defined in Item 16F(a)(1)(v) of Form 20-F.

In 2018, PwC consulted us on the application of IFRS 16, 'Leases' on our financial statements. The results of such consultations are reflected in Notes 2, 3 and 49 of the notes to our consolidated financial statements as of and for the year ended December 31, 2019 included in this annual report, which have been audited by KPMG Samjong. During the fiscal years ended December 31, 2019 and 2018, neither we nor anyone acting on our behalf consulted with PwC regarding any matter that was either the subject of a disagreement, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F (and the related instructions thereto), or a reportable event as described in Item 16F(a)(1)(v) of Form 20-F.

We provided a copy of the disclosure in this Item to PwC and provided PwC the opportunity to furnish us with a letter addressed to the Commission containing any new information, clarification of our expression of its views, or the respects in which it does not agree. PwC has not furnished us with such letter. We also provided a copy of the disclosure in this Item to KPMG Samjong and requested that KPMG Samjong furnish us with a letter addressed to the Commission stating whether it agrees with such disclosure, and if it does not agree, stating the

respects in which it does not agree. A copy of KPMG Samjong's letter dated April 28, 2021 is filed as Exhibit 15.1 to this Form 20-F.

ITEM 16G. CORPORATE GOVERNANCE

We are committed to high standards of corporate governance. We are in compliance with the corporate governance provisions of the Korean Commercial Code, the Financial Holding Companies Act of Korea, the Act on Corporate Governance of Financial Companies, the Financial Investment Services and Capital Markets Act and the Listing Rules of the Korea Exchange. We, like all other companies in Korea, must comply with the corporate governance provisions of the Korean Commercial Code. In addition, as a financial holding company, we are also subject to the Financial Holding Companies Act and the Act on Corporate Governance of Financial Companies. Also, our subsidiaries that are financial institutions must comply with the respective corporate governance provisions under the Act on Corporate Governance of Financial Companies and relevant laws under which they were established.

The Act on Corporate Governance of Financial Companies came into effect as of August 1, 2016. The Act was enacted to address calls for strengthened regulations on corporate governance of financial companies and to serve as a uniform regulation on corporate governance matters applicable to all financial companies in place of the separate regulations for each sector that existed. The Act contains several key measures, including, but not limited, to (i) condition of eligibility of officers of financial companies and standards for determining whether financial companies' officers may hold concurrent positions in other companies, (ii) standards for composition and operation of board of directors, (iii) standards for establishment, composition and operation of committees of the board of directors, (iv) internal control and risk management, (v) requirements and procedures for the approval of a change of major shareholders and (vi) special regulations for rights of minority shareholders of financial companies.

We are a "foreign private issuer" (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs are listed on the New York Stock Exchange, or NYSE. Under Section 303A of the NYSE Listed Company Manual, NYSE-listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the NYSE with limited exceptions. Under the NYSE Listed Company Manual, we as a foreign private issuer are required to disclose significant differences between NYSE's corporate governance standards and those we follow under Korean law. The following summarizes some significant ways in which our corporate governance practices differ from those followed by U.S. companies listed on the NYSE under the listing rules of the NYSE:

Majority of Independent Directors on the Board

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a board the majority of which is comprised of independent directors satisfying the requirements of "independence" as set forth in Rule 10A-3 under the Exchange Act. While as a foreign private issuer, we are exempt from this requirement, but our board of directors is in compliance with this requirement as it currently consists of 14 directors, of which 12 directors satisfy the requirements of "independence" as set forth in Rule 10A-3 under the Exchange Act. 12 of our directors are also "outside directors" as defined in the Financial Holding Companies Act of Korea. An "outside director" for purposes of the Act on Corporate Governance of Financial Companies and the Korean Commercial Code means a director who does not engage in the regular affairs of the financial holding company, and who is elected at a shareholders' meeting, after having been nominated by the outside director nominating committee, and none of the largest shareholder, those persons "specially related" to the largest shareholder of such company, persons who during the past two years have served as an officer or employee of such company, the spouses and immediate family members of an officer of such company, and certain other persons specified by law may qualify as an outside director of such company. Under the Korea Exchange listing rules and the Korean Commercial Code, at least one-fourth of a listed company's directors must be outside directors. In the case of "large listed companies" as defined under the Korean Commercial Code, like us, a majority of the directors must be outside directors provided that there must be at least three outside directors.

Executive Session

Under the NYSE listing rules, non-management directors of U.S. companies listed on the NYSE are required to meet on a regular basis without management present and independent directors must meet separately at least once per year. There is no such requirement under Korean law or listing standards or our internal regulations.

Audit Committee

Under the NYSE listing rules, listed companies must have an audit committee that has a minimum of three members, and all audit committee members must satisfy the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. We are in compliance with this requirement as our Audit Committee is comprised of four outside directors meeting the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. Under the Korea Exchange listing rules and the Korean Commercial Code, a large listed company must also establish an audit committee of which at least two-thirds of its members must be outside directors and whose chair must be an outside director. In addition, under the Act on Corporate Governance of Financial Companies, at least one member of the audit committee who is an outside director must also be an accounting or financial expert. We are also in compliance with the foregoing requirements.

Nomination/Corporate Governance Committee

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a nomination/corporate governance committee composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Under the Korean Commercial Code and other applicable laws, large listed companies, financial holding companies, commercial banks, and certain other financial institutions are required to have an outside director nominating committee of which at least one-half of its members are required to be outside directors. However, there is no requirement to establish a corporate governance committee under applicable Korean law. Our outside director nominating committee is formed on an ad hoc basis prior to a general shareholders' meeting if the agenda for such meeting includes appointment of an outside director. The composition of the committee is in compliance with the relevant provisions under the Korean Commercial Code and the Act on Corporate Governance of Financial Companies, and the chair of the committee must be an outside director pursuant to the Act on Corporate Governance of Financial Companies.

We currently have a committee for recommending candidates for CEO, which is responsible for general corporate governance, reviewing and recommending nominees for the president and/or CEO of our group and the development, operation and review of our management succession plan, including setting the qualifications for the CEO, evaluating the CEO candidate pool and recommending CEO candidates. The chair of the committee must be an outside director, and the incumbent CEO may be restricted from participating and voting on matters related to CEO selection. We also have a committee for recommending candidates for independent directors and members of the audit committee, which is responsible for matters related to the recommendation and nomination of outside directors including audit committee members. In addition, in light of the recent emphasis on corporate governance, in March 2021, we transferred certain functions, such as those relating to code of ethics and other code of behavior, determination of the size of the board of directors and other matters necessary for improving our overall corporate governance structure, from the corporate governance committee to the board of directors.

Compensation Committee

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to have a compensation committee which is composed entirely of independent directors. In January 2013, the SEC approved amendments to the listing rules of NYSE and NASDAQ regarding the independence of compensation committee members and the appointment, payment and oversight of compensation consultants. The listing rules were adopted as required by Section 952 of the Dodd-Frank Act and rule 10C-1 of the Securities Exchange Act of 1934, as amended, which direct the national securities exchanges to prohibit the listing of any equity security of a company that is not in compliance with the rule's compensation committee director and advisor independence requirements.

Certain elements of the listing rules became effective on July 1, 2013 and companies listed on the NYSE must comply with such listing rules by the earlier of the company's first annual meeting after January 15, 2014, or October 31, 2014.

Under the Act on Corporate Governance of Financial Companies, financial institutions including financial holding companies must establish a compensation committee of which at least one-half of its members must be outside directors and whose chairman must be an outside director.

We currently have a remuneration committee, which is responsible for reviewing and approving the management's evaluation and compensation programs. The committee consists of four members, all of whom are outside directors and satisfy the independent director requirements as set forth in Rule 10A-3 under the Exchange Act.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to establish corporate governance guidelines and to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. As a foreign private issuer, we are exempt from this requirement. In Korea, the Financial Services Commission implemented the Standard Corporate Governance Guidelines for Financial Service Companies in December 2014, and accordingly, we have adopted in February 2015 and are currently complying with international regulators on corporate governance modeled after the standard guidelines implemented by the Financial Services Commission,

Pursuant to the requirements of the Sarbanes-Oxley Act, we have adopted a code of ethics applicable to all the officers and employees of our holding company and our subsidiaries, including all financial, accounting and other officers and employees that are involved in the preparation and disclosure of Shinhan Financial Group's consolidated financial statements and internal control of financial reporting. As a further detailed guideline to the code of ethics, we have also established a supplemental code of behavior for all officers and employees of our holding company and our subsidiaries in order to provide additional guideline for the performance of their work-related duties as well as their daily behavior. We have also adopted an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The above-mentioned code of ethics and the code of behavior are available on our website www.shinhangroup.com.

On May 25, 2011, the SEC adopted final rules to implement whistleblower provisions of the Dodd-Frank Act, which are applicable to foreign private issuers with securities registered under the U.S. securities laws. The final rules provide that any eligible whistleblower who voluntarily provides the SEC with original information that leads to the successful enforcement of an action brought by the SEC under U.S. securities laws must receive an award of between 10 and 30 percent of the total monetary sanctions collected if the sanctions exceed US\$1,000,000. An eligible whistleblower is defined as someone who provides information about a possible violation of the securities laws that he or she reasonably believes has occurred, is ongoing, or is about to occur. The possible violation does not need to be material, probably or even likely, but the information must have a "facially plausible relationship to some securities law violation"; frivolous submissions would not qualify. The final rules also prohibit retaliation against the whistleblower. While the final rules do not require employees to first report allegations of wrongdoing through a company's corporate compliance system, they do seek to incentivize whistleblowers to utilize internal corporate compliance first by, among other things, (i) giving employees who first report information internally the benefit of the internal reporting date for purposes of the SEC program so long as the whistleblower submits the same information to the SEC within 120 days of the initial disclosure; (ii) clarifying that the SEC will consider, as part of the criteria for determining the amount of a whistleblower's award, whether the whistleblower effectively utilized the company's corporate compliance program or hindered the function of the program; and (iii) crediting a whistleblower who reports internally first and whose company passes the information along to the SEC, which would mean the whistleblower could receive a potentially higher award for information gathered in an internal investigation initiated as a result of the whistleblower's internal report.

In addition, the final rules address concerns that the whistleblower rules incentivize officers, directors and those with legal, audit, compliance or similar responsibilities to abuse these positions by making whistleblower complaints to the SEC with respect to information they obtained in these roles by generally providing that information obtained through a communication subject to attorney-client privilege or as a result of legal representation would not be eligible for a whistleblower award unless disclosure would be permitted by attorney conduct rules. Accordingly, officers and directors, auditors and compliance personnel and other persons in similar roles would not be eligible to receive awards for information received in these positions unless (x) they have a reasonable basis to believe that (1) disclosure of the information is necessary to prevent the entity from engaging in conduct that is likely to cause substantial injury to the financial interests of the entity or investors; or (2) the entity is engaging in conduct that will impede an investigation of the misconduct, for example, destroying documents or improperly influencing witnesses; or (y) 120 days have passed since the whistleblower provided the information to senior responsible persons at the entity or 120 days have passed since the whistleblower received the information at a time when these people were already aware of the information.

In Korea, the Act on the Protection of Public Interest Whistleblowers (the “Act on Whistleblowers”) was enacted in March 29, 2011 and became effective on September 30, 2011, and was last amended on April 17, 2018. Under the Act on Whistleblowers, a “conduct detrimental to the public interest” means any conduct falling under the penalty provisions of certain acts or any conduct subject to administrative measures such as cancellation or suspension of an approval or a permit. As the Financial Holding Companies Act is included in the “certain acts” above, any conduct falling under the penalty provisions or subject to administrative measures for a violation of the Financial Holding Companies Act constitutes a “conduct detrimental to the public interest.” Any person deeming that a conduct detrimental to the public interest has been, or is likely to be, committed may make a public interest report to a representative of the organization involved or a relevant investigative agency. The personal information of a public interest whistleblower shall be kept in confidence, and the measures necessary for personal protection of a public interest whistleblower shall be taken. In addition, any disadvantageous measures against a public interest whistleblower, including discriminatory treatment and delayed payment of wage, are prohibited, and where a public interest report leads to a recovery of, or increase in, revenues of the Government, the public interest whistleblower may be entitled to compensation by the Anti-Corruption and Civil Rights Commission of Korea.

We established a group-wide whistleblower policy in July 2005 and maintain related policies and programs for most of our subsidiaries. For example, Shinhan Bank maintains a whistleblower program named “*Shinhan Jikimi*,” through which any employee, vendor or customer can raise concerns and report suspicious circumstances in confidence using a variety of channels including the Internet, email, postal mail, facsimile and mobile phones. In addition, Shinhan Bank distributes to its employees a quarterly email notice intended to raise awareness of the whistleblower program and posts relevant informative materials on the company bulletin board. At Shinhan Card and Shinhan Investment, we strive to maintain transparency in every aspect of business activities and provide secure and accessible channels for all related parties to raise concerns and report violations.

Shareholder Approval of Equity Compensation Plans

Under the NYSE listing rules, shareholders of U.S. companies listed on the NYSE are required to approve all equity compensation plans.

Under Korean law, if a company issues stock options amounting to 10% or more of its issued and outstanding shares, only a board of director resolution is required for such issuance if permitted by such company’s articles of incorporation. Under our articles of incorporation, we may also grant stock options, but since April 1, 2010, we have not granted any stock options.

We currently have two equity compensation plans, consisting of a performance share plan for directors and key employees and an employee stock ownership plan for all employees under the Framework Act on Labor Welfare.

In accordance with our internal regulations, performance shares granted to directors are granted pursuant to a resolution by the board of director, subject to the limit amount set by a resolution at the shareholders’ meeting

while performance shares granted to key employees are granted pursuant to a resolution by the board of director, without any requirement that the limit amount be approved at the shareholders' meeting. There are no requirements relating to the granting of performance shares under applicable Korean laws and our articles of incorporation.

Under the Framework Act on Labor Welfare, a Korean company may issue stock options up to 20% of its issued and outstanding shares by a resolution at the shareholders' meeting, if permitted by the articles of incorporation. Our articles of incorporation does not contain such provision. The equity compensation scheme for the employee stock ownership association is governed by its internal regulations, over which we have no control under Korean law.

Annual Certification of Compliance

Under the NYSE listing rules, a chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. As a foreign private issuer, we are not subject to this requirement. However, in accordance with rules applicable to both U.S. companies and foreign private issuers, we are required to promptly notify the NYSE in writing if any executive officer becomes aware of any material noncompliance with the NYSE corporate governance standards applicable to us. In addition, foreign private issuers, including us, are required to submit to the NYSE an annual written affirmation relating to compliance with Sections 303A.06 and 303A.11 of the NYSE listed company manual, which are the NYSE corporate governance standards applicable to foreign private issuers. All written affirmations must be executed in the form provided by the NYSE, without modification. An annual written affirmation is required to be submitted to the NYSE within 30 days of filing with the SEC our annual report on Form 20-F. We have been in compliance with this requirement in all material respects and plan to submit such affirmation within the prescribed timeline.

ITEM 16H. *MINE SAFETY DISCLOSURE*

Not applicable.

ITEM 17. *FINANCIAL STATEMENTS*

We have responded to Item 18 in lieu of responding to this item.

ITEM 18. *FINANCIAL STATEMENTS*

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

ITEM 19. *EXHIBITS*

(a) Exhibits filed as part of this Annual Report:

See Exhibit Index beginning on page 288 of this annual report.

(b) Financial Statements filed as part of this Annual Report:

See Index to Financial Statements on page F-1 of this annual report.

INDEX OF EXHIBITS

- 1.1 Articles of Incorporation, last amended as of March 25, 2021 (in English)†
- 2.1 Form of Common Stock Certificate (in English) †*
- 2.2 Form of Deposit Agreement to be entered into among Shinhan Financial Group, Citibank, N.A., as depository, and all owners and holders from time to time of American depository shares issued thereunder, including the form of American depository receipt*
- 2.3 Long-term debt instruments of Shinhan Financial Group, Shinhan Bank and other consolidated subsidiaries for which financial statements are required to be filed are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Shinhan Financial Group agrees to furnish the Commission on request a copy of any instrument defining the rights of holders of its long-term debt and that of any subsidiary for which consolidated or unconsolidated financial statements are required to be filed.*
- 4.1 Stock Purchase Agreement by and between Korea Deposit Insurance Corporation and Shinhan Financial Group dated July 9, 2003**
- 4.2 Investment Agreement by and between Shinhan Financial Group and Korea Deposit Insurance Corporation dated July 9, 2003*
- 4.3 Agreed Terms, dated June 22, 2003, by and among the President of Korea Deposit Insurance Corporation, CEO of Shinhan Financial Group, CEO of Chohung Bank, Chairman of the National Financial Industry Labor Union of Korea and the Head of the Chohung Bank Chapter of the National Financial Industry Labor Union*
- 4.4 Merger Agreement between Shinhan Bank and Chohung Bank (in English) † ***
- 4.5 Split-Merger Agreement between Shinhan Card and Chohung Bank (in English) † ***
- 4.6 Form of Share Purchase Agreement, dated January 17, 2007, by and between Shinhan Financial Group and the holders of the redeemable preferred shares and the redeemable convertible shares issued by Shinhan Financial Group as part of the funding for the acquisition of LG Card Co., Ltd. (in English) †****
- 4.7 LG Card Acquisition Agreement, dated 2006, between Korea Development Bank and 13 other financial institutions, on the one hand, and Shinhan Financial Group†*****
- 8.1 List of all subsidiaries of Shinhan Financial Group
- 12.1 Certifications of our Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act
- 12.2 Certifications of our Chief Financial Officer required by Rule 13a-14(a) of the Exchange Act
- 13.1 Certifications of our Chief Executive Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of the United States Code (18 U.S.C. 1350)
- 13.2 Certifications of our Chief Financial Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of the United States Code (18 U.S.C. 1350)
- 15.1 Letter from KPMG Samjong Accounting Corp. to the Securities and Exchange Commission dated April 28, 2021
- 101 Interactive Data Files (XBRL-Related Documents)

† A fair and accurate translation from Korean into English.

* Incorporated by reference to the registrant's previous filing on Form 20-F (No. 001-31798), filed on September 15, 2003.

** Incorporated by reference to the registrant's previous filing on Form 20-F (No. 001-31798), filed on September 15, 2003. Confidential treatment has been requested for certain portions of the Stock Purchase Agreement.

*** Incorporated by reference to the registrant's previous filing on Form 20-F (No. 001-31798), filed on June 30, 2006.

**** Incorporated by reference to the registrant's previous filing on Form 20-F (No. 001-31798), filed on June 29, 2007.

***** Incorporated by reference to registrant's previous filing on Form 20-F (No. 001-31798), filed on June 30, 2008.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 28, 2021

Shinhan Financial Group Co., Ltd.

By: /s/ Cho Yong-byoung
Name: Cho Yong-byoung
Title: Chairman and Chief Executive Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Shinhan Financial Group Co., Ltd.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statement of financial position of Shinhan Financial Group Co., Ltd. and its subsidiaries (the “Company”) as of December 31, 2020 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended December 31, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited the adjustments to retrospectively apply the change in accounting for Liability Adequacy Tests to reflect changes in the discount rate according to the revision of the Regulations on Supervision of Insurance Business, as described in Note 27(i) and 27(j). This change in accounting policy has no effect on its consolidated financial position as at December 31, 2019 and its financial performance and its consolidated cash flows of the two years in the period ended December 31, 2019. In our opinion, such adjustments to the footnote disclosures are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2019 and 2018 consolidated financial statements of the Company other than with respect to the footnote adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2019 and 2018 consolidated financial statements taken as a whole.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended December 31, 2020 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audit of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of

the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses of Loans Measured at Amortized Cost

As described in Note 12 to the consolidated financial statements, as of 31 December 2020, the allowance for credit losses was ₩3,060,966 million on total loans at amortized cost retained of ₩359,282,485 million. The Company recognizes allowance for expected credit losses of loans measured at amortized cost under both individual and collective assessment. For collectively assessed loans, the calculation of the allowance for credit losses required management to make a number of judgments, assumptions and estimates. The most significant included probability of default, the accuracy of borrower credit risk ratings, and forward-looking information. Allowance for credit losses for individually assessed loans are determined by the estimation of the expected cash flows.

The principal considerations for our determination that performing procedures relating to the allowance for credit losses of loans measured at amortized cost is a critical audit matter are (i) there was significant judgment by management in determining the allowance, which in turn led to a high degree of auditor subjectivity in performing procedures related to the impairment models, key assumptions, such as probability of default, credit risk ratings, determination of the forward-looking information and the expected future cash flows related to individual exposures, (ii) there was significant judgment and effort in evaluating audit evidence related to these models, judgments and assumptions used to determine the allowance and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the estimation process, which included controls over the data, models and assumptions used in determining the allowance for credit losses. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in testing management's process to estimate the allowance for credit losses including evaluating the appropriateness of methodology and models, evaluating the reasonableness of significant assumptions used in the impairment models, such as probability of default and credit risk ratings. It also included evaluating the reasonableness of key assumptions in the forward-looking information. Evaluating the forward-looking information assumptions involved assessing their reasonableness against external data and economic events that have occurred. We also assessed the reasonableness of the accuracy of borrower credit risk ratings and expected future cash flows related to individually assessed exposures.

Valuation of Level 3 Over-the Counter Derivatives

As described in Note 4.(i) to the consolidated financial statements, over-the-counter derivatives classified as level 3 of Shinhan Investment Corp. subject to fair value measurement were ₩8,834,694 million as of December 31, 2020. Valuation of such derivatives requires broad judgement on internal valuation models and the type of unobservable inputs used. When adopting or modifying models or unobservable inputs used for valuation of such derivatives, the most significant includes the appropriateness of internal valuation models or unobservable inputs used.

The principal considerations for our determination that performing procedures relating to valuation of level 3 over-the counter derivatives is a critical audit matter are (i) there was significant judgment by management in determining the internal valuation model, which in turn led to a high degree of auditor subjectivity in performing procedures related to the valuation of derivatives using internal valuation models, (ii) there was significant judgment and effort in evaluating audit evidence related to these internal valuation models and unobservable inputs used to determine the valuation of level 3 over-the counter derivatives and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation process, which included controls over the review on development and validation on change of the internal valuation models and unobservable inputs used in valuation of level 3 derivatives. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in developing an independent estimate of fair value using independently assessed internal valuation models and unobservable inputs for the evaluation of the management's valuation.

/s/Samil PricewaterhouseCoopers
Seoul, the Republic of Korea

April 28, 2021

We have served as the Company's auditor since 2020.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Shinhan Financial Group Co., Ltd.:

Opinions on the Consolidated Financial Statements

We have audited, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 27 (i) and (j), the consolidated statement of financial position of Shinhan Financial Group Co., Ltd. and subsidiaries (the “Group”) as of December 31, 2019, the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements before the effects of the adjustments to retrospectively apply the change in accounting described in Note 27 (i) and (j), present fairly, in all material respects, the financial position of the Group as of December 31, 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the change in accounting described in Note 27 (i) and (j) and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

Basis for Opinions

These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Samjong Accounting Corp.

We have served as the Group’s auditor from 2002 to 2020.

Seoul, Korea

April 29, 2020

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2019 and 2020

(In millions of won)

	Note	2019	2020
Assets			
Cash and due from banks at amortized cost	4, 8, 19	₩ 28,423,744	33,410,542
Financial assets at fair value through profit or loss	4, 9, 19	53,163,143	59,091,403
Derivative assets	4, 10	2,829,274	5,633,915
Securities at fair value through other comprehensive income	4, 11, 19	59,381,053	58,316,112
Securities at amortized cost	4, 11, 19	45,582,065	47,282,623
Loans at amortized cost	4, 12, 19	323,244,979	356,221,519
Property and equipment, net	13, 18, 19	4,083,328	3,989,697
Intangible assets	14	5,558,714	5,480,619
Investments in associates	15	1,452,861	2,657,768
Current tax receivable		88,433	51,894
Deferred tax assets	41	218,254	215,345
Investment property	16	488,610	615,235
Defined benefit assets	25	1,682	18,374
Other assets	4, 17	27,878,281	32,194,666
Assets held for sale		25,160	54,392
Total assets		<u>₩552,419,581</u>	<u>605,234,104</u>
Liabilities			
Deposits	4, 20	₩294,874,256	326,416,868
Financial liabilities at fair value through profit or loss	4, 21	1,632,457	1,436,694
Financial liabilities designated at fair value through profit or loss	4, 22	9,409,456	8,455,724
Derivative liabilities	4, 10	2,303,012	5,016,567
Borrowings	4, 23	34,863,156	41,594,064
Debt securities issued	4, 24	75,363,364	75,134,394
Defined benefit liabilities	25	121,140	62,514
Provisions	26	557,024	804,736
Current tax payable		512,757	389,586
Deferred tax liabilities	41	451,603	579,656
Liabilities under insurance contracts	27	52,163,417	53,460,230
Other liabilities	4, 28	38,237,558	45,526,213
Total liabilities		<u>₩510,489,200</u>	<u>558,877,246</u>
Equity			
	29		
Capital stock		₩ 2,732,463	2,969,641
Hybrid bonds		1,731,235	2,179,934
Capital surplus		10,565,353	12,234,939
Capital adjustments		(1,116,770)	(687,935)
Accumulated other comprehensive loss		(260,156)	(404,181)
Retained earnings		25,525,821	27,777,169
Total equity attributable to equity holders of Shinhan Financial Group Co., Ltd.		39,177,946	44,069,567
Non-controlling interests		2,752,435	2,287,291
Total equity		<u>41,930,381</u>	<u>46,356,858</u>
Total liabilities and equity		<u>₩552,419,581</u>	<u>605,234,104</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2018, 2019 and 2020

<i>(In millions of won)</i>	<u>Note</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Interest income				
Financial assets at fair value through other comprehensive income and at amortized cost		₩12,891,850	14,878,516	13,943,159
Financial assets at fair value through profit or loss		680,606	828,846	830,837
		<u>13,572,456</u>	<u>15,707,362</u>	<u>14,773,996</u>
Interest expense		(4,992,367)	(5,969,398)	(4,891,296)
Net interest income	31	<u>8,580,089</u>	<u>9,737,964</u>	<u>9,882,700</u>
Fees and commission income		3,295,256	3,557,013	3,814,474
Fees and commission expense		(1,356,259)	(1,416,494)	(1,431,541)
Net fees and commission income	32	<u>1,938,997</u>	<u>2,140,519</u>	<u>2,382,933</u>
Insurance income		4,398,738	7,569,425	7,247,753
Insurance expenses		(4,870,437)	(8,066,351)	(7,851,685)
Net insurance expenses	27	<u>(471,699)</u>	<u>(496,926)</u>	<u>(603,932)</u>
Dividend income	33	87,826	82,158	97,956
Net gain on financial instruments at fair value through profit or loss	34	420,026	1,385,482	272,830
Net gain (loss) on financial instruments at fair value through profit or loss (overlay approach)	9	74,944	(247,585)	(136,255)
Net gain (loss) on financial instruments designated at fair value through profit or loss	35	(26,643)	(846,046)	198,239
Net foreign currency transaction gain		194,136	440,948	526,615
Net gain on disposal of financial asset at fair value through other comprehensive income	11	20,554	152,278	273,793
Net gain (loss) on disposal of securities at amortized cost	11	(9)	66	(25)
Provision for allowance for credit loss	36	(747,877)	(980,692)	(1,382,179)
General and administrative expenses	37	(4,741,575)	(5,134,674)	(5,212,473)
Other operating expenses, net	39	(829,355)	(1,187,242)	(1,370,466)
Operating income		<u>4,499,414</u>	<u>5,046,250</u>	<u>4,929,736</u>
Equity method income	15	17,488	53,287	159,533
Other non-operating expense, net	40	(50,292)	(188,029)	(335,398)
Profit before income taxes		<u>4,466,610</u>	<u>4,911,508</u>	<u>4,753,871</u>
Income tax expense	41	1,268,345	1,269,124	1,255,795
Profit for the year		<u>₩ 3,198,265</u>	<u>3,642,384</u>	<u>3,498,076</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Continued)
For the years ended December 31, 2018, 2019 and 2020

<i>(In millions of won, except earnings per share data)</i>	<u>Note</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Other comprehensive income for the year, net of income tax	29			
Items that are or may be reclassified to profit or loss:				
Gain (loss) on financial asset at fair value through other comprehensive income		₩ 161,008	352,085	(86,784)
Gain (loss) on financial instruments at fair value through profit or loss (overlay approach)	9	(54,333)	162,967	90,298
Equity in other comprehensive income (loss) of associates		7,407	3,302	(3,318)
Foreign currency translation adjustments for foreign operations		19,983	105,771	(161,365)
Net change in unrealized fair value of cash flow hedges		(20,192)	(18,589)	(14,460)
Other comprehensive income of separate account		8,676	10,427	3,884
		<u>122,549</u>	<u>615,963</u>	<u>(171,745)</u>
Items that will never be reclassified to profit or loss:				
Remeasurements of the defined benefit liability		(93,098)	(54,644)	15,812
Equity in other comprehensive income (loss) of associates		28	(8)	(10)
Valuation gain on financial asset at fair value through other comprehensive income		22,725	18,885	6,841
Loss on disposal of financial asset at fair value through other comprehensive income		(2,635)	(5,861)	(27,826)
Changes in own credit risk on financial liabilities designated at fair value through profit of loss		1,723	(8,425)	3,084
		<u>(71,257)</u>	<u>(50,053)</u>	<u>(2,099)</u>
Total other comprehensive income, net of income tax		<u>51,292</u>	<u>565,910</u>	<u>(173,844)</u>
Total comprehensive income for the year		<u>₩3,249,557</u>	<u>4,208,294</u>	<u>3,324,232</u>
Profit attributable to:				
Equity holders of Shinhan Financial Group Co., Ltd.	29, 42	₩3,156,722	3,403,497	3,414,595
Non-controlling interests		41,543	238,887	83,481
		<u>₩3,198,265</u>	<u>3,642,384</u>	<u>3,498,076</u>
Total comprehensive income attributable to:				
Equity holders of Shinhan Financial Group Co., Ltd.		₩3,207,602	3,890,701	3,242,745
Non-controlling interests		41,955	317,593	81,487
		<u>₩3,249,557</u>	<u>4,208,294</u>	<u>3,324,232</u>
Earnings per share:	29, 42			
Basic and diluted earnings per share in won		₩ 6,579	7,000	6,654

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the year ended December 31, 2018

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.								
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at January 1, 2018	₩2,645,053	423,921	9,887,335	(398,035)	(529,734)	20,791,680	32,820,220	883,397	33,703,617
Adoption effect of IFRS 9 and 15, net of tax (Note 49)	—	—	—	—	(277,011)	(251,854)	(528,865)	(3,155)	(532,020)
Balance at January 1, 2018 (adjusted)	2,645,053	423,921	9,887,335	(398,035)	(806,745)	20,539,826	32,291,355	880,242	33,171,597
Total comprehensive income (loss) for the year	—	—	—	—	—	3,156,722	3,156,722	41,543	3,198,265
Profit for the year	—	—	—	—	—	—	—	—	—
Other comprehensive income (loss), net of income tax:									
Gain on financial asset at fair value through other comprehensive income	—	—	—	—	179,793	—	179,793	1,305	181,098
Loss on financial instruments at fair value through profit or loss (overlay approach)	—	—	—	—	(54,333)	—	(54,333)	—	(54,333)
Equity in other comprehensive income of associates	—	—	—	—	7,435	—	7,435	—	7,435
Foreign currency translation adjustments	—	—	—	—	20,465	—	20,465	(482)	19,983
Net change in unrealized fair value of cash flow hedges	—	—	—	—	(20,192)	—	(20,192)	—	(20,192)
Other comprehensive income of separate account	—	—	—	—	8,676	—	8,676	—	8,676
Remeasurements of defined benefit plans	—	—	—	—	(92,687)	—	(92,687)	(411)	(93,098)
Changes in own credit risk on financial liabilities designated at fair value through profit or loss	—	—	—	—	1,723	—	1,723	—	1,723
Total other comprehensive income	—	—	—	—	50,880	—	50,880	412	51,292
Total comprehensive income	—	—	—	—	50,880	3,156,722	3,207,602	41,955	3,249,557
Other changes in equity									
Dividends	—	—	—	—	—	(687,589)	(687,589)	—	(687,589)
Dividends to hybrid bonds	—	—	—	—	—	(40,357)	(40,357)	—	(40,357)
Issuance of hybrid bonds	—	1,107,838	—	—	—	—	1,107,838	—	1,107,838
Acquisition of treasury stock	—	—	—	(155,923)	—	—	(155,923)	—	(155,923)
Change in other capital adjustments	—	—	8,153	1,063	—	(6,517)	2,699	—	2,699
Change in other non-controlling interests	—	—	—	—	—	—	—	3,608	3,608
Reclassification of OCI to retained earnings	—	1,107,838	8,153	(154,860)	—	(734,463)	226,668	3,608	230,276
Balance at December 31, 2018	₩2,645,053	1,531,759	9,895,488	(552,895)	(753,220)	22,959,440	35,725,625	925,805	36,651,430

See accompanying notes to the consolidated financial statements

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity (Continued)

For the year ended December 31, 2019

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.								
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at January 1, 2019	₩2,645,053	1,531,759	9,895,488	(552,895)	(753,220)	22,959,440	35,725,625	925,805	36,651,430
Total comprehensive income for the year									
Profit for the year	—	—	—	—	—	3,403,497	3,403,497	238,887	3,642,384
Other comprehensive income (loss), net of income tax:									
Gain on financial asset at fair value through other comprehensive income	—	—	—	—	297,652	—	297,652	67,457	365,109
Gain on financial instruments at fair value through profit or loss (overlay approach)	—	—	—	—	150,678	—	150,678	12,289	162,967
Equity in other comprehensive income of associates	—	—	—	—	3,294	—	3,294	—	3,294
Foreign currency translation adjustments	—	—	—	—	104,388	—	104,388	1,383	105,771
Net change in unrealized fair value of cash flow hedges	—	—	—	—	(15,960)	—	(15,960)	(2,629)	(18,589)
Other comprehensive income of separate account	—	—	—	—	10,427	—	10,427	—	10,427
Remeasurements of defined benefit plans	—	—	—	—	(54,850)	—	(54,850)	206	(54,644)
Changes in own credit risk on financial liabilities designated at fair value through profit or loss	—	—	—	—	(8,425)	—	(8,425)	—	(8,425)
Total other comprehensive income	—	—	—	—	487,204	—	487,204	78,706	565,910
Total comprehensive income	—	—	—	—	487,204	3,403,497	3,890,701	317,593	4,208,294
Other changes in equity									
Dividends	—	—	—	—	—	(753,041)	(753,041)	—	(753,041)
Dividends to hybrid bonds	—	—	—	—	—	(61,993)	(61,993)	—	(61,993)
Issuance of hybrid bonds	—	199,476	—	—	—	—	199,476	—	199,476
Issuance of convertible preferred shares	87,410	—	660,381	—	—	—	747,791	—	747,791
Acquisition of treasury stock	—	—	—	(444,077)	—	—	(444,077)	—	(444,077)
Change in other capital adjustments	—	—	9,484	(119,798)	—	(16,222)	(126,536)	—	(126,536)
Change in other non-controlling interests	—	—	—	—	—	—	—	1,509,037	1,509,037
	87,410	199,476	669,865	(563,875)	—	(831,256)	(438,380)	1,509,037	1,070,657
	—	—	—	—	5,860	(5,860)	—	—	—
Reclassification of OCI retained earnings									
Balance at December 31, 2019	₩2,732,463	1,731,235	10,565,353	(1,116,770)	(260,156)	25,525,821	39,177,946	2,752,435	41,930,381

See accompanying notes to the consolidated financial statements

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity (Continued)

For the year ended December 31, 2020

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.								
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at January 1, 2020	₩2,732,463	1,731,235	10,565,353	(1,116,770)	(260,156)	25,525,821	39,177,946	2,752,435	41,930,381
Total comprehensive income for the year									
Profit for the year	—	—	—	—	—	3,414,595	3,414,595	83,481	3,498,076
Other comprehensive income (loss), net of income tax:									
Loss on financial asset at fair value through other comprehensive income	—	—	—	—	(107,484)	—	(107,484)	(285)	(107,769)
Gain on financial instruments at fair value through profit or loss (overlay approach)	—	—	—	—	90,298	—	90,298	—	90,298
Equity in other comprehensive income of associates	—	—	—	—	(3,328)	—	(3,328)	—	(3,328)
Foreign currency translation adjustments	—	—	—	—	(159,596)	—	(159,596)	(1,769)	(161,365)
Net change in unrealized fair value of cash flow hedges	—	—	—	—	(14,460)	—	(14,460)	—	(14,460)
Other comprehensive income of separate account	—	—	—	—	3,884	—	3,884	—	3,884
Remeasurements of defined benefit plans	—	—	—	—	15,752	—	15,752	60	15,812
Changes in own credit risk on financial liabilities designated at fair value through profit or loss	—	—	—	—	3,084	—	3,084	—	3,084
Total other comprehensive income	—	—	—	—	(171,850)	—	(171,850)	(1,994)	(173,844)
Total comprehensive income	—	—	—	—	(171,850)	3,414,595	3,242,745	81,487	3,324,232
Other changes in equity									
Dividends	—	—	—	—	—	(883,929)	(883,929)	—	(883,929)
Dividends to hybrid bonds	—	—	—	—	—	(85,327)	(85,327)	—	(85,327)
Issuance of hybrid bonds	—	448,699	—	—	—	—	448,699	—	448,699
Paid-in capital increase	237,178	—	1,197,774	—	—	—	1,434,952	—	1,434,952
Acquisition of treasury stock(Note 29)	—	—	—	(150,467)	—	—	(150,467)	—	(150,467)
Disposal of treasury stock(Note 29)	—	—	—	451,809	—	—	451,809	—	451,809
Retirement of treasury stock(Note 29)	—	—	—	150,000	—	(150,025)	(25)	—	(25)
Change in other capital adjustments	—	—	471,812	(22,507)	—	(16,141)	433,164	—	433,164
Change in other non-controlling interests	—	—	—	—	—	—	—	(546,631)	(546,631)
Reclassification of OCI retained earnings									
Balance at December 31, 2020	₩2,969,641	2,179,934	12,234,939	(687,935)	(404,181)	27,777,169	44,069,567	2,287,291	46,356,858

See accompanying notes to the consolidated financial statements

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018, 2019 and 2020

(In millions of won)

	Note	2018	2019	2020
Cash flows from operating activities				
Profit before income taxes		₩ 4,466,610	4,911,508	4,753,871
Adjustments for:				
Interest income	31	(13,572,456)	(15,707,362)	(14,773,996)
Interest expense	31	4,992,367	5,969,398	4,891,296
Dividend income	33	(87,826)	(82,158)	(97,956)
Net fees and commission expense	32	176,932	125,975	187,304
Net insurance loss	27	2,080,509	2,098,617	1,726,150
Net loss (gain) on financial instruments at fair value through profit or loss	34	(225,424)	(38,738)	136,191
Net loss (gain) on derivatives	10	291,879	(388,880)	(245,681)
Net loss (gain) on financial instruments at fair value through profit or loss (overlay approach)	9	(74,944)	247,585	136,255
Net foreign currency translation loss(gain)		377,632	147,952	(232,723)
Net loss (gain) on financial instruments designated at fair value through profit or loss	35	(382,667)	33,872	(241,066)
Net gain on disposal of financial asset at fair value through other comprehensive income	11	(20,554)	(152,278)	(273,793)
Net loss (gain) on disposal of securities at amortized cost	11	9	(66)	25
Provision for allowance for credit loss	36	747,877	980,692	1,382,179
Employee costs	25	155,672	188,313	175,539
Depreciation and amortization	37	301,916	677,152	768,488
Other operating (income) expense	39	(278,274)	305,781	202,178
Equity method income, net	15	(17,488)	(53,287)	(159,533)
Other non-operating expense	40	3,147	148,091	153,360
		<u>₩ (5,531,693)</u>	<u>(5,499,341)</u>	<u>(6,265,783)</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2018, 2019 and 2020

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Changes in assets and liabilities:				
Due from banks at amortized cost	₩	6,024,743	(10,059,356)	(4,915,143)
Securities at fair value through profit or loss		(3,082,516)	(3,977,211)	(7,088,599)
Due from banks at fair value through profit or loss		(82,014)	73,904	862,047
Loans at fair value through profit or loss		(422,326)	(943,321)	132,172
Financial asset designated at fair value through profit or loss		723,037	847,715	(708,627)
Derivative instruments		203,006	58,532	(65,288)
Loans at amortized cost		(27,547,413)	(18,831,825)	(32,897,127)
Other assets		(5,177,725)	(4,452,651)	(7,866,826)
Deposits		16,699,467	29,123,272	33,139,123
Liabilities for defined benefit obligations		(145,639)	(263,882)	(243,428)
Provisions		14,542	28,380	51,567
Other liabilities		174,590	7,851,505	8,503,803
		<u>(12,618,248)</u>	<u>(544,938)</u>	<u>(11,096,326)</u>
Income taxes paid		(850,696)	(1,130,148)	(1,184,910)
Interest received		13,208,601	15,200,114	14,570,884
Interest paid		(5,058,596)	(5,793,865)	(5,267,781)
Dividends received		63,826	35,716	80,728
Net cash inflow (outflow) from operating activities	₩	<u>(6,320,196)</u>	<u>7,179,046</u>	<u>(4,409,317)</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2018, 2019 and 2020

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash flows from investing activities				
Decrease in financial instruments at fair value through profit or loss		₩ 2,150,860	3,690,283	4,537,421
Increase in financial instruments at fair value through profit or loss		(3,290,960)	(6,712,873)	(4,982,663)
Proceeds from disposal of securities at fair value through other comprehensive income		27,074,948	36,334,241	53,048,284
Acquisition of securities at fair value through other comprehensive income		(27,037,290)	(46,908,632)	(52,657,353)
Proceeds from disposal of securities at amortized cost		2,093,506	6,722,627	5,923,611
Acquisition of securities at amortized cost		(5,836,342)	(12,209,898)	(7,645,000)
Proceeds from disposal of property and equipment	13, 40	39,202	51,942	248,037
Acquisition of property and equipment	13	(142,933)	(270,386)	(279,654)
Proceeds from disposal of intangible assets	14, 40	3,638	24,825	5,298
Acquisition of intangible assets	14	(157,160)	(318,930)	(362,415)
Proceeds from disposal of investments in associates	15	189,118	182,604	266,322
Acquisition of investments in associates	15	(227,914)	(669,341)	(776,799)
Proceeds from disposal of investment property	16, 40	15,433	86,422	113,038
Acquisition of investment property	16	(115,333)	(2,774)	(243,806)
Proceeds from disposal of assets held for sale		4,498	137	2,048
Proceeds from settlement of hedging derivative financial instruments		67,039	19,303	25,722
Payment of settlement of hedging derivative financial instruments		(26,653)	(195,900)	(186,169)
Net cash flow from business combination	47	(4,498)	(2,246,932)	(73,081)
Other, net		(311,744)	(264,585)	11,233
Net cash outflow from investing activities		<u>₩ (5,512,585)</u>	<u>(22,687,867)</u>	<u>(3,025,926)</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2018, 2019 and 2020

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash flows from financing activities				
Issuance of hybrid bonds		₩ 1,107,838	199,476	448,698
Net increase in borrowings		1,772,203	5,017,269	7,465,106
Proceeds from debt securities issued		26,487,712	31,083,390	21,480,455
Repayments of debt securities issued		(14,689,246)	(19,881,717)	(21,508,827)
Dividends paid		(714,705)	(830,772)	(968,847)
Proceeds from settlement of hedging derivative financial instruments		10,675	1,694,362	851,381
Payment of settlement of hedging derivative financial instruments		(16,832)	(1,716,320)	(807,705)
Acquisition of treasury stock		(151,993)	(444,077)	(150,182)
Disposal of treasury stock		—	—	161,863
Increase in non-controlling interests		347	312,390	566,673
Redemption of lease liabilities		—	(269,362)	(781,867)
Paid-in capital increase		—	—	1,154,347
Issuance of convertible preferred shares		—	747,791	—
Other, net		528	(33,619)	(30,526)
Net cash inflow from financing activities		<u>13,806,527</u>	<u>15,878,811</u>	<u>7,880,569</u>
Effect of changes in foreign exchange rate on cash and cash equivalents held		<u>(30,640)</u>	<u>29,428</u>	<u>(61,518)</u>
Increase in cash and cash equivalents		<u>1,943,106</u>	<u>399,418</u>	<u>383,808</u>
Cash and cash equivalents at beginning of year	44	<u>6,236,650</u>	<u>8,179,756</u>	<u>8,579,174</u>
Cash and cash equivalents at end of year	44	<u>₩ 8,179,756</u>	<u>8,579,174</u>	<u>8,962,982</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

1. Reporting entity

Shinhan Financial Group Co., Ltd., the controlling company, and its subsidiaries included in consolidation (collectively the “Group”) are summarized as follows:

(a) Controlling company

Shinhan Financial Group Co., Ltd. (the “Shinhan Financial Group” or the “Company”), the controlling company, is incorporated on September 1, 2001 for the main purposes of controlling, managing and funding Shinhan Bank, Shinhan Securities Co., Ltd., Shinhan Capital Co., Ltd. and Shinhan BNP Asset Management Co., Ltd. by way of share transfers. The total capital stock amounted to ₩1,461,721 million. Also, Shinhan Financial Group’s shares have been listed on the Korea Exchange since September 10, 2001 and Shinhan Financial Group’s American Depositary Shares have been listed on the New York Stock Exchange since September 16, 2003.

(b) Ownership of Shinhan Financial Group and its major consolidated subsidiaries as of December 31, 2019 and 2020 are as follows:

Investor	Investee (*1)	Location	Date of financial information	Ownership (%)	
				2019	2020
Shinhan Financial Group Co., Ltd.	Shinhan Bank	Korea	December 31	100.0	100.0
”	Shinhan Card Co., Ltd.	”	”	100.0	100.0
”	Shinhan Investment Corp.	”	”	100.0	100.0
”	Shinhan Life Insurance Co., Ltd.	”	”	100.0	100.0
”	Orange Life Insurance Co., Ltd. (*2)	”	”	59.2	100.0
”	Shinhan Capital Co., Ltd.	”	”	100.0	100.0
”	Jeju Bank	”	”	75.3	75.3
”	Shinhan Credit Information Co., Ltd.	”	”	100.0	100.0
”	Shinhan Alternative Investment Management Inc.	”	”	100.0	100.0
”	Shinhan BNP Paribas Asset Management Co., Ltd.	”	”	65.0	65.0
”	SHC Management Co., Ltd.	”	”	100.0	100.0
”	Shinhan DS	”	”	100.0	100.0
”	Shinhan Savings Bank	”	”	100.0	100.0
”	Asia Trust Co., Ltd.	”	”	60.0	60.0
”	Shinhan AITAS Co., Ltd.	”	”	99.8	99.8
”	Shinhan REITs Management Co., Ltd.	”	”	100.0	100.0
”	Shinhan AI Co., Ltd.	”	”	100.0	100.0
”	Neoplux Co., Ltd. (*3)	”	”	—	100.0
Shinhan Bank	Shinhan Asia Limited (*4)	Hong Kong	”	99.9	—
”	Shinhan Bank America	USA	”	100.0	100.0
”	Shinhan Bank Europe GmbH	Germany	”	100.0	100.0
”	Shinhan Bank Cambodia	Cambodia	”	97.5	97.5

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

1. Reporting entity (continued)

Investor	Investee (*1)	Location	Date of financial information	Ownership (%)	
				2019	2020
”	Shinhan Bank Kazakhstan Limited	Kazakhstan	December 31	100.0	100.0
”	Shinhan Bank Canada	Canada	”	100.0	100.0
”	Shinhan Bank (China) Limited	China	”	100.0	100.0
”	Shinhan Bank Japan	Japan	”	100.0	100.0
”	Shinhan Bank Vietnam Ltd	Vietnam	”	100.0	100.0
”	Banco Shinhan de Mexico	Mexico	”	99.9	99.9
”	PT Bank Shinhan Indonesia	Indonesia	”	99.0	99.0
Shinhan Bank Japan	SBJDNX (*5)	Japan	”	—	100.0
Shinhan Card Co., Ltd.	LLP MFO Shinhan Finance	Kazakhstan	”	100.0	100.0
”	PT. Shinhan Indo Finance	Indonesia	”	50.0	50.0
”	Shinhan Microfinance Co., Ltd.	Myanmar	”	100.0	100.0
”	Shinhan Vietnam Finance Co.,Ltd	Vietnam	”	100.0	100.0
Shinhan Investment Corp.	Shinhan Investment Corp. USA Inc.	USA	”	100.0	100.0
”	Shinhan Investment Corp. Asia Ltd.	Hong Kong	”	100.0	100.0
”	SHINHAN SECURITIES VIETNAM CO., LTD.	Vietnam	”	100.0	100.0
”	PT. Shinhan Sekuritas Indonesia	Indonesia	”	99.0	99.0
PT Shinhan Sekuritas Indonesia	PT. Shinhan Asset Management Indonesia	”	”	75.0	75.0
Shinhan Life Insurance Co., Ltd.	Shinhan Financial Plus (*5)	Korea	”	—	100.0
Shinhan BNP Paribas Asset Management Co., Ltd.	Shinhan BNP ASSET MGT HK Ltd.	Hong Kong	”	100.0	100.0
Shinhan DS	SHINHAN DS VIETNAM CO., LTD.	Vietnam	”	100.0	100.0

(*1) Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

(*2) The Group acquired additional shares of Orange Life Insurance Co., Ltd. for the year ended December 31, 2020, and Orange Life Insurance Co., Ltd. became a wholly owned subsidiary of the Group.

(*3) The Group acquired a 96.77% stake in Neoplux.Co., Ltd. for the year ended December 31, 2020. The entity became a wholly owned subsidiary as the Group acquired residual shares additionally.

(*4) As of December 31, 2020, liquidation procedure has been completed.

(*5) Newly invested subsidiaries subject to consolidation are included for the year ended December 31, 2020.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

1. Reporting entity (continued)

(c) Consolidated structured entities

Consolidated structured entities are as follows:

Category	Consolidated structured entities	Description
Trust	Shinhan Bank (including development trust) and 17 others	A trust is consolidated when the Group as a trustee is exposed to variable returns, if principle or interest amounts of the entrusted properties falls below guaranteed amount, the Group should compensate it, and the Group has the ability to affect those returns.
Asset-Backed Securitization	MPC Yulchon Green I and 210 others	An entity for asset backed securitization is consolidated when the Group has sole decision-making authority to dispose assets or change the conditions of the assets, and the Group is exposed to, or has rights to related variable returns by providing credit enhancement and purchases of subordinated securities.
Structured Financing	SHPE Holdings One Co., Ltd.	An entity established for structured financing relating to real estate, shipping, or mergers and acquisitions is consolidated, when the Group has the greatest credit to the entity, has sole decision-making authority of these Entities due to the entities default, and is exposed to, or has rights to related variable returns.
Investment Fund	KoFC Shinhan Frontier Champ 2010-4 PEF and 124 others	An investment fund is consolidated, when the Group manages or invests assets of the investment funds on behalf of other investors as a collective investor or a business executive, or has the ability to dismiss the manager of the investment funds, and is exposed to, or has rights to, the variable returns.

(*) The Group provides credit contribution (ABCP purchase agreements) of ₩4,162,593 million for the purpose of credit enhancement of structured companies.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS are the standards and related interpretations issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issue by the Board of Directors on February 5, 2021, accordingly such statements were submitted for approval to the stockholder’s meeting held on March 25, 2021.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

2. Basis of preparation (continued)

(b) Basis of measurement

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

- derivative financial instruments measured at fair value
- financial instruments at fair value through profit or loss measured at fair value
- financial instruments at fair value through other comprehensive income measured at fair value
- liabilities for cash-settled share-based payment arrangements measured at fair value
- financial assets and liabilities designated as hedged items in a fair value hedge accounting of which changes in fair value attributable to the hedged risk recognized in profit or loss
- liabilities for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. If the estimates and assumptions based on management's best judgment as of December 31, 2020 are different from the actual environment, these estimates and actual results may be different.

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

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

In preparing these consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2019.

(e) Change in accounting policy

Except for the following new standards, which have been applied from January 1, 2020, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2019.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

2. Basis of preparation (continued)

i) Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' – Definition of materiality

The amendments clarify the explanation of the definition of material and IAS 1 and IAS 8 are amended in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Group. The amendments do not have a significant impact on the consolidated financial statements.

ii) Amendments to IFRS 3 'Business combination' – Definition of business

To consider the integration of the acquired activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from lowering the costs. If all of the fair value of gross assets acquired is substantially concentrated in a single identifiable asset or a group of similar assets, an entity may elect to apply a concentration test, an optional test, to permit a simplified assessment of whether an acquired asset of activities and assets is not a business. The amendments do not have a significant impact on the consolidated financial statements.

(iii) Amendments to IFRS 16 'Lease' – The practical expedient for the exemption, discount or deferral of rent related to COVID-19

As a practical expedient, the lessee may not evaluate whether a rent concession, such as the rent discount directly resulting from COVID-19, constitutes a change in the lease. The lessee with this choice shall account for changes in lease payments, such as rent discounts, consistently with the way the Standard specifies when those changes are not lease changes. The Group changed its accounting policy in accordance with the amendments made to IFRS 16. The amended accounting policies are applied retrospectively in accordance with the transitional provisions in IFRS 16. Retrospective application of accounting policies has no cumulative effect on the initial application to be reflected in retained earnings at the beginning of January 1, 2020 and the comparative financial statements presented have not been restated. The amount recognized in profit or loss is ₩ 24,928 million to reflect the change in lease payments arising from the same lease discount for the year ended December 31, 2020 as a result of the amendment to the IFRS 16 'Lease'.

3. Significant accounting policies

Except for the new standards and the amendment to the following standard, which are applied from January 1, 2020, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2020 and have mentioned in the Note 2.

(a) Operating segments

The Group has divided the segments based on internal reports reviewed periodically by the top sales decision maker to make decisions about the resources allocated to the segments and evaluate their performance. There are five reporting segments as described in Note 7. The reporting segments are operated separately according to the nature of the goods and services provided and the organizational structure of the Group.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

The segment reported to the Chief Executive Officer (“CEO”) includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

It is the CEO’s responsibility to evaluate the resources to be distributed to the business and the performance of the business, and to make strategic decisions.

(b) Basis of consolidation

i) Subsidiaries

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

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

ii) Structured entity

The Group establishes or invests in various structured entities. It does not own shares directly or indirectly for these companies. Considering the terms and conditions of the arrangement in which the structured entity was established, the consolidated entity gains and losses from the operations of the structured entity. It is included in the consolidated entities if it is determined that it has the ability to direct the activities of a consolidated structured entity that can most significantly affect these gains and losses. The Group does not recognize any non-controlling interests as equity in relation to structured entities in the consolidated statements of financial position since the non-controlling interests in these entities are recognized as liabilities of the Group.

iii) Intra-group transactions eliminated on consolidation

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

iv) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent’s ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the non-controlling interests balance is reduced to below zero.

(c) Business combinations

i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with IAS 12, '*Income Taxes*'
- Employee benefit arrangements are recognized and measured in accordance with IAS 19, '*Employee Benefits*'
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured in accordance with special provisions
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in IFRS 2, '*Share-based Payment*'
- Non-current assets held for sale are measured at fair value less costs to sell in accordance with IFRS 5, '*Non-current Assets Held for Sale and Discontinued Operations*'

As of the acquisition date, non-controlling interests in the acquired are measured as the non-controlling interests' proportionate share of the acquirer's identifiable net assets.

The transfer consideration in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquired and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquired employee that is included in transfer consideration in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include broker's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, which are recognized in accordance with IAS 32 and IFRS 9, are expensed in the periods in which the costs are incurred and the services are received.

(d) Investments in associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

3. Significant accounting policies (continued)

associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated the Group's stake in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the carrying amount of that interest, including any long-term investments, is reduced to nil, the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(e) Cash and cash equivalents

Cash and cash equivalents are comprised of cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Equity instruments are excluded from cash equivalents unless they are, in substance, cash equivalents, like in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

(f) Non-derivative financial assets

Financial assets are recognized in the consolidated statement of financial position when the Group becomes a party to the contract. In addition, a standardized purchase or sale (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market concerned) is recognized on the trade date.

A financial asset is measured initially at its fair value plus, for an item not at Fair Value Through Profit or Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition of the financial asset. Transaction costs on the financial assets at FVTPL that are directly attributable to the acquisition are recognized in profit or loss as incurred.

i) Financial assets designated at FVTPL

Financial assets can be irrevocably designated as measured at FVTPL despite of classification standards stated below, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases.

ii) Equity instruments

For the equity instruments that are not held for short-term trading, at initial recognition, the Group may make an irrevocable election to present subsequent changes in fair value in other comprehensive income. Equity instruments that are not classified as financial assets at Fair Value through Other Comprehensive Income ("FVOCI") are classified as financial assets at FVTPL.

The Group subsequently measures all equity investments at fair value. Valuation gains or losses of the equity instruments that are classified as financial assets at FVOCI previously recognized as other comprehensive income is not reclassified as profit or loss on recognition. The Group recognizes dividends in profit or loss when the Group's right to receive payments of the dividend is established.

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Notes to the Consolidated Financial Statements

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3. Significant accounting policies (continued)

Valuation gains or losses due to changes in fair value of the financial assets at FVTPL are recognized in the consolidated statement of comprehensive income gains or losses on financial assets at FVTPL. Impairment loss (reversal) on equity instruments at FVOCI is not recognized separately.

iii) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model in which the asset is managed and the contractual cash flow characteristics of the asset. Debt instruments are classified as financial assets at amortized cost, at FVOCI, or at FVTPL. Debt instruments are reclassified only when the Group's business model changes.

① Financial assets at amortized cost

Assets that are held within a business model whose objective is to hold assets to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a financial asset measured at amortized cost that is not subject to a hedging relationship is recognized in profit or loss when the financial asset is derecognized or impaired. Interest income on the effective interest method is included in the 'Interest income' in the consolidated statement of comprehensive income.

② Financial assets at FVOCI

Assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Other than impairment losses, interest income, foreign exchange differences, gains or losses of the financial assets at FVOCI are recognized as other comprehensive income in equity. On removal, gains or losses accumulated in other comprehensive income are reclassified to profit or loss. The interest income on the effective interest method is included in the 'Interest income' in the consolidated statement of comprehensive income. Foreign exchange differences and impairment losses are included in the 'Net foreign currency transaction gain' and 'Provision for credit losses allowance' in the consolidated statement of comprehensive income, respectively.

③ Financial assets at FVTPL

Debt securities other than financial assets at amortized costs or FVOCI are classified at FVTPL. Unless hedge accounting is applied, gains or losses from financial assets at FVTPL are recognized as profit or loss and are included in 'Net gain on financial assets at fair value through profit or loss' in the consolidated statement of comprehensive income.

iv) Embedded derivatives

Financial assets with embedded derivatives are classified regarding the entire hybrid contract, and the embedded derivatives are not separately recognized. The entire hybrid contract is considered when it is determined whether the contractual cash flows represent solely payments of principal and interest.

v) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which

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Notes to the Consolidated Financial Statements

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3. Significant accounting policies (continued)

substantially all the risks and rewards of ownership of the financial asset are transferred. If the Group does not have or transfer most of the risks and rewards of ownership of the financial asset, the entity shall remove the financial asset if it does not control the financial asset. If the Group continues to control the financial asset, it continues to recognize the transferred asset to the extent that it is continuously involved and recognizes the related liability together.

If the Group transfers the right to cash flows of a financial asset but holds most of the risks and rewards of ownership of the financial asset, the entity shall continue to recognize the asset. Also, the amount of disposal amount is recognized as a liability.

vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(g) Derivative financial instruments

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

i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction. In addition, this document describes the hedging instrument, hedged item, and the method of evaluating the effect of the hedging instrument offsetting changes in the fair value or cash flow of the hedged item due to the hedged risk at the initiation of the hedging relationship and in subsequent periods.

The group has applied the following reliefs that were introduced by the amendments made to IFRS 9 Financial Instruments in September 2019. In a hedging relationship, the assume that the interest rate index that is the underlying variable of cash flows does not change to the interest rate index reform when reviewing the probability of occurrence and the prospective assessment of the effectiveness of the hedge. For hedges of non-contractually specified interest rate risk components, the requirement that the hedged risk should be separately identifiable applies only at the inception of the hedging relationship. Through the interest rate index reform, this application of exception is ended when the timing and amount of cash flows based on the interest rate index will no longer appear, or the hedging relationship is discontinued.

① Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative

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3. Significant accounting policies (continued)

hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the separate statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria. Any adjustment arising from G/L on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

② Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

③ Net investment hedge

The portion of the change in fair value of a financial instrument designated as a hedging instrument that meets the requirements for hedge accounting for a net investment in a foreign operation is recognized in other comprehensive income and the ineffective portion of the hedge is recognized in profit or loss. The portion recognized as other comprehensive income that is effective as a hedge is recognized in the statement of comprehensive income as a result of reclassification adjustments in accordance with IAS 21, "Effect of Changes in Foreign Exchange Rates" at the time of disposing of its overseas operations or disposing of a portion of its overseas operations To profit or loss.

ii) Other derivative financial instruments

All derivatives except those designated as hedging instruments and are effective in hedging are measured at fair value. Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

iii) Unobservable valuation differences at initial recognition

Any difference between the fair value of over the counter derivatives at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss but is recognized on a straight-line basis over the life of the instrument or the remainder is recognized in profit or loss immediately when the fair value becomes observable.

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Notes to the Consolidated Financial Statements

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3. Significant accounting policies (continued)

(h) Impairment: Financial assets and contract assets

The Group recognizes allowance for credit loss for debt instruments measured at amortized cost and fair value through other comprehensive income, and lease receivable, loan commitments and financial guarantee contracts using the expected credit loss impairment model. Financial assets migrate through the following three stages based on the change in credit risk since initial recognition and allowance for credit loss for the financial assets are measured at the 12-month expected credit losses (“ECL”) or the lifetime ECL, depending on the stage.

Category	Allowance for credit loss
STAGE 1 When credit risk has not increased significantly since the initial recognition	12-months ECL: the ECL associated with the probability of default events occurring within the next 12 months
STAGE 2 When credit risk has increased significantly since the initial recognition	Lifetime ECL: a lifetime ECL associated with the probability of default events occurring over the remaining lifetime
STAGE 3 When assets are impaired	Same as above

The Group, meanwhile, only recognizes the cumulative changes in lifetime expected credit losses since the initial recognition as an allowance for credit loss for purchased or originated credit-impaired financial assets. The total period refers to the expected life span of the financial instrument up to the contract expiration date.

i) Reflection of forward-looking information

The Group reflects forward-looking information presented by internal experts based on a variety of information when measuring expected credit losses. For the purpose of estimating these forward-looking information, the Group utilizes the economic outlook published by domestic and overseas research institutes or government and public agencies. The Group reflects future macroeconomic conditions anticipated from a neutral standpoint that is free from bias in measuring expected credit losses. Expected credit losses in this respect reflect conditions that are most likely to occur and are based on the same assumptions that the Group used in its business plan and management strategy.

ii) Measurement of expected credit loss of financial at amortization cost

The expected credit loss of an amortized financial asset is measured as the difference between the present value of the cash flows expected to be received and the cash flow expected to be received. For this purpose, we calculate expected cash flows for individually significant financial assets. For non-individual significant financial assets, the financial assets collectively include expected credit losses as part of a set of financial assets with similar credit risk characteristics.

Expected credit losses are deducted using the allowance for credit loss account and are written off if the financial assets are not recoverable. The allowance for credit loss is increased when the written-off loan receivables are subsequently collected and changes in the allowance for credit loss are recognized in profit or loss.

iii) Measurement of estimated credit loss of financial assets at FVOCI

The calculation of expected credit losses is the same as for financial assets measured at amortized cost, but changes in allowance for credit loss are recognized in other comprehensive income. In the case of disposal

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3. Significant accounting policies (continued)

and redemption of other comprehensive income – fair value, the allowance for credit loss is reclassified from other comprehensive income to profit or loss and recognized in profit or loss.

(i) Property and equipment

Property and equipment are initially measured at cost and after initial recognition. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Certain land and buildings are measured at fair value at the date of transition to IFRS, which is deemed cost, in accordance with IFRS 1, 'First-time Adoption of IFRS'. Subsequent to initial recognition, the asset is measured at cost less accumulated depreciation and accumulated impairment losses, if any.

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

Land is not depreciated. Other property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

<u>Descriptions</u>	<u>Useful lives</u>
Buildings	40~50 years
Other properties	4~5 years

Depreciation methods, useful lives and residual values are reassessed at each fiscal year-end and any adjustment is accounted for as a change in accounting estimate.

(j) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

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

<u>Descriptions</u>	<u>Useful lives</u>
Software	5 years
Capitalized development cost	5 years
Other intangible assets	5 years or contract periods

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are

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3. Significant accounting policies (continued)

reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

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

(k) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both. An investment property is initially recognized at cost including any directly attributable expenditure. Subsequent to initial recognition, the asset is measured at cost less accumulated depreciation and accumulated impairment losses, if any.

The depreciation method and the estimated useful lives for the current and comparative periods are as follows:

<u>Descriptions</u>	<u>Depreciation method</u>	<u>Useful lives</u>
Buildings	Straight-line	40 years

(l) Leased assets – policy applicable from January 1, 2019

i) Accounting treatment as the lessee

The Group leases various tangible assets, such as real estate and vehicles, and the each lease contract is negotiated individually and includes a variety of terms and conditions. There are no other restrictions imposed by the lease contracts, but the lease assets cannot be provided as collaterals for borrowings.

At the commencement date of the lease, the Group recognizes the right-of-use assets and the lease liabilities. Each lease payment is allocated to payment for the principal portion of the lease liability and financial costs. The Group recognizes in profit or loss the amount calculated to produce a constant periodic rate of interest on the lease liability balance for each period as financial costs. Right-of-use assets are depreciated using a straight-line method from the commencement date over the lease term.

Lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date of the lease, and the lease payments included in the measurement of the liabilities consist of the following payments:

- Fixed payments (including in-substance fixed payments, less any lease incentives receivable)
- Variable lease payments depending on the index or rate
- Amounts expected to be paid by the lessee under the residual value guarantee
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option extended lease payments in an optional renewal period if the lessee is reasonably certain to that they will exercise the extension option

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3. Significant accounting policies (continued)

- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

If the interest rate implicit in the lease is readily determined, the lease payments are discounted by the rate; if the rate is not readily determined, the lessee's incremental borrowing rate is used.

The cost of the right-of-use assets comprise:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date (less any lease incentives received)
- Any initial direct costs incurred by the lessee
- An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

Lease payments related to short-term leases or low-value assets are recognized as current expenses over the lease term using the straight-line method. A short-term lease is a lease that has a lease term of 12 months or less, and the low-value assets lease is a lease of which the underlying asset value is not more than ₩6 million.

Additional considerations for the Group when accounting for lessees include:

Extension and termination options are included in a number of real estate lease contracts of the Group. In determining the lease term, management considers all relevant facts and circumstances that create an economic incentive not to exercise the options. The periods covered by, a) an option to extend the lease if the lessee is reasonably certain to exercise that option, or b) an option to terminate the lease if the lessee is reasonably certain not to exercise that option, is included when determining the lease term. The Group reassesses whether the Group is reasonably certain to exercise the extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee, and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

ii) Accounting treatment as the lessor

The Group leases out to lessees various tangible assets, including vehicles under operating and finance lease contracts, and the each lease contract is negotiated individually and includes a variety of terms and conditions. The risk management method for all rights held by the Group in the underlying assets includes repurchase agreements, residual value guarantees, etc.

① Finance leases

The Group recognizes them as a receivable at an amount equal to the net investment in the lease, and the difference from the carrying amount of the leasing asset as of the commencement date is recognized as profit or loss from disposal of the lease asset. In addition, interest income is recognized by applying the effective interest method for the amount of the Group's net investment in finance leases. Lease-related direct costs are included in the initial recognition of financial lease receivables and are accounted for in a way that reduces the revenue for the lease term.

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3. Significant accounting policies (continued)

② Operating leases

The Group recognizes the lease payments as income on straight-line basis, and adds the lease initial direct costs incurred during negotiation and contract phase of the operating lease to the carrying amount of the underlying asset. In addition, the depreciation policy of operating lease assets is consistent with the Group's depreciation policy of other similar assets.

(m) Leased assets – policy applicable before January 1, 2019

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

i) Finance leases

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

ii) Operating leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the period of the lease.

iii) Lessor

Under a finance lease, the lessor recognizes a finance lease receivable. Over the lease term the lessor accrues interest income on the net investment. The receipts under the lease are allocated between reducing the net investment and recognizing finance income, so as to produce a constant rate of return on the net investment.

Under an operating lease, the lessor recognizes the lease payments as income over the lease term and the leased asset in its statement of financial position.

(n) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be

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3. Significant accounting policies (continued)

classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS 36 '*Impairment of Assets*'.

An asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(o) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, and if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or the CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Non-derivative financial liabilities

The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

Transaction costs on the financial liabilities at FVTPL are recognized in profit or loss as incurred.

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3. Significant accounting policies (continued)

i) Financial liabilities designated at FVTPL

Financial liabilities can be irrevocably designated as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, or a group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The amount of change in the fair value of the financial liabilities designated at FVTPL that is attributable to changes in the credit risk of that liabilities shall be presented in other comprehensive income.

ii) Financial liabilities at FVTPL

Since initial recognition, financial liabilities at FVTPL is measured at fair value, and changes in the fair value are recognized as profit or loss.

iii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities, and other financial liabilities include deposits, borrowings, debentures and etc. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(q) Foreign currencies

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency using the exchange rate at the end of the reporting period. Non-monetary foreign currency items measured at fair value are converted to the exchange rate on the date the fair value is determined, and non-monetary items measured at historical cost are converted to the exchange rate on the trading day.

All foreign currency differences arising from the conversion of monetary items are recognised in profit or loss. However, the Group excludes currency differences at the time of settlement of monetary items, conversion differences in net investments in foreign operations and conversion differences for financial liabilities designated cash flow hedges. If gains or losses arising from non-monetary items are recognised in other comprehensive income, the effect of exchange rate changes included in those gains or losses is also recognised in other comprehensive income. In addition, if recognised in profit or loss, the effect of exchange rate changes is also recognised in profit or loss.

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3. Significant accounting policies (continued)

ii) Foreign operations

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and are translated using the exchange rate at the reporting date.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

iii) Net investment in a foreign operation

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognized in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

(r) Equity capital

i) Capital stock

Capital stock is classified as equity. Incremental costs directly attributable to the transaction of stock are deducted from equity, net of any tax effects.

Preferred stocks are classified as equity if they do not need to be repaid or are repaid only at the option of the Group and if payment is determined by the Group's discretion, and dividends are recognized when the shareholders' meeting approves the dividends. Preferred stocks that are eligible for reimbursement of a defined or determinable amount on or after a certain date are classified as liabilities. The related dividend is recognized in profit or loss at the time of occurrence as interest expense.

ii) Hybrid bonds

The Group classifies an issued financial instrument, or its component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instrument. Hybrid bonds where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as an equity instrument and presented in equity. Hybrid bonds issued by subsidiaries of the group are classified as non-controlling interests according to this classification criteria. In addition, distributions paid are treated as net income attributable to non-controlling interests in the consolidated statement of comprehensive income.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

iii) Capital adjustment

The effect of changes in ownership interests in subsidiaries that do not lose control over the equity attributable to owners of the parent is included in capital adjustments.

(s) Employee benefits

i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

ii) Other long-term employee benefits

The Group's net obligation in respect of other long-term employee benefits that are not expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

iii) Retirement benefits: defined contribution plans

The Group recognizes the contribution expense as an account of severance payments in profit or loss in the period according to the defined contribution plans. Contributions payable are recognized as liabilities (unpaid expenses) after deducting the contributions already paid. In addition, if the contribution already paid exceeds the contribution due for services provided before the end of the reporting period, the future contribution is reduced or cash refunded due to the excess is recognized as an asset (prepaid expense).

iv) Retirement benefits: defined benefit plans

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

Defined benefit liabilities are calculated annually by independent actuaries using the predicted unit credit method. If the net present value of the defined benefit obligation less the fair value of the plan assets is an asset then the present value of the economic benefits available to the entity in the form of a refund from the plan or a reduction in future contributions to the plan.

The remeasurement component of net defined benefit liability is the change in the effect of the asset except for the amount included in the net interest income of plan assets and net revenues of plan assets excluding actuarial gains and losses to the net of defined benefit liabilities. It is immediately recognized in other comprehensive income. The Group determines the net interest on the net defined benefit obligation (asset) by multiplying the net defined benefit obligation (asset) by the discount rate determined at the beginning of the annual reporting period and is the net present value of the net defined benefit obligation. It is determined by taking into consideration the fluctuations. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

When an amendment or reduction of the system occurs, the gain or loss resulting from the change or decrease in the benefits to the past service is immediately recognized in profit or loss. The Group recognizes gains or losses on settlement when the defined benefit plan is settled.

v) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(t) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

(u) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

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

Provisions shall be used only for expenditures for which the provisions are originally recognized.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

(v) Financial guarantee contract

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee contract.

After initial recognition, financial guarantee contracts are measured at the higher of:

- Loss allowance in accordance with IFRS 9, 'Financial Instruments'
- The amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15, 'Revenue from Contracts with Customers'

(w) Insurance contracts

i) Investment contract liabilities, including insurance contract liabilities and discretionary dividend factors

The group establishes liability reserves in accordance with the Insurance Business Law and the related regulations. The reserves are calculated according to the insurance policy, insurance premiums and liability reserve calculation method. The main contents are as follows.

i-1) Premium reserves

The present value of the premiums payable to the policy holders after the balance sheet date is the present value of the net premium to be paid after the end of the reporting period. The amount is deducted from the value.

i-2) Prepaid premium reserves

As of the end of the reporting period, premiums that have paid due are calculated based on premiums and the liability reserve calculation method.

i-3) Guarantee reserves

The total amount of reserve for variable minimum guarantee (①) and reserve for general account guarantee (②) is provided as guarantee reserve.

① Variable minimum guarantee reserve

This reserve is the amount that must be accumulated to guarantee insurance premiums above a certain level for contracts maintained as of the end of the reporting period, and is measured at the higher of:

- i) the average amount of the top 30% of net loss expected in the future
- ii) the minimum required amount by insurance types, minimum guarantees and limits of stock investment portion

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

② General account guarantee reserve

As of the end of the reporting period, the amount of reserve for insurance contracts that are insured under general account is required to be paid to guarantee the level of refunds, and select the largest of the following:

- i) Average of the amount deducted from the appropriateness of the liability reserve calculated by excluding the guarantee option from the appropriateness evaluation of the liability reserve calculated by including the guarantee option for each interest rate scenario
- ii) The amount of compensation (including annulment contract) against the guarantee received from the policy holder by the rate applied at the premium calculation in the insurance premium and liability reserve calculation method

i-4) Reserve for outstanding claims

As of the end of the reporting period, the Group has accrued the amount for which the reason for the payment of insurance claims, etc. has been incurred and the amount of the claim payment has not been paid yet due to the dispute or lawsuit related to the insurance settlement (pending in the Financial Dispute Mediation Committee). In addition, the Group recognizes unrecognized losses based on historical experience.

i-5) Reserves for participating policyholders' dividends

The reserve is provided for the purpose of contributing to the policyholder dividend according to the laws and regulations and the reserve for dividend reserve for the policyholder and the dividend reserve for the subsequent business year.

The policyholder dividend reserve is the amount that is not paid as of the end of the reporting period for the settlement amount and the reserve for dividend policy for the next fiscal year is based on the policyholder dividend calculated on the insurance contract effective as of the end of the reporting period.

① Excess crediting rate reserve

In the case of a dividend insurance contract which has been maintained for more than one year as of the end of the reporting period among contracts signed before October 1, 1997, the difference between the planned interest rate and the one-year maturity deposit rate shall be preserved.

② Mortality dividend reserve

Dividends arising from contracts that are maintained for more than one year at the end of the reporting period are used to offset the expected mortality and actual mortality rates applied to premiums.

③ Interest dividend reserve

For the contracts that have been maintained for more than one year as of the end of the reporting period, the amount calculated by applying the interest dividend reserve rate to the net written premium reserve less the unearned acquisition costs. However, the insurance sold before October 1, 1997 is applied to the amount deducted from the net premium in the event that the planned interest rate by the insurance product is less than the dividend standard.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

④ Reserves for long-term special dividends

For the effective dividend policy agreement that has been maintained for 6 years or more, the amount calculated by applying the long-term special dividend rate to the amount deducted from the net premiums for the end of the year.

However, insurance sold before October 1, 1997 is applied to the deduction of unearned premiums at the end of the year when the expected interest rate by the insurance product is less than the dividend standard rate.

i-6) Reserve for interest dividends

In order to cover the policyholder dividend in the future, the total amount is set aside according to business performance according to the law or insurance contracts.

i-7) Reserve for dividend insurance loss reserve

In accordance with the regulations set by the supervisory authority, dividend insurance profit is accumulated within 30/100 of the contractor's stake. The reserve for the compensation of dividend insurance losses shall compensate for the loss of dividend insurance contracts in accordance with the provisions of the fiscal year within five years from the end of the accumulated reporting period and shall be used as the policyholder dividend source for the individual contractor.

ii) Contractor's equity adjustment

The Group classifies the gains and losses on available-for-sale financial assets as of the end of the reporting period as contractor's equity and shareholder's equity based on the ratio of the average liability reserves of the dividend and non-dividend policies for the fiscal year. The amount corresponding to the contractor's equity is categorized as the adjustment of the contractor's equity.

iii) Evaluation of debt appropriateness

At the end of each reporting period, the group assesses whether the recognized insurance liability is appropriate using the current estimates of future cash flows of the policy, and if the carrying amount of the insurance liability is deemed to be inappropriate in terms of the estimated future cash flows. The reserve for premiums is added to the profit or loss by the amount corresponding to the deficiency.

iv) Reinsurance assets

The group presents the recoverable amount of reinsurance assets. The group assesses at the end of each reporting period whether there is objective evidence that a reinsurance asset is impaired. If there is objective evidence that the entity will not be able to collect all amounts under the terms of the agreement as a result of an event that occurred after the initial recognition and if the event has a reliable and measurable impact on the amount to be received. If reinsurance assets are determined to be impaired, impairment loss is recognized in the profit and loss for the current period.

v) Deferred acquisition cost

The group recognizes unrealized gains and losses arising from long-term insurance contracts as assets and amortizes the premiums over the life of the insurance contracts equally. If the contribution period exceeds

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

7 years, the amortization period is 7 years if there is an unrecognized balance at the date of the cancellation, the entire amount of the cancellation is amortized in the fiscal year to which the cancellation date belongs. But, if the ratio of additional premiums is higher at the early stage of the insurance period for the purpose of recovering the excess of the unearned premiums and the early settlement costs, the new settlement expenses are treated as the period expense.

(x) Recognition of revenues and expenses

Other than revenues under the scope of IAS 17, 'Leases', IAS 28, 'Investments in Associates and Joint Ventures', IFRS 9, 'Financial Instruments', IFRS 10, 'Consolidated Financial Statements', and IFRS 11, 'Joint Arrangements', the Group's revenues are recognized using five-step revenue recognition model as follows: ① 'Identifying the contract' → ② 'Identifying performance obligations' → ③ 'Determining the transaction price' → ④ 'Allocating the transaction price to performance obligations' → ⑤ 'Recognizing the revenue by satisfying performance obligations'.

i) Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, and all other premiums or discounts. When it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Group uses the contractual cash flows over the full contractual term of the financial instrument.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

ii) Fees and commission

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument.

① Fees that are an integral part of the effective interest rate of a financial instrument

Such fees are generally treated as an adjustment to the effective interest rate. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, preparing and processing documents, closing the transaction and the origination fees received on issuing financial liabilities. However, when the financial instrument is measured at fair value with the change in fair value recognized in profit or loss, the fees are recognized as revenue when the instrument is initially recognized.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

② Fees earned as services are provided

Fees and commission income, including investment management fees, sales commission, and account servicing fees, are recognized as the related services are provided.

③ Fees that are earned on the execution of a significant act

The fees that are earned on the execution of a significant act including commission on the allotment of shares or other securities to a client, placement fee for arranging a loan between a borrower and an investor and sales commission, are recognized as revenue when the significant act has been completed.

iii) Insurance income

The Group recognizes insurance income for the insurance premium paid of which the payment date arrived by the premium payment methods of the insurance contract; and recognizes advance received for the insurance premium paid of which the payment date has not arrived at the end of the reporting period.

iv) Dividends

Dividends income is recognized when the shareholder's right to receive payment is established. Usually this is the ex-dividend date for equity securities. The Group provides compensation in various forms such as payment discounts and gifts.

(y) Revenue from Contracts with Customers

The fair value of the consideration received or receivable in exchange for the initial transaction is allocated to the reward points ("points") and the remainder of the fee income. The Group provides rewards in various forms such as payment discounts and free gifts. The consideration to be allocated to the points is estimated based on the fair value of the monetary benefits to be provided in consideration of the expected recovery rate of points awarded in accordance with the customer loyalty program and the expected time of recovery. Points for distribution through the cost paid by the customer is recognized by deducting from the revenue from fees.

(z) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group applies a consolidated tax method based on a consolidated tax base and a domestic corporation (hereinafter referred to as the “Consolidated Entity Corporation”) that is fully controlled by the consolidated parent company and the consolidated tax base.

The Group evaluates the feasibility of temporary differences, taking into account the future taxable income of individual companies and consolidated groups, respectively. The change in deferred tax assets (liabilities) was recognized as expense (income), except for the amount associated with items directly added to the equity account.

For additional temporary differences in subsidiaries, associates, and joint venture investment interests, the Group may control the timing of the disappearance of temporary differences. All deferred tax liabilities are recognised except in cases where temporary differences are unlikely to dissipate in the foreseeable future. Deferred tax assets arising from deductible temporary differences are likely to be extinguished in the foreseeable future. In addition, It is recognised when taxable income is likely to be used for temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period. The carrying amount of deferred tax assets is reduced when it is no longer likely that sufficient taxable income will be generated to use benefits from deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are corporate taxes imposed by the same taxation authority. Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets.

Because of the tax polices taken by the Group, tax uncertainties arise from the complexity of transactions and differences in tax law analysis. Also, it arises from a tax refund suit, tax investigation, or a refund suit against the tax authorities’ tax amount. The Group paid the tax amount by the tax authorities in accordance with IFRIC 23. However, it will be recognized as the corporate tax assets if there is a high possibility of a refund in the future. In addition, the amount expected to be paid as a result of the tax investigation is recognized as the tax liability.

(aa) Accounting for trust accounts

The Group accounts for trust accounts separately from its bank accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the accompanying consolidated financial statements. In this regard, the funds lent to the trust account are counted as trust account loans and loans borrowed from the trust account as other accounting accounts (non-payment of the

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

trust account). In accordance with the Financial Investment Business Regulations, trust remuneration is acquired in connection with the operation, management, and disposal of trust property, and it is counted as the operating profit of trust business.

(ab) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholder of the Group by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(ac) Issued/Amended Accounting Standards that are not applied

The following issued/amended standards have been published but have not yet been effective during the fiscal year beginning January 1, 2020. Hence, the Group did not apply the following issued/amended standards in preparing financial statements:

i) IFRS 9, 'Financial Instruments' and IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosures' Revision' and IFRS 4, 'Insurance Contracts' IFRS 16, 'Leases' amended – Interest rate indicator reform

The effective interest rate, not the carrying amount, is adjusted when replacing the interest rate index of a financial instrument measured at amortized cost in relation to the reform of the interest rate index. It includes exceptions, such as allowing hedge accounting to continue uninterrupted even if an interest rate indicator replacement occurs in a hedging relationship. This amendments will take effect for annual periods beginning after January 1, 2021 and are permitted for early application. The Group is determining whether there will be any impacts on the financial statements due to the amendments.

ii) IFRS 3 'Business combination' amended – Reference to the Conceptual Framework

For liabilities and contingent liabilities, an exception has been added to apply within IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' and IFRIC 21, even though the definition of assets and liabilities to be recognized is amended to refer to the revised conceptual framework for financial reporting. In addition, it is clarified that contingent assets are not recognized at the acquisition date. This amendment will take effect for annual periods beginning after January 1, 2022 and are permitted for early application. The Group expects that the amendments will not have a significant impact on the consolidated financial statements.

iii) IFRS 17 'Insurance Contracts' amended

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS 4. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

features. The standard general model is supplemented by the variable fee approach and the premium allocation approach. IFRS 17 is effective from 1 January 2023. The Group is currently in process of evaluating the potential impact of adopting IFRS 17.

(iv) IAS 16 'Property, Plant and Equipment' amended – the amount of the sale before the intended use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, the Group recognise such sales proceeds and related costs in profit or loss. This amendments will take effect for annual periods beginning after January 1, 2022 and are permitted for early application. The Group expects that the amendments will not have a significant impact on the consolidated financial statements.

(v) IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' amended – Onerous Contracts: Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. This amendments will take effect for annual periods beginning after January 1, 2022 and are permitted for early application. The Group expects that the amendments will not have a significant impact on the consolidated financial statements.

(vi) Annual Improvements to IFRSs 2018-2020 Cycle

For Annual Improvements to IFRSs 2018-2020 Cycle, the amendments will take effect for annual periods beginning after January 1, 2022 and are permitted for early application. The amendments will not have a significant impact on the consolidated financial statements.

- IFRS 1, 'First-time Adoption of IFRS' – First-time adopter subsidiaries
- IFRS 9, 'Financial Instruments' – 10% test-related fee for financial liabilities removal
- IFRS 16, 'Leases' – Lease incentives
- IAS 41, 'Agriculture' – Fair value measurement

vii) IAS 1 'Presentation of Financial Statements' amended – Classification of Liabilities as Current or Non-current

It is classified as current or non-current according to the actual rights existing as of the end of fiscal year. The Company does not consider the possibility of exercising the right to postpone the payment of the liability or the expectations of management. The payment of the liability includes the transfer of the equity instrument, except that the option to settle the equity instrument from a compound financial instrument meets the definition of the equity instrument and is recognized separately from the liability. This amendment is effective for annual periods beginning on or after January 1, 2023. The Group expects that the amendment will not have a significant impact on its consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management

(a) Overview

Shinhan Financial Group Co., Ltd. (collectively the “Group”) manages various risks that may be arisen by each business sector and the major risks to which the Group is exposed include credit risk, market risk, interest rate risk, and liquidity risk. These risks are recognized, measured, controlled and reported in accordance with risk management guidelines established at the controlling company level and at the subsidiary level.

i) Risk management principles

The risk management principles of the Group are as follows:

- All business activities take into account the balance of risks and profits within a predetermined risk trend.
- The controlling company shall present the Group Risk Management Model Standards and supervise their compliance, and have responsibility and authority for group-level monitoring.
- Operate a risk-related decision-making system that enhances management’s involvement.
- Organize and operate risk management organizations independent of the business sector.
- Operate a performance management system that clearly considers risks when making business decisions.
- Aim for preemptive and practical risk management functions.
- Share a cautious view to prepare for possible deterioration of the situation.

ii) Risk management organization

The basic policies and strategies for risk management of the Group are established by the Risk Management Committee (collectively the “Group Risk Management Committee”) within the controlling company’s Board of Directors. The Group’s Chief Risk Management Officer (CRO) assists the Group Risk Management Committee and consults the risk policies and strategies of the group and each subsidiary through the Group Risk Council, which includes the Chief Risk Management Officer of each subsidiary. The subsidiary implements the risk policies and strategies of the Group through each company’s risk management committee, risk-related committee, and risk management organization, and consistently establishes and implements the detailed risk policies and strategies of the subsidiary. The risk management team of the controlling company assists the Group’s chief risk management officer for risk management and supervision.

Shinhan Financial Group has a hierarchical limit system to manage the risks of the Group to an appropriate level. The Group Risk Management Committee sets the risk limits that can be assumed by the Group and its subsidiaries, while the Risk Management Committee and the Committee of each subsidiary set and manage detailed risk limits by risk, department, desk and product types.

① Group Risk Management Committee

The Group established the risk management system for the Group and each of its subsidiaries, and comprehensively manages group risk-related matters such as establishing risk policies, limits, and approvals. The Committee consists of directors of the Group.

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

The resolution of the Committee is as follows:

- Establish risk management basic policy in line with management strategy
- Determine the level of risk that can be assumed by the Group and each subsidiary
- Approve appropriate investment limit or loss allowance limit
- Enact and amend the Group Risk Management Regulations and the Group Risk Council Regulations
- Matters concerning risk management organization structure and division of duties
- Matters concerning the operation of the risk management system;
- Matters concerning the establishment of various limits and approval of limits
- Make decisions on approval of the FSS's internal rating law for non-retail and retail credit rating systems
- Matters concerning risk disclosure policy
- Analysis of crisis situation, related capital management plan and financing plan
- Matters deemed necessary by the board of directors
- Materials required by external regulations such as the Financial Services Commission and other regulations and guidelines
- Matters deemed necessary by the Chairman

The resolution of the Group Risk Management Committee is reported to the Board of Directors.

② Group Risk Management Council

In order to maintain the Group's risk policy and strategy consistently, the Group decides what is necessary to discuss the risks of the Group and to carry out the policies set by the Group Risk Management Committee. The members are chaired by the group's risk management officer and consist of the risk management officers of major subsidiaries.

iii) Group Risk Management System

① Management of the risk capital

Risk capital refers to the capital required to compensate for the potential loss (risk) if it is actually realized. Risk capital management refers to the management of the risk assets considering its risk appetite, which is a datum point on the level of risk burden compared to available capital, so as to maintain the risk capital at an appropriate level. The Group and subsidiaries establish and operate a risk planning process to reflect the risk plan in advance when establishing financial and business plans for risk capital management, and establish a risk limit management system to control risk to an appropriate level.

② Risk Monitoring

In order to proactively manage risks by periodically identifying risk factors that can affect the group's business environment, the Group has established a multi-dimensional risk monitoring system. Each

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(In millions of won)

4. Financial risk management (continued)

subsidiary is required to report to the Group on key issues that affect risk management at the group level. The Group prepares weekly, monthly and occasional monitoring reports to report to Group management including the CRO.

In addition, the Risk Dash Board is operated to derive abnormal symptoms through three-dimensional monitoring of major portfolios, increased risks, and external environmental changes (news) of assets for each subsidiary. If necessary, the Group takes preemptive risk management to establish and implement countermeasures.

③ Risk Reviewing

When conducting new product new business and major policy changes, risk factors are reviewed by using a pre-defined checklist to prevent indiscriminate promotion of business that is not easy to judge risk and to support rational decision making. The subsidiary's risk management department conducts a preliminary review and post-monitoring process on products, services, and projects to be pursued in the business division. In case of matters that are linked or jointly promoted with other subsidiaries, the risk reviews are carried out after prior-consultation with the risk management department of the Group.

④ Risk management

The Group maintains a group wide risk management system to detect the signals of any risk crisis preemptively and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure the Group's survival as a going concern. Each subsidiary maintains crisis planning for three levels of contingencies, namely, 'alert', 'imminent crisis' and 'crisis' determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the controlling company level, the Group maintains and installs crisis detection and response system which is applied consistently group-wide, and upon the happening of any contingency at two or more subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted group wide basis.

(b) Credit risk

Credit risk is the risk of potential economic loss that may be caused if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and is the largest risk which the Group is facing. The Group's credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivative transactions.

Shinhan Bank's basic policy on credit risk management is determined by the Risk Policy Committee. The Risk Policy Committee consists of the chairman of the CRO, the Chief Credit Officer (CCO), the head of the business group, and the head of the risk management department, and decides the credit risk management plan and the direction of the loan policy for the entire bank. Apart from the Risk Policy Committee, the Credit Review Committee is established to separate credit monitoring, such as large loans and limit approval, and the CCO is composed of the chairman, the head of the group in charge of the credit-related business group, the head of the credit planning department, and the senior examination team to enhance the soundness of the loan and profitability of operation.

Shinhan Bank's credit risk management includes processes such as credit evaluation, credit monitoring, and credit supervision, and credit risk measurement of counterparties and limit management processes and credit

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4. Financial risk management (continued)

risk measurements for portfolios. All loan customers of Shinhan Bank are evaluated and managed with credit ratings. Retail customers are evaluated by summing up the information of the bank's internal information and external credit information, and the corporate customers are evaluated by considering financial and non-financial items such as industrial risk, operating risk, and management risk. The evaluated credit rating is used for credit approval, limit management, pricing, credit loss provisioning, etc., and is the basis for credit risk management. The credit evaluation system is divided into an evaluation system for retail customers, a SOHO evaluation system, and an evaluation system for corporate customers. It is subdivided and refined by each model to reflect the Basel III requirements. The corporate credit decision is based on a collective decision-making system, making objective and prudent decisions. In the case of a general credit of loans, the credit is approved based on the consultation between the credit officer of the branch and the headquarters' Review Committee. In the case of a large or important credit, the credit is approved by the review council. In particular, the Credit Deliberation Committee, the highest decision-making body of the loan, reviews for important loans such as large loans. Credits for retail customers are monitored by an automated credit scoring systems (CSS) based on objective statistical methods and bank credit policies.

Credits for corporate customers are performed by the loan officers and reviewers of branch offices by automatically searching for anticipated insolvent companies among business loan partners, and the credit department independent of the business sector evaluates the adequacy of the result of the loan review and, if necessary, the credit rating of the corporate is requested of an adjustment. In accordance with these procedures, the corporate customers are classified as an early warning company, an observation company, and a normal company, and then are managed differently according to the management guidelines for each risk stage, thereby preventing the insolvency of the loan at an early stage. In order to control the credit risk for the credit portfolio to an appropriate level, credit VaR limits are set and managed for each business and business sector, and to prepare for the credit risk caused by biased exposure to specific sectors, the Group sets and manages exposure limits for each sector by the party, industry, country, etc.

Shinhan Card's basic policy on credit risk is determined by the Risk Management Committee. The Risk Management Committee consists of the Risk Management Officer (CRO) as the chairperson, and is composed of the heads of each business division and supporting division, and the heads of related departments. Apart from the RMC, a credit committee in charge of monitoring corporate credits and other important credits over a certain amount has been established to separate credit policy decisions from credit monitoring.

Shinhan Card's credit scoring system is divided into ASS (Application Scoring System) and BSS (Behavior Scoring System). For applications that meet the eligibility criteria for card issuance, the card will be issued only if the AS credit rating is above the standard. The company's internal information, CB company's external information, and personal information on the application are used to calculate the AS credit rating. The BS, which is recalculated monthly, predicts the delinquency probability of cardholders, and utilizes it to monitor members and monitor portfolio risk.

i) Techniques, assumptions and input variables used to measure impairment

i-1) Determining significant increases in credit risk since initial recognition

At the end of each reporting period, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

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4. Financial risk management (continued)

To make the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort, and is indicative of significant increases in credit risk since initial recognition. Information includes the default experience data held by the Group and analysis by an internal credit rating expert.

i-1-1) Measuring the risk of default

The Group assigns an internal credit risk rating to each individual exposure based on observable data and historical experiences that have been found to have a reasonable correlation with the risk of default. The internal credit risk rating is determined by considering both qualitative and quantitative factors that indicate the risk of default, which may vary depending on the nature of the exposure and the type of borrower.

i-1-2) Measuring term structure of probability of default

Internal credit risk rating is the main variable inputs to determine the duration structure for the risk of default. The Group accumulates information after analyzing the information regarding exposure to credit risk and default information by the type of product and borrower and results of internal credit risk assessment. For some portfolios, the Group uses information obtained from external credit rating agencies when performing these analyses.

The Group applies statistical techniques to estimate the probability of default for the remaining life of the exposure from the accumulated data and to estimate changes in the estimated probability of default over time.

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4. Financial risk management (continued)

i-1-3) Significant increases in credit risk

The Group uses the indicators defined as per portfolio to determine the significant increase in credit risk and such indicators generally consist of changes in the risk of default estimated from changes in the internal credit risk rating, qualitative factors, days of delinquency, and others. The method used to determine whether credit risk of financial instruments has significantly increased after the initial recognitions is summarized as follows:

<u>Corporate exposures</u>	<u>Retail exposures</u>	<u>Card exposures</u>
Significant change in credit ratings	Significant change in credit ratings	Significant change in credit ratings
Continued past due more than 30 days	Continued past due more than 30 days	Continued past due more than 7 days(personal card)
Loan classification of and below precautionary	Loan classification of and below precautionary	Loan classification of and below precautionary
Borrower with early warning signals	Borrower with early warning signals	Specific pool segment
Negative net assets	Specific pool segment	
Adverse audit opinion or disclaimer of opinion	Collective loans for housing for which the constructors are insolvent	
Interest coverage ratio below 1 for a consecutive period of three years or negative cash flows from operating activities for a consecutive period of two years	Loans with identified indicators for significant increases in other credit risk	
Loans with identified indicators for significant increases in other credit risk		

The Group assumes that the credit risk of the financial instrument has been increased significantly since initial recognition if a specific exposure is past due more than 30 days (except, for a specific portfolio if it is past due more than 7 days). The Group counts the number of days past due from the earliest date on which the Group fails to fully receive the contractual payments from the borrower, and does not take into account the grace period granted to the borrower.

The Group regularly reviews the criteria for determining if there have been significant increases in credit risk from the following perspective:

- A significant increase in credit risk shall be identified prior to the occurrence of default.
- The criteria established to judge the significant increase in credit risk shall have a more predictive power than the criteria for days of delinquency.

i-2) Modified financial assets

If the contractual cash flows on a financial asset have been modified through renegotiation and the financial asset is not derecognized, the Group assesses whether there has been a significant increase in the credit risk

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4. Financial risk management (continued)

of the financial instrument by comparing the risk of a default occurring at initial recognition based on the original, unmodified contractual terms and the risk of a default occurring at the reporting date based on the modified contractual terms.

The Group may adjust the contractual cash flows of loans to customers who are in financial difficulties in order to manage the risk of default and enhance the collectability (hereinafter referred to as 'debt restructuring'). These adjustments generally involve extension of maturity, changes in interest payment schedule, and changes in other contractual terms.

Debt restructuring is a qualitative indicator of a significant increase in credit risk and the Group recognizes lifetime expected credit losses for the exposure expected to be the subject of such adjustments. If a borrower faithfully makes payments of contractual cash flows that are modified in accordance with the debt restructuring or if the borrower's internal credit rating has recovered to the level prior to the recognition of the lifetime expected credit losses, the Group recognizes the 12-month expected credit losses for that exposure again.

i-3) Risk of default

The Group considers a financial asset to be in default if it meets one or more of the following conditions:

- If a borrower is overdue 90 days or more from the contractual payment date,
- If the Group judges that it is not possible to recover principal and interest without enforcing the collateral on a financial asset

The Group uses the following indicators when determining whether a borrower is in default:

- Qualitative factors (e.g. breach of contractual terms),
- Quantitative factors (e.g. if the same borrower does not perform more than one payment obligations to the Group, the number of days past due per payment obligation. However, in the case of a specific portfolio, the Group uses the number of days past due for each financial instrument),
- Internal observation data and external data

The definition of default applied by the Group generally conforms to the definition of default defined for regulatory capital management purposes; however, depending on the situations, the information used to determine whether a default has occurred and the extent thereof may vary.

i-4) Reflection of forward-looking information

The Group reflects future forward-looking information presented by a group of internal experts based on various information when measuring expected credit losses. The Group utilizes economic forecasts disclosed by domestic and foreign research institutes, governments, and public institutions to predict forward-looking information.

The Group reflects future macroeconomic conditions anticipated from a neutral standpoint that is free from bias in measuring expected credit losses. Expected credit losses in this respect reflect conditions that are most likely to occur and are based on the same assumptions that the Group used in its business plan and management strategy.

The Group identified the key macroeconomic variables needed to forecast credit risk and credit losses for each portfolio as follows by analyzing past experience data and drew correlations across credit risk for each

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4. Financial risk management (continued)

variable. For the year ended December 31, 2020, macroeconomic variables used by the Group are as follows for each scenario.

① Upside scenario

Major variables (*1)	Correlation	2020.4Q (*2)	2021			
			1Q	2Q	3Q	4Q
GDP growth rate(YoY %)	(-)	(2.8)	0.0	3.9	3.0	4.3
Private consumption index(YoY %)	(-)	(4.8)	3.0	2.3	3.5	4.1
Facility investment growth rate(YoY %)	(-)	3.5	5.5	6.5	1.5	5.0
Consumer price index growth rate(%)	(-)	0.3	0.6	0.9	0.8	0.9
Balance on current account(billion dollars)	(-)	170.0	130.0	160.0	190.0	180.0
Government bond 3y yields(%)	—	0.90	1.00	1.00	1.10	1.10

② Central scenario

Major variables (*1)	Correlation	2020.4Q (*2)	2021			
			1Q	2Q	3Q	4Q
GDP growth rate(YoY %)	(-)	(2.8)	(0.7)	3.6	2.5	3.7
Private consumption index(YoY %)	(-)	(4.8)	2.6	2.1	3.0	3.5
Facility investment growth rate(YoY %)	(-)	3.5	5.0	6.0	0.8	4.5
Consumer price index growth rate(%)	(-)	0.3	0.5	0.9	0.7	0.8
Balance on current account(billion dollars)	(-)	170.0	120.0	150.0	180.0	170.0
Government bond 3y yields(%)	—	0.90	1.00	1.00	1.00	1.00

③ Downside scenario

Major variables (*1)	Correlation	2020.4Q (*2)	2021			
			1Q	2Q	3Q	4Q
GDP growth rate(YoY %)	(-)	(2.8)	(1.5)	2.3	1.7	3.0
Private consumption index(YoY %)	(-)	(4.8)	1.9	1.1	2.6	3.4
Facility investment growth rate(YoY %)	(-)	3.5	3.5	4.5	(1.0)	3.0
Consumer price index growth rate(%)	(-)	0.3	0.4	0.8	0.6	0.7
Balance on current account(billion dollars)	(-)	170.0	110.0	140.0	170.0	160.0
Government bond 3y yields(%)	—	0.90	1.10	1.10	1.10	1.10

(*1) Shinhan Bank applied the private consumption index and facility investment growth rate as the major variables. In addition, Shinhan Card applied the GDP growth rate, consumer price index growth rate, balance on current account, and government bond 3y yields as the major variables.

(*2) Considering the default forecast period, the Group reflected the future economic outlook.

(*3) The macroeconomic outlook figures are estimated by the Group for the purpose of calculating expected credit losses based on information from domestic and foreign research institutes. Therefore, it could be different from other institutions' estimates.

The predicted correlations between the macroeconomic variables and the risk of default, used by the Group, are derived based on data from the past ten years.

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4. Financial risk management (continued)

Covid-19 had a negative impact on economic conditions. The default rate forecast for the year ended December 31, 2020 is estimated using changed forward-looking information on economic growth rate, private consumption index, KOSPI, and etc, which are major variables for calculating the default rate. As a result, the default rate forecast for some portfolios have increased.

Shinhan Bank has set aside an additional ₩ 286 billion in COVID-19 provisions by reflecting the forward-looking information above and the effect of Stage 2 classification of interest payment/divisional repayment. Shinhan Card has accumulated an additional ₩ 52.4 billion in COVID-19 provisions by updating the correlation model between expected credit losses and forward-looking information.

The Group has considered multiple economic scenarios in applying forward-looking information to measure expected credit losses. The sensitivity analysis of the impact on the Group's expected credit loss allowance if the weights of the upside or downside scenarios is assumed to be 100% while holding all other assumptions constant is as follows:

	Sensitivity: Change amount for provisions (In millions of won)		
	Upside(100%)	Downside(100%)	
Shinhan Bank	(3,332)	26,507	Forward-looking information update
Shinhan Card	(24,109)	35,205	

i-5) Measurement of expected credit losses

Key variables used in measuring expected credit losses are as follows:

- Probability of default (“PD”)
- Loss given default (“LGD”)
- Exposure at default (“EAD”)

These variables have been estimated from historical experience data by using the statistical techniques developed internally by the Group and have been adjusted to reflect forward-looking information.

Estimates of PD over a specified period are estimated by reflecting characteristics of counterparties and their exposure, based on a statistical model at a specific point of time. The Group uses its own information to develop a statistical credit assessment model used for the estimation, and additional information observed in the market is considered for some portfolios such as a group of large corporates. When a counterparty or exposure is concentrated in specific grades, the method of measuring PD for those grades would be adjusted, and the PD by grade is estimated by considering contract expiration of the exposure.

LGD refers to the expected loss if a borrower defaults. The Group calculates LGD based on the experience recovery rate measured from past default exposures. The model for measuring LGD is developed to reflect type of collateral, seniority of collateral, type of borrower, and cost of recovery. In particular, LGD for retail loan products uses loan to value (LTV) as a key variable. The recovery rate reflected in the LGD calculation is based on the present value of recovery amount, discounted at the effective interest rate.

EAD refers to the expected exposure at the time of default. The Group derives EAD reflecting a rate at which the current exposure is expected to be used additionally up to the point of default within the contractual limit. EAD of financial assets is equal to the total carrying amount of the asset, and EAD of loan commitments or financial guarantee contracts is calculated as the sum of the amount expected to be used in the future.

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4. Financial risk management (continued)

In measuring expected credit losses on financial assets, the Group uses the contractual maturity as the period subject to expected credit loss measurement. The contractual maturity is computed taking into account the extension right held by the borrower.

Risk factors of PD, LGD and EAD are collectively estimated according to the following criteria:

- Type of products
- Internal credit risk rating
- Type of collateral
- Loan to value (“LTV”)
- Industry that the borrower belongs to
- Location of the borrower or collateral
- Days of delinquency

The criteria classifying groups is periodically reviewed to maintain homogeneity of the group and adjusted if necessary. The Group uses external benchmark information to supplement internal information for a particular portfolio that did not have sufficient internal data accumulated from the past experience.

i-6) Write-off of financial assets

The Group writes off a portion of or entire loan or debt security that is not expected to receive its principal and interest. In general, the Group conducts write-off when it is deemed that the borrower has no sufficient resources or income to repay the principal and interest. Such determination on write-off is carried out in accordance with the internal rules of the Group and is carried out with the approval of an external institution, if necessary. Apart from write-off, the Group may continue to exercise its right of collection under its own recovery policy even after the write-off of financial assets.

ii) *Maximum exposure to credit risk*

Exposure to credit risk is the exposure related to due from banks, loans, investments in debt securities, derivative transactions, off-balance sheet accounts such as loan commitment. The exposures of due from banks and loans are classified into government, bank, corporation or retail based on the exposure classification criteria of BASEL III credit risk weights, and the net carrying amount, excluding provisions, is presented as the maximum amount that can be exposed by credit risk.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

The Group's maximum exposure to credit risk without taking into account of any collateral held or other credit enhancements as of December 31, 2019 and 2020 is as follows:

	<u>2019</u>	<u>2020</u>
Due from banks and loans at amortized cost (*1)(*3):		
Banks	₩ 12,950,561	17,016,263
Retail	152,840,826	170,314,316
Government/Public sector/Central bank	19,461,567	24,778,332
Corporations	140,718,619	152,895,324
Card receivable	23,114,264	22,822,546
	<u>349,085,837</u>	<u>387,826,781</u>
Due from banks and loans at fair value through profit or loss (*3):		
Banks	897,525	93,109
Corporations	2,154,821	1,986,804
	<u>3,052,346</u>	<u>2,079,913</u>
Securities at fair value through profit or loss	48,512,857	55,275,031
Securities at fair value through other comprehensive income	58,573,094	57,409,433
Securities at amortized cost (*1)	45,582,065	47,282,623
Derivative assets	2,829,274	5,633,915
Other financial assets (*1)(*2)	17,477,778	20,341,191
Financial guarantee contracts	4,698,558	4,481,506
Loan commitments and other credit liabilities	177,660,547	187,067,821
	<u>₩707,472,356</u>	<u>767,398,214</u>

(*1) The maximum exposure amounts for due from banks, loans, securities at amortized cost and other financial assets at amortized cost are recorded as net of allowances.

(*2) Other financial assets mainly comprise of receivables, accrued income, secured key money deposits, prepayment, and domestic exchange settlement debit settled in a day.

(*3) Classified as similar credit risk group based on calculation of the BIS ratio under new Basel Capital Accord (Basel III).

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4. Financial risk management (continued)

iii) The maximum amount of exposure to credit risk by type of collateral as of December, 31, 2019 and 2020 is as follows:

Classification	2019			
	12 months	Life time expected credit loss		Total
	Expected credit loss	Not impaired	Impaired	
Guarantee	₩ 12,232,197	3,756,006	64,386	16,052,589
Deposits and Savings	1,058,353	266,407	2,437	1,327,197
Property and equipment	1,021,002	307,502	12,840	1,341,344
Real estate	128,098,318	14,932,637	370,361	143,401,316
Securities	3,340,337	137,105	—	3,477,442
Others	5,035,192	4,437	364	5,039,993
Total	₩150,785,399	19,404,094	450,388	170,639,881

Classification	2020			
	12 months	Life time expected credit loss		Total
	Expected credit loss	Not impaired	Impaired	
Guarantee	₩ 36,355,387	5,944,417	185,777	42,485,581
Deposits and Savings	1,258,934	313,723	1,509	1,574,166
Property and equipment	1,301,810	324,098	12,341	1,638,249
Real estate	109,092,694	13,914,172	311,946	123,318,812
Securities	2,181,874	108,718	88,025	2,378,617
Others	4,830,557	—	1,943	4,832,500
Total	₩155,021,256	20,605,128	601,541	176,227,925

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4. Financial risk management (continued)

iv) Impairment information by credit risk of financial assets

Details of impaired financial assets due to credit risk as of December 31, 2019 and 2020 are as follows:

	2019							Mitigation of credit risk due to collateral	
	12-month expected loss		Life time expected loss			Total	Allowances		Net
	Grade 1	Grade 2	Grade 1	Grade 2	Impaired				
Due from banks and loans at amortized cost:									
Banks	₩ 11,703,863	1,179,294	77,675	1,804	—	12,962,636	(12,075)	12,950,561	57,087
Retail	136,124,712	7,443,675	5,694,210	3,608,216	476,897	153,347,710	(506,884)	152,840,826	87,826,564
Government/Public sector/Central bank	19,274,854	111,987	80,648	—	—	19,467,489	(5,922)	19,461,567	—
Corporations	85,202,285	32,112,103	10,219,343	13,546,622	956,772	142,037,125	(1,318,506)	140,718,619	77,732,792
Card receivable	17,161,184	2,249,276	1,879,073	2,233,942	444,311	23,967,786	(853,522)	23,114,264	8,728
	<u>269,466,898</u>	<u>43,096,335</u>	<u>17,950,949</u>	<u>19,390,584</u>	<u>1,877,980</u>	<u>351,782,746</u>	<u>(2,696,909)</u>	<u>349,085,837</u>	<u>165,625,171</u>
Securities at fair value through other comprehensive income (*)	49,276,299	9,057,701	—	239,094	—	58,573,094	—	58,573,094	—
Securities at amortized cost	44,296,882	1,271,681	23,272	—	—	45,591,835	(9,770)	45,582,065	—
	<u>₩363,040,079</u>	<u>53,425,717</u>	<u>17,974,221</u>	<u>19,629,678</u>	<u>1,877,980</u>	<u>455,947,675</u>	<u>(2,706,679)</u>	<u>453,240,996</u>	<u>165,625,171</u>

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4. Financial risk management (continued)

	2020							Mitigation of credit risk due to collateral		
	12-month expected loss		Life time expected loss			Total			Allowances	Net
	Grade 1	Grade 2	Grade 1	Grade 2	Impaired	Total				
Due from banks and loans at amortized cost:										
Banks	₩ 14,935,722	1,996,948	87,084	10,027	—	17,029,781	(13,518)	17,016,263	29,994	
Retail	152,159,976	8,385,069	6,062,587	3,686,863	574,354	170,868,849	(554,533)	170,314,316	91,711,254	
Government/Public sector/Central bank	23,849,701	834,912	96,183	1,748	—	24,782,544	(4,212)	24,778,332	9,000	
Corporations	93,740,349	34,637,533	11,391,410	13,758,332	982,037	154,509,661	(1,614,337)	152,895,324	83,580,715	
Card receivable	16,995,332	2,304,536	1,754,723	2,197,877	454,451	23,706,919	(884,373)	22,822,546	6,845	
	301,681,080	48,158,998	19,391,987	19,654,847	2,010,842	390,897,754	(3,070,973)	387,826,781	175,337,808	
Securities at fair value through other comprehensive income (*)	48,506,057	8,636,241	—	267,135	—	57,409,433	—	57,409,433	—	
Securities at amortized cost	45,888,769	1,404,340	—	—	—	47,293,109	(10,486)	47,282,623	—	
	₩396,075,906	58,199,579	19,391,987	19,921,982	2,010,842	495,600,296	(3,081,459)	492,518,837	175,337,808	

(*) Credit loss allowance recognized as other comprehensive income of securities at fair value through other comprehensive income amounted to ₩ 28,236 million and ₩ 23,171 million as of December 31, 2019 and 2020.

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4. Financial risk management (continued)

v) Credit risk exposures per credit grade of off-balance items

Credit risk exposures per credit grade of off-balance items as of December 31, 2019 and 2020 are as follows:

	2019			
	Grade 1	Grade 2	Impaired	Total
Financial guarantee:				
12 months expected credit loss	₩ 2,805,417	1,495,091	—	4,300,508
Life time expected credit loss	248,544	148,696	—	397,240
Impaired	—	—	810	810
	<u>3,053,961</u>	<u>1,643,787</u>	<u>810</u>	<u>4,698,558</u>
Loan commitment and other credit line				
12 months expected credit loss	146,010,944	21,044,977	—	167,055,921
Life time expected credit loss	7,850,945	2,730,143	—	10,581,088
Impaired	—	—	23,538	23,538
	<u>153,861,889</u>	<u>23,775,120</u>	<u>23,538</u>	<u>177,660,547</u>
	<u>₩156,915,850</u>	<u>25,418,907</u>	<u>24,348</u>	<u>182,359,105</u>
	2020			
	Grade 1	Grade 2	Impaired	Total
Financial guarantee:				
12-month expected credit loss	₩ 2,884,641	1,110,945	—	3,995,586
Life time expected credit loss	308,785	176,977	—	485,762
Impaired	—	—	158	158
	<u>3,193,426</u>	<u>1,287,922</u>	<u>158</u>	<u>4,481,506</u>
Loan commitment and other credit line				
12-month expected credit loss	156,787,448	20,715,236	—	177,502,684
Life time expected credit loss	6,738,016	2,822,003	—	9,560,019
Impaired	—	—	5,118	5,118
	<u>163,525,464</u>	<u>23,537,239</u>	<u>5,118</u>	<u>187,067,821</u>
	<u>₩166,718,890</u>	<u>24,825,161</u>	<u>5,276</u>	<u>191,549,327</u>

vi) Credit qualities are classified based on the internal credit rating as follows:

<u>Type of Borrower</u>	<u>Grade 1</u>	<u>Grade 2</u>
Individuals	Probability of default below 2.25% for each pool	Probability of default 2.25% or above for each pool
Government/Public agency/Central bank	OECD sovereign credit rating of 6 or above	OECD sovereign credit rating of below 6
Banks and Corporations (Credit card bonds)	Internal credit rating of BBB+ or above	Internal credit rating of below BBB+
Card receivables (Individuals)	Behavior scoring system of 7 grade or above	Behavior scoring system of below 7 grade

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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4. Financial risk management (continued)

vii) Credit risk exposures per credit quality of derivative assets

Credit quality of derivative assets as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Grade 1	₩2,377,548	4,994,809
Grade 2	451,726	639,106
	<u>₩2,829,274</u>	<u>5,633,915</u>

(*) Credit quality of derivative assets is classified based on the internal credit ratings.

viii) Concentration by geographic location

An analysis of concentration by geographic location for financial instrument, net of allowance, as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>								
	Korea	USA	UK	Japan	Germany	Vietnam	China	Other	Total
Due from banks and loans at amortized cost									
Banks	₩ 5,124,738	1,263,568	423,788	289,233	203,166	1,068,822	2,816,320	1,760,926	12,950,561
Retail	144,700,885	371,602	5,444	3,888,964	1,548	1,612,761	1,211,857	1,047,765	152,840,826
Government	16,805,176	529,096	—	1,080,381	—	140,960	445,526	460,428	19,461,567
Corporations	122,926,428	3,116,777	187,856	3,403,806	99,083	2,140,573	2,758,888	6,085,208	140,718,619
Card receivable	22,916,799	9,068	321	2,233	214	141,844	25,513	18,272	23,114,264
	<u>312,474,026</u>	<u>5,290,111</u>	<u>617,409</u>	<u>8,664,617</u>	<u>304,011</u>	<u>5,104,960</u>	<u>7,258,104</u>	<u>9,372,599</u>	<u>349,085,837</u>
Deposits and loans at FVTPL									
Bank	177,713	719,812	—	—	—	—	—	—	897,525
Corporations	2,146,949	—	—	—	—	—	—	7,872	2,154,821
	<u>2,324,662</u>	<u>719,812</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,872</u>	<u>3,052,346</u>
Securities measured at FVTPL	45,635,765	1,662,249	194,591	49,067	6,346	21,625	220,837	722,377	48,512,857
Securities at FVOCI	53,939,143	1,955,627	97,710	195,165	93,769	294,095	798,068	1,199,517	58,573,094
Securities at amortized cost	42,927,646	769,884	—	163,112	—	604,019	40,741	1,076,663	45,582,065
	<u>₩457,301,242</u>	<u>10,397,683</u>	<u>909,710</u>	<u>9,071,961</u>	<u>404,126</u>	<u>6,024,699</u>	<u>8,317,750</u>	<u>12,379,028</u>	<u>504,806,199</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

	2020								
	Korea	USA	UK	Japan	Germany	Vietnam	China	Other	Total
Due from banks and loans at amortized cost									
Banks	₩ 6,990,520	823,698	156,002	784,538	316,293	1,166,397	2,889,115	3,889,700	17,016,263
Retail	161,434,788	392,499	6,724	4,124,680	2,386	1,780,361	1,329,067	1,243,811	170,314,316
Government Corporations	20,998,640	952,215	—	1,418,805	121,663	209,395	441,863	635,751	24,778,332
Card receivable	133,827,181	3,278,234	435,135	3,796,824	103,647	2,319,327	3,039,177	6,095,799	152,895,324
	22,614,285	8,867	351	1,983	194	152,141	27,926	16,799	22,822,546
	<u>345,865,414</u>	<u>5,455,513</u>	<u>598,212</u>	<u>10,126,830</u>	<u>544,183</u>	<u>5,627,621</u>	<u>7,727,148</u>	<u>11,881,860</u>	<u>387,826,781</u>
Deposits and loans at FVTPL									
Bank	61,476	31,633	—	—	—	—	—	—	93,109
Corporations	1,057,690	466,812	—	19,807	—	744	—	441,751	1,986,804
	<u>1,119,166</u>	<u>498,445</u>	<u>—</u>	<u>19,807</u>	<u>—</u>	<u>744</u>	<u>—</u>	<u>441,751</u>	<u>2,079,913</u>
Securities measured at FVTPL	51,574,884	2,129,355	198,567	46,086	4,486	24,539	168,863	1,128,251	55,275,031
Securities at FVOCI	53,386,556	1,464,611	112,001	221,917	36,412	172,904	886,080	1,128,952	57,409,433
Securities at amortized cost	44,537,890	723,287	—	243,592	—	710,106	45,121	1,022,627	47,282,623
	<u>₩496,483,910</u>	<u>10,271,211</u>	<u>908,780</u>	<u>10,658,232</u>	<u>585,081</u>	<u>6,535,914</u>	<u>8,827,212</u>	<u>15,603,441</u>	<u>549,873,781</u>

(*) The following accounts are the net carrying value less provision for doubtful accounts.

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4. Financial risk management (continued)

ix) Concentration by industry sector

An analysis of concentration by industry sector of financial instrument, net of allowance, as of and December 31, 2019 and 2020 is as follows:

	2019							Total	
	Finance and insurance	Manufacturing	Retail and wholesale	Real estate and business	Construction service	Lodging and Restaurant	Other		Retail customers
Due from banks and loans at amortized cost:									
Banks	₩ 12,461,379	—	—	—	—	—	489,182	—	12,950,561
Retail	—	—	—	—	—	—	—	152,840,826	152,840,826
Government/Public sector/									
Central bank	19,342,308	—	—	2,295	—	—	116,964	—	19,461,567
Corporations	9,456,194	44,781,794	17,004,407	30,029,000	3,485,602	6,003,383	29,958,239	—	140,718,619
Card receivable	39,003	212,863	170,873	49,000	41,664	23,397	22,427,544	149,920	23,114,264
	41,298,884	44,994,657	17,175,280	30,080,295	3,527,266	6,026,780	52,991,929	152,990,746	349,085,837
Due from banks and loans at FVTPL:									
Banks	897,525	—	—	—	—	—	—	—	897,525
Corporations	1,301,066	505,198	120,636	7,872	3,500	900	215,649	—	2,154,821
	2,198,591	505,198	120,636	7,872	3,500	900	215,649	—	3,052,346
Securities at fair value through profit or loss	29,826,338	2,466,874	1,112,688	350,720	262,183	75,152	14,418,902	—	48,512,857
Securities at fair value through other comprehensive income	28,673,958	3,500,514	673,614	807,274	1,164,947	12,889	23,739,898	—	58,573,094
Securities at amortized cost	9,930,409	49,876	—	884,072	1,076,086	—	33,641,622	—	45,582,065
	₩111,928,180	51,517,119	19,082,218	32,130,233	6,033,982	6,115,721	125,008,000	152,990,746	504,806,199

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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4. Financial risk management (continued)

	2020							Total	
	Finance and insurance	Manufacturing	Retail and wholesale	Real estate and business	Construction service	Lodging and Restaurant	Other		Retail customers
Due from banks and loans at amortized cost:									
Banks	₩ 16,656,030	—	—	—	—	—	360,233	—	17,016,263
Retail	—	—	—	—	—	—	—	170,314,316	170,314,316
Government/Public sector/									
Central bank	24,671,308	—	—	1,796	—	—	105,228	—	24,778,332
Corporations	10,403,261	48,430,680	18,679,397	35,920,334	3,521,216	6,479,253	29,461,183	—	152,895,324
Card receivable	44,980	169,900	252,537	36,372	38,456	23,150	1,685,293	20,571,858	22,822,546
	51,775,579	48,600,580	18,931,934	35,958,502	3,559,672	6,502,403	31,611,937	190,886,174	387,826,781
Due from banks and loans at FVTPL									
Banks	63,112	—	—	29,997	—	—	—	—	93,109
Corporations	1,114,789	641,554	19,210	51,008	3,000	—	157,243	—	1,986,804
	1,177,901	641,554	19,210	81,005	3,000	—	157,243	—	2,079,913
Securities at fair value through profit or loss	34,294,362	2,978,991	1,223,958	574,547	248,399	46,177	15,908,597	—	55,275,031
Securities at fair value through other comprehensive income	26,528,743	3,448,765	577,781	830,988	974,333	22,643	25,026,180	—	57,409,433
Securities at amortized cost	10,361,913	21,750	—	1,053,779	963,348	—	34,881,833	—	47,282,623
	₩124,138,498	55,691,640	20,752,883	38,498,821	5,748,752	6,571,223	107,585,790	190,886,174	549,873,781

(*) The composition details by industry are net book value less allowances.

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

(c) Market risk

i) Market risk management from trading positions

i-1) Concept of Market risk

Market risk is defined as the risk of loss of trading account position of financial institutions due to changes on market price, such as interest rates, exchange rates and stock prices, etc. and is divided into general market risks and individual risks. A general market risk refers to a loss from price variability caused by events affecting the market as a whole, such as interest rates, exchange rates and stock prices; and an individual risk refers to a loss from price variability related to individual events of securities issuer, such as bonds and stocks.

i-2) Market Risk Management Method

The basic principle of market risk management in the trading sector is to maintain the maximum possible loss due to market risk within a certain level. To this end, the Group sets and operates VaR limits, investment limits, position limits, sensitivity limits, and loss limits from the portfolio to individual desks. These limits are managed daily by the department in charge of risk management, independent from the operating department.

Trading positions refer to securities, foreign exchange positions, and derivative financial instruments held for the purpose of obtaining short-term trading gains. As a method of measuring market risk, VaR (Value at Risk) is typical, and it is a statistical measurement of the potential maximum loss that can occur due to changes in market conditions. VaR calculates the standard method market risk using the Group Market Risk Measurement System (TRMS), and Shinhan Bank and Shinhan Financial Investment use their own internal model market risk calculation system.

Stress tests are conducted to supplement risk measurement by statistical methods and to manage losses that may arise from rapid changes in the economic environment.

Shinhan Bank measures the market risk of linear products, such as stocks and bonds, as well as non-linear products, such as options by applying historical simulation method of 99% confidence level-based VaR. Trading position data is automatically interfaced into measurement system, and the system conducts VaR measurement and manages the limit. In addition, the Bank sets loss limit, sensitivity limit, investment limit, stress limit, etc. for Trading Department and desks, and monitors daily.

Shinhan Investment measures daily market risk by applying historical simulation VaR method of 99.9% confidence level-based VaR. Historical simulation VaR method does not require assumption on a particular distribution since the method derives scenarios directly from historical market data, and measures non-linear products, such as options, in details. In addition to the VaR limit, the Shinhan Investment sets and manages issuance and transaction limit, and stop-loss limit for each department.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

An analysis of the Group's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2019 and 2020 based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, is as follows:

	2019			
	Average	Maximum	Minimum	December 31
Interest rate risk	₩508,039	527,349	479,121	504,948
Stock price risk	191,019	210,589	162,595	210,589
Foreign exchange risk	143,317	151,779	138,543	139,562
Commodity risk	7,691	10,558	4,953	10,558
Option volatility risk	57,972	74,892	39,591	67,160
	<u>₩908,038</u>	<u>975,167</u>	<u>824,803</u>	<u>932,817</u>

	2020			
	Average	Maximum	Minimum	December 31
Interest rate risk	₩525,465	592,668	495,292	592,668
Stock price risk	222,277	240,535	202,036	222,544
Foreign exchange risk	120,088	124,915	113,497	113,497
Commodity risk	13,818	22,982	9,539	9,539
Option volatility risk	8,910	23,224	3,234	3,234
	<u>₩890,558</u>	<u>1,004,324</u>	<u>823,598</u>	<u>941,482</u>

i-3) Shinhan Bank

The analyses of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2019 and 2020 are as follows:

	2019			
	Average	Maximum	Minimum	December 31
Interest rate risk	₩ 21,208	32,430	12,709	28,313
Stock price risk	18,136	49,424	8,171	15,386
Foreign exchange risk (*)	24,727	29,085	22,259	25,910
Option volatility risk	161	325	60	212
Commodity risk	15	104	—	10
Portfolio diversification effect				(21,879)
	<u>₩ 47,925</u>	<u>81,553</u>	<u>31,482</u>	<u>47,952</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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4. Financial risk management (continued)

	2020			
	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate risk	₩ 41,165	56,950	28,322	42,867
Stock price risk	27,077	66,254	7,545	7,893
Foreign exchange risk (*)	65,309	83,335	27,668	69,024
Option volatility risk	305	1,073	114	138
Commodity risk	13	170	—	1
Portfolio diversification effect				(25,310)
	<u>₩106,030</u>	<u>154,487</u>	<u>49,486</u>	<u>94,613</u>

(*) Both trading and non-trading accounts are included since Shinhan Bank manages foreign exchange risk on a total position basis.

i-4) Shinhan Card

The analyses of Shinhan Card's requisite capital in light of the market risk for trading positions as of and for the years ended December 31 2019, and 2020, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, are as follows:

	2019			
	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate risk	₩1,417	2,000	1,000	2,000

	2020			
	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate risk	₩2,034	2,400	1,900	2,400

(*) Foreign subsidiaries are excluded from the calculation.

i-5) Shinhan Investment

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the years ended December 31, 2019 and 2020 are as follows:

	2019			
	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate risk	₩13,725	20,857	5,671	11,946
Stock price risk	31,330	74,421	15,449	25,691
Foreign exchange risk	4,107	37,970	368	4,369
Option volatility risk	9,889	31,711	2,504	9,876
Portfolio diversification effect				(15,150)
	<u>₩38,262</u>	<u>85,597</u>	<u>5,780</u>	<u>36,732</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

	2020			
	Average	Maximum	Minimum	December 31
Interest rate risk	₩20,512	30,903	12,076	23,551
Stock price risk	26,136	51,509	2,412	36,573
Foreign exchange risk	12,477	46,970	632	15,557
Option volatility risk	43,324	162,008	2,894	57,924
Portfolio diversification effect				(38,397)
	<u>₩75,226</u>	<u>187,985</u>	<u>18,648</u>	<u>95,208</u>

i-6) Shinhan Life Insurance Co., Ltd.

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for the years ended December 31, 2019 and 2020 are as follows:

	2019			
	Average	Maximum	Minimum	December 31
Interest rate risk	₩1,853	8,856	313	600
Stock price risk	5,015	6,520	4,374	4,978
Foreign exchange risk	1,581	3,434	3	2,050
Option volatility risk	316	632	124	472
	<u>₩8,765</u>	<u>19,442</u>	<u>4,814</u>	<u>8,100</u>

	2020			
	Average	Maximum	Minimum	December 31
Interest rate risk	₩ 2,967	6,934	354	619
Stock price risk	10,953	16,592	4,481	13,742
Foreign exchange risk	10,485	21,588	4,665	13,669
Option volatility risk	433	1,096	40	1,089
	<u>₩24,838</u>	<u>46,210</u>	<u>9,540</u>	<u>29,119</u>

i-7) Orange Life Insurance Co., Ltd.

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Orange Life Insurance as of and for the years ended December 31, 2019 and 2020 are as follows:

	2019			
	Average	Maximum	Minimum	December 31
Foreign exchange risk	₩18,578	23,614	12,577	16,710

	2020			
	Average	Maximum	Minimum	December 31
Foreign exchange risk	₩17,064	19,597	10,172	17,964
Option volatility risk	73	84	7	73
	<u>₩17,137</u>	<u>19,681</u>	<u>10,179</u>	<u>18,037</u>

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

ii) Interest rate risk management from non-trading positions

ii-1) Principle

Interest rate risk refers to the possibility of a decrease in net interest income or in net asset value that occurs when interest rates fluctuate unfavorably from the Group's financial position. The Group manages net interest income or changes in net asset value that occur due to changes in interest rates by early predicting the factors of interest rate risk fluctuation related to the Group's net interest income and net asset value through the interest rate risk management.

ii-2) Managements

Shinhan Financial Group's major financial subsidiaries manage interest rate risks independently by the risk management organization and the treasury department, and have internal regulations on interest rate risk management strategies, procedures, organization, measurement, and major assumptions.

One of the key indicators of managing interest rate risk is the Earnings at Risk (EaR) from an earning perspective and the Value at Risk (VaR) from an economic value perspective. Interest rate VaR represents the maximum anticipated loss in a net present value calculation, whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation for the immediately following one-year period, in each case, as a result of negative movements in interest rates.

The precision of risk management system differs by each subsidiary. Interest rate VaR and interest rate EaR are measured by internal method or IRRBB (Interest Rate Risk In The Banking Book), and interest rate risk limits are set and monitored based on the interest rate VaR. In accordance with the amendments in Regulations for Supervision of Financial Holding Companies, the Group measures the interest rate risk using the Basel III based IRRBB, which measures the interest rate risk more precisely than the existing BIS standard framework by segmenting maturities of interest rates, reflecting customer behaviour models and diversifying interest rate shocks. The interest rate VaR scenario based IRRBB measures ① parallel up shock ② parallel down shock ③ steeper shock ④ flattener shock ⑤ short rate up shock ⑥ short rate down shock. By the parallel up shock and parallel down shock, the interest rate VaR scenario measures the scenario value with the largest loss as interest rate risk. Under the existing BIS standard framework, ± 200 bp parallel shock scenario is applied to all currency. However, as the shock width is set differently by currency and period, interest rate risk is measured significantly by the IRRBB. ((KRW) Parallel ± 300 bp, Short Term ± 400 bp, Long Term ± 200 bp, (USD) Parallel ± 200 bp, Short Term ± 300 bp, Long Term ± 150 bp) In the IRRBB method, the existing interest rate VaR and the interest rate EaR are expressed as Δ EVE (Economic Value of Equity) and Δ NII (Net Interest Income), respectively.

Since impacts of each subsidiary on changes of interest rates are differentiated by portfolios, the Group is preparing to respond proactively while monitoring the financial market and regulatory environment, and making efforts to hedge or reduce interest rate risk. In addition, the subsidiaries conduct the crisis analysis on changes in market interest rates and report it to management and the Group.

In particular, through its ALM (Asset and Liability Management) system, Shinhan Bank measures and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and NPV (Net Present Value) and NII (Net Interest Income) simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate EaR (Earnings at Risk) limits and interest rate gap ratio limits.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

The details of interest rate VaR and EaR for major subsidiaries for as of December 31, 2019 and 2020 are as follows:

ii-3) Shinhan Bank

	<u>2019</u>	<u>2020</u>
ΔEVE (*1)	₩369,944	468,327
ΔNII (*2)	161,385	115,221

ii-4) Shinhan Card

	<u>2019</u>	<u>2020</u>
ΔEVE (*1)	₩696,505	463,647
ΔNII (*2)	554,499	594,210

ii-5) Shinhan Investment

	<u>2019</u>	<u>2020</u>
ΔEVE (*1)	₩ 77,436	209,929
ΔNII (*2)	127,476	89,925

ii-6) Shinhan Life Insurance

	<u>2019</u>	<u>2020</u>
ΔEVE (*1)	₩4,831,042	4,140,109
ΔNII (*2)	77,000	46,073

ii-7) Orange Life Insurance Co., Ltd.

	<u>2019</u>	<u>2020</u>
ΔEVE (*1)	₩2,800,603	2,007,029
ΔNII (*2)	46,372	38,733

(*1) ΔEVE is the economic value of equity capital that can arise from changes in interest rates that affect the present value of assets, liabilities and off-balance sheet items by using the Basel III standard based IRRBB method.

(*2) ΔNII is the change in net interest income that can occur over the next year due to changes in interest rates by using the Basel III standard based IRRBB method.

iii) Foreign exchange risk

Exposure to foreign exchange risk can be defined as the difference (net position) between assets and liabilities presented in foreign currency, including derivative financial instruments linked to foreign exchange rate. Foreign exchange risk is a factor that causes market risk of the trading position and is managed by the Group under the market risk management system.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

The management of Shinhan Bank's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. Shinhan Bank sets a limit for net open positions by currency and the limits for currencies other than the U.S. dollars (USD), Japanese yen (JPY), Euros (EUR) and Chinese yuan (CNY) are set in order to minimize exposures from the other foreign exchange trading.

Foreign currency denominated assets and liabilities as of December 31, 2019 and 2020 are as follows:

	2019					Total
	USD	JPY	EUR	CNY	Other	
Assets:						
Cash and due from banks at amortized cost	₩ 4,235,225	1,532,661	354,686	1,714,524	1,715,443	9,552,539
Due from banks at FVTPL	719,812	—	—	—	—	719,812
Loan receivables measured at FVTPL	479,950	—	7,872	—	—	487,822
Loan at amortized cost	18,275,153	8,256,756	955,836	3,350,557	7,960,731	38,799,033
Securities at FVTPL	5,391,450	32,565	303,917	—	357,018	6,084,950
Derivative assets	342,120	1,403	16,922	391	80,506	441,342
Securities at FVOCI	4,775,714	83,713	337,573	436,236	917,335	6,550,571
Securities at amortized cost	1,392,901	183,133	67,080	40,769	1,482,574	3,166,457
Other financial assets	3,176,509	136,419	171,080	380,955	462,734	4,327,697
	<u>₩38,788,834</u>	<u>10,226,650</u>	<u>2,214,966</u>	<u>5,923,432</u>	<u>12,976,341</u>	<u>70,130,223</u>
Liabilities:						
Deposits	₩14,658,624	9,057,393	843,946	4,426,507	6,906,741	35,893,211
Financial liabilities at FVTPL	—	—	—	—	474,080	474,080
Derivative liabilities	320,176	6,466	20,833	1,163	15,564	364,202
Borrowings	8,938,762	347,881	190,366	407,767	139,658	10,024,434
Debt securities issued	7,882,293	319,041	960,890	—	1,526,661	10,688,885
Financial liabilities designated at FVTPL	1,444,254	—	—	—	—	1,444,254
Other financial liabilities	4,391,046	155,736	125,172	567,860	978,153	6,217,967
	<u>₩37,635,155</u>	<u>9,886,517</u>	<u>2,141,207</u>	<u>5,403,297</u>	<u>10,040,857</u>	<u>65,107,033</u>
Net assets	₩ 1,153,679	340,133	73,759	520,135	2,935,484	5,023,190
Off-balance derivative exposure	(1,335,794)	(160,734)	273,571	(114,015)	(844,534)	(2,181,506)
Net position	<u>₩ (182,115)</u>	<u>179,399</u>	<u>347,330</u>	<u>406,120</u>	<u>2,090,950</u>	<u>2,841,684</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

	2020					
	USD	JPY	EUR	CNY	Other	Total
Assets:						
Cash and due from banks at amortized cost	₩ 4,729,453	1,988,215	402,137	798,053	3,053,388	10,971,246
Due from banks at FVTPL	31,633	—	—	—	—	31,633
Loan receivables measured at FVTPL	745,277	19,807	91,503	—	—	856,587
Loan at amortized cost	21,435,678	9,076,702	1,296,284	4,130,855	8,987,453	44,926,972
Securities at FVTPL	4,426,257	2,574	455,769	—	316,468	5,201,068
Derivative assets	913,778	21,531	50,842	1,100	114,055	1,101,306
Securities at FVOCI	3,868,880	149,718	222,547	460,681	1,000,855	5,702,681
Securities at amortized cost	1,273,204	240,619	69,132	45,151	1,588,358	3,216,464
Other financial assets	2,180,140	284,695	177,538	336,325	559,805	3,538,503
	<u>₩39,604,300</u>	<u>11,783,861</u>	<u>2,765,752</u>	<u>5,772,165</u>	<u>15,620,382</u>	<u>75,546,460</u>
Liabilities:						
Deposits	₩17,542,371	10,136,700	991,501	4,650,406	8,438,144	41,759,122
Financial liabilities at FVTPL	—	—	—	—	544,916	544,916
Derivative liabilities	558,064	10,819	33,940	858	105,134	708,815
Borrowings	8,431,144	810,819	306,829	163,454	692,305	10,404,551
Debt securities issued	8,417,214	87,504	933,570	—	1,652,835	11,091,123
Financial liabilities designated at FVTPL	1,068,245	—	—	—	—	1,068,245
Other financial liabilities	3,479,117	123,510	250,428	564,623	843,635	5,261,313
	<u>₩39,496,155</u>	<u>11,169,352</u>	<u>2,516,268</u>	<u>5,379,341</u>	<u>12,276,969</u>	<u>70,838,085</u>
Net assets	₩ 108,145	614,509	249,484	392,824	3,343,413	4,708,375
Off-balance derivative exposure	438,469	(166,923)	187,408	44,764	(896,933)	(393,215)
Net position	<u>₩ 546,614</u>	<u>447,586</u>	<u>436,892</u>	<u>437,588</u>	<u>2,446,480</u>	<u>4,315,160</u>

(d) Liquidity risk

Liquidity risk refers to the risk of unexpected losses (such as the disposal of assets abnormal pricing, the procurement of high interest rates, etc.) or insolvency due to inconsistency in funding periods between assets and liabilities or a sudden outflow of funds.

Each subsidiary seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funding that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the Group level, the Group manages liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, the group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. Therefore, the Group is checking the liquidity side for abnormalities in preparation for the usual crisis.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

In addition, in order to pre-emptively and comprehensively manage liquidity risk, the Group measures and monitors liquidity risk management using various indices, including the ‘limit management index’, ‘early warning index’ and ‘monitoring index’.

Shinhan Bank applies the following basic principles for liquidity risk management:

- Raise funding in sufficient amounts, at the optimal time at reasonable costs;
- Maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- Secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;
- Monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;
- Conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and
- Consider liquidity-related costs, benefits of and risks in determining the pricing of the Group’s products and services, employee performance evaluations and approval of launching of new products and services.

Shinhan Card sets and operates a level that can withstand a 3-month credit crunch for end-of-month liquidity. The Group defines and manages the level of caution, anxiety and risk for the real-life liquidity gap ratio, liquidity buffer ratio, and ABS weight compared to borrowings. A contingency plan has been established to prepare for a crisis.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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4. Financial risk management (continued)

The details of the composition of non-derivative financial instruments and derivative financial instruments by remaining period are as of December 31, 2019 and 2020 are as follows:

	2019						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	
Non-derivative financial instruments:							
Assets:							
Cash and due from banks at amortized cost	₩ 25,543,400	1,039,822	421,453	1,145,323	50,070	249,503	28,449,571
Due from banks at fair value through profit or loss	130,780	150,217	594,643	21,885	—	—	897,525
Loans at fair value through profit or loss	29,961	783,429	12,638	142,756	773,305	488,326	2,230,415
Loans at amortized cost	28,857,297	36,706,993	46,672,732	74,931,639	103,334,861	70,169,035	360,672,557
Securities at fair value through profit or loss	39,736,655	1,852,680	728,518	1,120,791	2,716,677	3,774,694	49,930,015
Securities at fair value through other comprehensive income	57,317,802	—	—	40,145	30,195	2,111,220	59,499,362
Securities at amortized cost	1,214,108	2,015,590	1,704,574	2,098,374	17,491,024	32,951,459	57,475,129
Other financial assets	13,291,239	122,258	122,893	562,793	249,166	3,122,107	17,470,456
	<u>₩166,121,242</u>	<u>42,670,989</u>	<u>50,257,451</u>	<u>80,063,706</u>	<u>124,645,298</u>	<u>112,866,344</u>	<u>576,625,030</u>
Liabilities:							
Deposits (*2)	₩149,773,324	31,415,213	38,077,790	61,746,589	14,972,484	3,590,916	299,576,316
Financial liabilities at fair value through profit or loss	1,558,186	1,096	12,095	17,997	48,609	—	1,637,983
Borrowings	15,314,322	3,690,803	3,608,178	4,028,183	5,244,109	3,002,243	34,887,838
Debt securities issued	5,367,601	4,370,308	4,876,333	8,945,916	49,804,651	6,467,621	79,832,430
Financial liabilities designated at fair value through profit or loss	487,743	110,965	678,041	1,651,198	5,414,944	1,066,565	9,409,456
Other financial liabilities	23,504,746	118,689	253,779	510,768	416,868	3,449,392	28,254,242
	<u>₩196,005,922</u>	<u>39,707,074</u>	<u>47,506,216</u>	<u>76,900,651</u>	<u>75,901,665</u>	<u>17,576,737</u>	<u>453,598,265</u>
Off balance (*4):							
Finance guarantee contracts	₩ 4,698,558	—	—	—	—	—	4,698,558
Loan commitments and other	178,516,047	—	—	—	—	—	178,516,047
	<u>₩183,214,605</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>183,214,605</u>
Derivatives:							
Derivatives	₩ 407,885	9,640	34,228	18,196	160,292	176,976	807,217

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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4. Financial risk management (continued)

	2020						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	
Non-derivative financial instruments:							
Assets:							
Cash and due from banks at amortized cost	₩ 30,486,441	845,977	501,733	860,975	4,467	516,661	33,216,254
Due from banks at fair value through profit or loss	63,113	—	—	—	—	—	63,113
Loans at fair value through profit or loss	31,100	689,261	46,369	117,820	310,954	880,595	2,076,099
Loans at amortized cost	30,170,280	38,040,760	52,331,623	82,840,301	119,243,663	69,258,709	391,885,336
Securities at fair value through profit or loss	44,779,587	1,413,545	571,552	1,160,406	3,384,948	4,729,943	56,039,981
Securities at fair value through other comprehensive income	55,002,284	10,740	207	414	79,640	3,321,488	58,414,773
Securities at amortized cost	385,809	2,070,392	1,202,211	3,649,376	19,054,766	34,889,104	61,251,658
Other financial assets	15,451,455	102,714	138,116	287,473	231,608	1,571,561	17,782,927
	<u>₩176,370,069</u>	<u>43,173,389</u>	<u>54,791,811</u>	<u>88,916,765</u>	<u>142,310,046</u>	<u>115,168,061</u>	<u>620,730,141</u>
Liabilities:							
Deposits (*2)	₩187,299,944	28,357,521	36,578,825	59,863,780	14,894,480	2,355,459	329,350,009
Financial liabilities at fair value through profit or loss	1,409,608	794	7,042	2,785	18,870	—	1,439,099
Borrowings	14,670,192	3,783,621	2,920,338	5,463,070	10,692,374	4,392,815	41,922,410
Debt securities issued	5,872,508	6,261,775	5,039,503	11,457,246	43,712,609	6,454,265	78,797,906
Financial liabilities designated at fair value through profit or loss	596,675	221,857	336,784	1,277,802	5,043,549	979,057	8,455,724
Other financial liabilities	29,128,836	97,138	151,655	542,221	643,043	75,813	30,638,706
	<u>₩238,977,763</u>	<u>38,722,706</u>	<u>45,034,147</u>	<u>78,606,904</u>	<u>75,004,925</u>	<u>14,257,409</u>	<u>490,603,854</u>
Off balance (*4):							
Finance guarantee contracts	₩ 4,481,506	—	—	—	—	—	4,481,506
Loan commitments and other	187,536,416	—	—	19,900	—	—	187,556,316
	<u>₩192,017,922</u>	<u>—</u>	<u>—</u>	<u>19,900</u>	<u>—</u>	<u>—</u>	<u>192,037,822</u>
Derivatives:							
Derivatives	₩ 419,951	29,829	75,483	149,274	103,770	101,072	879,379

(*1) These amounts include cash flows of principal and interest on financial assets and financial liabilities.

(*2) Demand deposits amounting to ₩116,282,706 million and ₩148,725,197million as of December 31, 2019 and 2020 are included in the 'Less than 1 month' category, respectively.

(*3) Financial instruments held for trading measured at market price are included in the 'Less than 1 month' category.

(*4) Financial guarantees such as financial guarantee contracts and loan commitments and other credit contributions provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counterparty requests payment.

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(In millions of won)

4. Financial risk management (continued)

(e) Measurement of fair value

The fair values of financial instruments being traded in an active market are determined by the published market prices of each period end. The published market prices of financial instruments being held by the Group are based on the trading agencies' notifications. If the market for a financial instrument is not active, such as OTC (Over The Counter market) derivatives, fair value is determined either by using a valuation technique or independent third-party valuation service.

The Group uses its judgment to select a variety of methods and make rational assumptions that are mainly based on market conditions existing at the end of each reporting period. The fair value of financial instruments is determined using valuation techniques; a method of using recent transactions between independent parties with reasonable judgment and willingness to trade, a method of referring to the current fair value of other financial instruments that are substantially identical, discounted cash flow model and option pricing models. For example, the fair value of an interest rate swap is calculated as the present value of the expected future cash flows, and the fair value of foreign exchange forwarding contract is calculated by applying the public forward exchange rate at the end of the reporting period.

The Group classifies and discloses fair value of financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

i) Financial instruments measured at fair value

i-1) The fair value hierarchy of financial instruments presented at their fair values in the statements of financial position as of December 31, 2019 and 2020 are as follows:

	2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Due from banks measured at FVTPL	₩ —	66,870	830,655	897,525
Loan receivables measured at FVTPL	—	686,446	1,468,375	2,154,821
Financial assets at FVTPL:				
Debt securities and other securities	6,304,161	33,145,583	8,951,398	48,401,142
Equity securities	890,714	195,395	511,831	1,597,940
Gold/silver deposits	111,715	—	—	111,715
	<u>7,306,590</u>	<u>33,340,978</u>	<u>9,463,229</u>	<u>50,110,797</u>
Derivative assets:				
Trading	35,711	2,088,307	462,050	2,586,068
Hedging	—	240,430	2,776	243,206
	<u>35,711</u>	<u>2,328,737</u>	<u>464,826</u>	<u>2,829,274</u>
Securities measured at FVOCI:				
Debt securities	16,892,704	41,645,124	35,266	58,573,094
Equity securities	183,107	—	624,852	807,959
	<u>17,075,811</u>	<u>41,645,124</u>	<u>660,118</u>	<u>59,381,053</u>
	<u>₩24,418,112</u>	<u>78,068,155</u>	<u>12,887,203</u>	<u>115,373,470</u>
Financial liabilities:				
Financial liabilities measured at FVTPL:				
Securities sold	₩ 1,164,697	—	—	1,164,697
Gold/silver deposits	467,760	—	—	467,760
	<u>1,632,457</u>	<u>—</u>	<u>—</u>	<u>1,632,457</u>
Financial liabilities designated at fair value through profit or loss:				
Derivatives-combined securities	—	897,967	8,511,489	9,409,456
Derivative liabilities:				
Trading	46,854	1,834,930	119,220	2,001,004
Hedging	—	112,258	189,750	302,008
	<u>46,854</u>	<u>1,947,188</u>	<u>308,970</u>	<u>2,303,012</u>
	<u>₩ 1,679,311</u>	<u>2,845,155</u>	<u>8,820,459</u>	<u>13,344,925</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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4. Financial risk management (continued)

	2020			
	Level 1	Level 2	Level 3 (*3)	Total
Financial assets				
Due from banks measured at FVTPL	₩ —	—	63,112	63,112
Loan receivables measured at FVTPL (*1)	—	708,111	1,308,690	2,016,801
Financial assets at FVTPL:				
Debt securities and other securities (*2)	7,029,453	39,335,739	8,721,500	55,086,692
Equity securities	693,816	210,230	832,413	1,736,459
Gold/silver deposits	188,339	—	—	188,339
	<u>7,911,608</u>	<u>39,545,969</u>	<u>9,553,913</u>	<u>57,011,490</u>
Derivative assets:				
Trading	125,339	4,623,218	408,855	5,157,412
Hedging	—	475,708	795	476,503
	<u>125,339</u>	<u>5,098,926</u>	<u>409,650</u>	<u>5,633,915</u>
Securities measured at FVOCI:				
Debt securities	17,515,390	39,861,238	32,805	57,409,433
Equity securities	172,403	49,673	684,603	906,679
	<u>17,687,793</u>	<u>39,910,911</u>	<u>717,408</u>	<u>58,316,112</u>
	<u>₩25,724,740</u>	<u>85,263,917</u>	<u>12,052,773</u>	<u>123,041,430</u>
Financial liabilities:				
Financial liabilities measured at FVTPL:				
Securities sold	₩ 897,129	—	—	897,129
Gold/silver deposits	539,565	—	—	539,565
	<u>1,436,694</u>	<u>—</u>	<u>—</u>	<u>1,436,694</u>
Financial liabilities designated at fair value through profit or loss:				
Derivatives-combined securities (*2)	—	314,220	8,141,504	8,455,724
Derivative liabilities:				
Trading	161,628	4,431,080	87,356	4,680,064
Hedging	—	233,684	102,819	336,503
	<u>161,628</u>	<u>4,664,764</u>	<u>190,175</u>	<u>5,016,567</u>
	<u>₩ 1,598,322</u>	<u>4,978,984</u>	<u>8,331,679</u>	<u>14,908,985</u>

(*1) Of the Financial assets at FVTPL invested by the Group, P-note's valuation of amount related to Lime Asset Management is ₩161.2 billion. As of December 31, 2020, in this regard, disputes between companies are under way, the Group has estimated its fair value based on financial information within the recent audit report of underlying assets since it doesn't have fair market value observable through active trading markets. Accounting estimates and assumptions used in preparing consolidated financial statements may lead to adjustment in response to changes in uncertainty, such as information and market conditions available in the future. In addition, the ultimate impact on the business, financial condition, performance, and liquidity of the Group is unpredictable.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

(*2) Financial instruments (Beneficiary certificates: ₩211.7 billion and derivatives-combined securities: ₩211.7 billion) related to GEN2 Partners asset management were delayed in repurchase for the year ended December 31, 2020. The Group estimated fair value using the net asset value based on the most recent data available for the repurchase suspension fund. Since then, it has an uncertainty in measuring fair value due to market conditions.

(*3) The valuation amount for the over-the-counter derivatives classified as Level 3 by Shinhan Investment Corp. are ₩204,608 million in financial assets at FVTPL, ₩8,141,504 million in financial liabilities designated at fair value through profit or loss, ₩405,313 million in derivative assets, and ₩83,269 million in derivative liabilities. The above level 3 over-the-counter derivatives measure fair value using the internal valuation model of Shinhan Investment Corp. The material unobservable inputs used for internal valuation models of Shinhan Investment Corps. are volatility of underlying assets and correlation.

i-2) Classification of financial instruments as fair value level 3

The Group uses the evaluation value from evaluators who are qualified and external independent to determine the fair value for Group's assets at the end of each reporting period. Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2019 and 2020 are as follows:

	2019			
	Financial asset at fair value through profit or loss	Securities at fair value through other comprehensive profit or loss	Financial liabilities designated at fair value through profit or loss	Derivative assets and liabilities, net
Beginning balance	₩ 7,122,565	550,505	(6,833,737)	(526,223)
Recognized in total comprehensive income for the year:				
Recognized in profit (loss) for the year (*1)	61,738	1,461	(826,594)	591,332
Recognized in other comprehensive income (loss) for the year	125,037	34,716	(13,654)	—
	186,775	36,177	(840,248)	591,332
Purchase	5,941,978	103,564	—	2,221
Issue	—	—	(8,821,680)	—
Settlement	(2,332,781)	(22,842)	7,984,176	88,312
Reclassification	—	(7,286)	—	—
Transfer to level3 (*2)	162,906	—	—	248
Transfer from level3 (*2)	(27,075)	—	—	(34)
Business combination	707,891	—	—	—
Ending balance	<u>₩11,762,259</u>	<u>660,118</u>	<u>(8,511,489)</u>	<u>155,856</u>

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4. Financial risk management (continued)

	2020			
	Financial asset at fair value through profit or loss	Securities at fair value through other comprehensive profit or loss	Financial liabilities designated at fair value through profit or loss	Derivative assets and liabilities, net
Beginning balance	₩11,762,259	660,118	(8,511,489)	155,856
Recognized in total comprehensive income for the year:				
Recognized in profit (loss) for the year (*1)	(59,931)	(2,094)	(196,743)	136,386
Recognized in other comprehensive income (loss) for the year	69,819	(2,521)	(9,689)	—
	9,888	(4,615)	(206,432)	136,386
Purchase	4,461,802	61,919	—	1,171
Issue	—	—	(9,043,503)	—
Settlement	(5,231,666)	(14)	9,928,472	(74,584)
Reclassification (*3)	(377,641)	—	—	—
Transfer to level3 (*2)	358,123	—	(308,552)	625
Transfer from level3 (*2)	(57,513)	—	—	21
Business combination (Note 47)	463	—	—	—
Ending balance	<u>₩10,925,715</u>	<u>717,408</u>	<u>(8,141,504)</u>	<u>219,475</u>

(*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the years ended December 31, 2019 and 2020 are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows:

	2019	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Net gain (loss) on financial assets at fair value through profit or loss	₩ 544,849	23,912
Net gain (loss) on financial liabilities designated at fair value through profit or loss	(826,594)	(66,113)
Net gain (loss) on securities at fair value through other comprehensive income	1,461	1,191
Other operating expenses	108,221	109,547
	<u>₩(172,063)</u>	<u>68,537</u>
	2020	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Net gain (loss) on financial assets at fair value through profit or loss	₩ (8,304)	(180,419)
Net gain (loss) on financial liabilities designated at fair value through profit or loss	(196,743)	189,885
Net gain (loss) on securities at fair value through other comprehensive income	(2,094)	(2,094)
Other operating expenses	84,759	19,495
	<u>₩(122,382)</u>	<u>26,867</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

(*2) The investment securities transferred to Level 3 as the availability of observable market data changed due to reasons such as suspension of trading, and the derivative instruments transferred to Level 3 as the availability of observable market data changed due to reasons such as changes in the valuation.

(*3) It has been replaced by investment assets in associates.

i-3) Valuation techniques and significant inputs not observable in markets

i-3-1) Valuation techniques and inputs used in measuring the fair value of financial instruments classified as level 2 as of December 31, 2019 and 2020 are as follows:

Type of financial instrument	Valuation technique	2019	
		Carrying Value	Significant inputs
Assets			
Financial asset at fair value through profit or loss			
Debt securities	DCF	₩33,898,899	Discount rate, interest rate, stock price, and etc.
Equity securities	NAV	195,395	Price of underlying assets such as stocks, bonds
		34,094,294	
Derivative assets			
Trading	Option model, DCF	2,088,307	Discount rate, foreign exchange rate, volatility, stock price, and commodity index, etc.
Hedging		240,430	
		2,328,737	
Securities at fair value through other comprehensive income	DCF	41,645,124	Discount rate, growth rate and price of underlying assets such as stock, bonds
		₩78,068,155	
Liabilities			
Financial liabilities designated at fair value through profit or loss			
Borrowings	DCF	₩ 897,967	Discount rate
Derivative liabilities			
Trading	Option model, DCF	1,834,930	Discount rate, foreign exchange rate, volatility, stock price, and commodity index, etc.
Hedging		112,258	
		1,947,188	
		₩ 2,845,155	

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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4. Financial risk management (continued)

Type of financial instrument	Valuation technique	2020	
		Carrying Value	Significant inputs
Assets			
Financial asset at fair value through profit or loss			
Debt securities	DCF	₩40,043,850	Discount rate, interest rate, stock price, and etc.
Equity securities	NAV	210,230	Price of underlying assets such as stocks, bonds, etc.
		40,254,080	
Derivative assets			
Trading	Option model, DCF	4,623,218	Discount rate, foreign exchange rate, volatility, stock price, and commodity index, etc.
Hedging		475,708	
		5,098,926	
Securities at fair value through other comprehensive income			
Debt securities	DCF	39,861,238	Interest rate, discount rate and price of underlying assets such as stock, bonds, etc.
Equity securities	NAV	49,673	
		39,910,911	
		₩85,263,917	
Liabilities			
Financial liabilities designated at fair value through profit or loss			
Complex financial instruments	DCF	₩ 314,220	Discount rate
Derivative liabilities			
Trading	Option model, DCF	4,431,080	Discount rate, foreign exchange rate, volatility, stock price, and commodity index, etc.
Hedging		233,684	
		4,664,764	
		₩ 4,978,984	

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

i-3-2) Valuation techniques and significant inputs, but not observable, used in measuring the fair value of financial instruments classified as level 3 as of December 31, 2019 and 2020 are as follows:

Type of financial instrument	2019			
	Valuation technique	Carrying value (*2)	Significant unobservable inputs	Range
Financial assets				
Financial asset at fair value through profit or loss				
Debt securities	DCF, Option model (*1)	₩11,250,428	The volatility of the underlying asset, and Discount rate	0.00%~46.36% 1.14%~30.70%
Equity securities	DCF, NAV	511,831	The volatility of the underlying asset, Correlations, and Discount rate	1.00%~43.00% 5.06%~15.42%
		11,762,259		
Derivative assets				
Equity and foreign exchange related	Option model (*1)	145,011	The volatility of the underlying asset, and Correlations	1.51%~56.00% -42.00%~82.00%
Interest rates related	Option model (*1)	30,983	The volatility of the underlying asset, Regression coefficient, and Correlations	0.50%~0.67% 1.30%~1.57% 59.53%
Credit and commodity related	Option model (*1)	288,832	The volatility of the underlying asset, and Correlations	0.00%~39.00% 0.00%~93.00%
		464,826		
Securities at fair value through other comprehensive income				
Debt securities	DCF	35,266	Discount rate, and Growth rate	7.78%~19.32% 0.00%~2.00%
Equity securities	NAV	624,852		
		660,118		
		₩12,887,203		
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Equity related	Option model (*1)	₩ 8,511,489	The volatility of the underlying asset, and Correlations	0.00%~140.00% -46.00%~93.00%
Derivative liabilities				
Equity and foreign exchange related	Option model (*1)	30,412	The volatility of the underlying asset, and Correlations	0.00%~140.00% 0.00%~78.00%
Interest rates related	Option model (*1)	213,170	The volatility of the underlying asset Regression coefficient, and Correlations	0.00%~55.00% 1.30%~2.77% 45.06%~90.34%
Credit and commodity related	Option model (*1)	65,388	The volatility of the underlying asset, and Correlations	0.00%~109.00% -46.00%~93.00%
		308,970		
		₩ 8,820,459		

(*1) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

(*2) There is no disclosure for valuation techniques and input variables related to items where the carrying amount is recognized as a reasonable approximation of fair value and the carrying amount is disclosed at fair value.

Type of financial instrument	Valuation technique	2020		
		Carrying value (*2)	Significant unobservable inputs	Range
Financial assets				
Financial asset at fair value through profit or loss				
Debt securities	DCF, Option model (*1), Comparable company analysis	₩10,093,302	The volatility of the underlying asset, Discount rate, and Correlations	5.06%~61.32% 0.35%~27.17% 0.00%~100.0%
Equity securities	DCF, NAV, Option model (*1), Comparable company analysis	832,413	The volatility of the underlying asset, Discount rate, and Correlations	21.00%~40.00% 5.83%~16.87% 20.00%~79.00%
		10,925,715		
Derivative assets				
Equity and foreign exchange related	Option model (*1)	113,496	The volatility of the underlying asset, and Correlations	4.30%~127.00% -3.00%~82.00%
Interest rates related	Option model (*1)	23,112	The volatility of the underlying asset, Regression coefficient, and Correlations	0.47%~1.00% 0.30%~0.58% 26.00%~90.45%
Credit and commodity related	Option model (*1)	273,042	The volatility of the underlying asset, and Correlations	1.00%~40.00% -43.00%~92.00%
		409,650		
Securities at fair value through other comprehensive income				
Debt securities	DCF, NAV, Option model (*1), Comparable company analysis	32,805	The volatility of the underlying asset, Discount rate, and Growth rate	22.11% 0.05%~19.05% 0.00%~2.00%
Equity securities		684,603		
		717,408		
		₩12,052,773		
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Equity related	Option model (*1)	₩ 8,141,504	The volatility of the underlying asset, and Correlations	1.00%~127.00% -43.00%~92.00%
Derivative liabilities				
Equity and foreign exchange related	Option model (*1)	25,525	The volatility of the underlying asset, and Correlations	4.30%~61.00% -3.00%~82.00%
Interest rates related	Option model (*1)	134,759	The volatility of the underlying asset, Regression coefficient, and Correlations	0.47%~40.00% 0.30%~0.63% 20.13%~90.34%
Credit and commodity related	Option model (*1)	29,891	The volatility of the underlying asset, and Correlations	1.00%~102.00% -43.00%~92.00%
		190,175		
		₩ 8,331,679		

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

(*1) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(*2) There is no disclosure for valuation techniques and input variables related to items where the carrying amount is recognized as a reasonable approximation of fair value and the carrying amount is disclosed at fair value.

i-4) *Sensitivity for changing in unobservable inputs*

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects on profit or loss, or other comprehensive income as of December 31, 2019 and 2020.

	<u>2019</u>	
	<u>Favorable changes</u>	<u>Unfavorable changes</u>
Financial assets:		
Effects on profit or loss for the period (*1):		
Financial asset at fair value through profit or loss	₩ 44,108	(23,618)
Derivative assets	24,792	(22,184)
Securities at fair value through other comprehensive income (*2)	36,258	(22,183)
	<u>₩105,158</u>	<u>(67,985)</u>
Financial liabilities:		
Effects on profit or loss for the period (*1):		
Financial liabilities designated at fair value through profit or loss	₩ 55,224	(53,294)
Derivative liabilities	16,830	(22,535)
	<u>₩ 72,054</u>	<u>(75,829)</u>
	<u>2020</u>	
	<u>Favorable changes</u>	<u>Unfavorable changes</u>
Financial assets:		
Effects on profit or loss for the period (*1):		
Financial asset at fair value through profit or loss	₩ 53,821	(48,547)
Derivative assets	23,011	(21,532)
Securities at fair value through other comprehensive income (*2)	26,817	(21,044)
	<u>₩103,649</u>	<u>(91,123)</u>
Financial liabilities:		
Effects on profit or loss for the period (*1):		
Financial liabilities designated at fair value through profit or loss	₩ 72,042	(71,690)
Derivative liabilities	17,976	(18,368)
	<u>₩ 90,018</u>	<u>(90,058)</u>

(*1) Fair value changes are calculated by increasing or decreasing the volatility of the underlying asset (-10~10%) or correlations (-10~10%).

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

(*2) Fair value changes are calculated by increasing or decreasing discount rate (-1~1%) or growth rate (0~1%).

ii) Financial instruments measured at amortized cost

ii-1) The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

<u>Type</u>	<u>Measurement methods of fair value</u>
Cash and due from banks	The carrying amount and the fair value for cash are identical and most of deposits are floating interest rate deposits or next day deposits of a short-term instrument. For this reason, the carrying value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk of the borrower.
Securities measured at amortized cost	The minimum price between the Korea Asset Pricing's valuation, and KIS Pricing's is used as a fair value.
Deposits and borrowings	The carrying amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	Where available, the fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Other financial assets and other financial liabilities	The carrying amounts are measured at fair value for short-term and suspense accounts, such as spot exchange, inter-bank fund transfer, and domestic exchange of payments, and for the remaining financial instruments, the present value is calculated by discounting the contractual cash flows at a discount rate which considered residual risk at the market interest rate.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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4. Financial risk management (continued)

ii-2) The carrying value and the fair value of financial instruments measured at amortized cost as of December 31, 2019 and 2020 are as follows:

	2019		2020	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Deposits measured at amortized cost	₩ 25,840,858	25,852,497	31,605,262	31,607,122
Loans measured at amortized cost				
Retails	134,510,282	135,620,862	146,843,366	147,634,589
Corporations	159,560,873	160,818,205	177,046,416	178,420,230
Public and other funding loans	3,427,855	3,446,485	4,021,926	4,048,167
Loans between banks	2,629,999	2,644,603	5,487,147	5,495,236
Credit card	23,115,970	23,489,180	22,822,664	23,220,987
	<u>323,244,979</u>	<u>326,019,335</u>	<u>356,221,519</u>	<u>358,819,209</u>
Securities measured at amortized cost				
Government bonds	30,385,084	32,242,339	31,816,320	33,391,597
Financial institution bonds	4,770,204	4,882,081	3,835,577	3,987,172
Corporation bonds	10,426,777	10,878,059	11,630,726	12,075,175
	<u>45,582,065</u>	<u>48,002,479</u>	<u>47,282,623</u>	<u>49,453,944</u>
Other financial assets	17,477,778	17,493,331	20,341,191	20,359,778
	<u>₩412,145,680</u>	<u>417,367,642</u>	<u>455,450,595</u>	<u>460,240,053</u>
Liabilities:				
Deposit liabilities:				
Demand deposits	₩116,282,707	116,282,707	148,725,197	148,725,197
Time deposits	158,427,447	158,478,949	157,833,891	157,936,969
Certificate of deposit	9,707,791	9,714,806	5,946,704	5,965,139
Issued bill deposit	4,579,587	4,579,425	6,226,937	6,226,855
CMA deposits	3,987,372	3,987,372	4,006,319	4,006,319
Other	1,889,352	1,889,700	3,677,820	3,678,316
	<u>294,874,256</u>	<u>294,932,959</u>	<u>326,416,868</u>	<u>326,538,795</u>
Borrowing debts:				
Call-money	712,247	712,247	1,760,042	1,760,042
Bills sold	19,070	19,035	10,706	10,696
Bonds sold under repurchase agreements	9,089,736	9,089,736	11,065,584	11,065,584
Borrowings	25,042,103	25,205,292	28,757,732	28,863,015
	<u>34,863,156</u>	<u>35,026,310</u>	<u>41,594,064</u>	<u>41,699,337</u>
Debts:				
Borrowings in Korean won	64,717,212	65,322,413	64,083,920	64,842,258
Borrowings in foreign currency	10,646,152	10,783,027	11,050,474	11,262,332
	<u>75,363,364</u>	<u>76,105,440</u>	<u>75,134,394</u>	<u>76,104,590</u>
Other financial liabilities	28,231,911	27,949,306	34,129,626	34,136,128
	<u>₩433,332,687</u>	<u>434,014,015</u>	<u>477,274,952</u>	<u>478,478,850</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

ii-3) The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position but with their fair value disclosed as of December 31, 2019 and 2020 are as follows:

	2019			Total
	Level 1	Level 2	Level 3	
Assets:				
Deposits measured at amortized cost	₩ 3,133,425	22,149,706	569,366	25,852,497
Loans measured at amortized cost				
Retails	—	—	135,620,862	135,620,862
Corporations	108	—	160,818,097	160,818,205
Public and other funding loans	—	—	3,446,485	3,446,485
Loans between banks	—	960,827	1,683,776	2,644,603
Credit card	—	—	23,489,180	23,489,180
	108	960,827	325,058,400	326,019,335
Securities measured at amortized cost:				
Government bonds	20,524,820	11,717,519	—	32,242,339
Financial institution bonds	2,252,484	2,629,597	—	4,882,081
Debentures	—	10,792,000	86,059	10,878,059
	22,777,304	25,139,116	86,059	48,002,479
Other financial assets	526,813	10,813,821	6,152,697	17,493,331
	₩26,437,650	59,063,470	331,866,522	417,367,642
Liabilities:				
Deposit liabilities:				
Demand deposits	₩ 1,053,963	115,216,336	12,408	116,282,707
Time deposits	—	—	158,478,949	158,478,949
Certificate of deposit	—	—	9,714,806	9,714,806
Issued bill deposit	—	—	4,579,425	4,579,425
CMA deposits	—	3,987,372	—	3,987,372
Other	1,747,509	—	142,191	1,889,700
	2,801,472	119,203,708	172,927,779	294,932,959
Borrowing debts:				
Call-money	174,000	538,247	—	712,247
Bills sold	—	—	19,035	19,035
Bonds sold under repurchase agreements	6,734,162	—	2,355,574	9,089,736
Borrowings	—	—	25,205,292	25,205,292
	6,908,162	538,247	27,579,901	35,026,310
Debts:				
Borrowings in won	—	43,747,553	21,574,860	65,322,413
Borrowings in foreign currency	—	7,535,065	3,247,962	10,783,027
	—	51,282,618	24,822,822	76,105,440
Other financial liabilities	526,685	7,932,723	19,489,898	27,949,306
	₩10,236,319	178,957,296	244,820,400	434,014,015

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4. Financial risk management (continued)

	2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Deposits measured at amortized cost	₩ 779,759	29,957,444	869,919	31,607,122
Loans measured at amortized cost				
Retails	—	—	147,634,589	147,634,589
Corporations	—	—	178,420,230	178,420,230
Public and other funding loans	—	—	4,048,167	4,048,167
Loans between banks	—	2,187,270	3,307,966	5,495,236
Credit card	—	—	23,220,987	23,220,987
	—	2,187,270	356,631,939	358,819,209
Securities measured at amortized cost:				
Government bonds	22,130,487	11,261,110	—	33,391,597
Financial institution bonds	1,070,220	2,916,952	—	3,987,172
Debentures	—	11,994,724	80,451	12,075,175
	23,200,707	26,172,786	80,451	49,453,944
Other financial assets	—	8,661,345	11,698,433	20,359,778
	₩23,980,466	66,978,845	369,280,742	460,240,053
Liabilities:				
Deposit liabilities:				
Demand deposits	₩ —	148,725,197	—	148,725,197
Time deposits	—	—	157,936,969	157,936,969
Certificate of deposit	—	—	5,965,139	5,965,139
Issued bill deposit	—	—	6,226,855	6,226,855
CMA deposits	—	4,006,319	—	4,006,319
Other	—	3,534,696	143,620	3,678,316
	—	156,266,212	170,272,583	326,538,795
Borrowing debts:				
Call-money	—	1,760,042	—	1,760,042
Bills sold	—	—	10,696	10,696
Bonds sold under repurchase agreements	95,400	—	10,970,184	11,065,584
Borrowings	—	8,500	28,854,515	28,863,015
	95,400	1,768,542	39,835,395	41,699,337
Debts:				
Borrowings in won	—	35,740,750	29,101,508	64,842,258
Borrowings in foreign currency	—	7,944,242	3,318,090	11,262,332
	—	43,684,992	32,419,598	76,104,590
Other financial liabilities	—	10,383,020	23,753,108	34,136,128
	₩ 95,400	212,102,766	266,280,684	478,478,850

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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4. Financial risk management (continued)

ii-4) Valuation techniques and inputs used in the fair value measurements categorized within Level 2 and Level 3 for fair value disclosures, which are not recognized at fair value, as at December 31, 2019 and 2020, are as follows:

	2019		
	Fair value (*)	Valuation technique	Inputs
Financial instruments classified as level 2:			
Assets			
Due from banks measured at amortized cost	₩ 22,149,706	DCF	Discount rate
Loans measured at amortized cost	960,827	DCF	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost	25,139,116	DCF	Discount rate
Other financial assets	10,813,821	DCF	Discount rate
Financial instruments classified as level 3:			
Assets			
Due from banks measured at amortized cost	569,366	DCF	Discount rate
Loans measured at amortized cost	325,058,400	DCF	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost	86,059	DCF	Discount rate
Other financial assets	6,152,697	DCF	Discount rate
	<u>₩390,929,992</u>		
Financial instruments classified as level 2:			
Liabilities			
Deposits	₩119,203,708	DCF	Discount rate
Borrowings	538,247	DCF	Discount rate
Debt securities issued	51,282,618	DCF	Discount rate
Other financial liabilities	7,932,723	DCF	Discount rate
Financial instruments classified as level 3:			
Liabilities			
Deposits	172,927,779	DCF	Discount rate
Borrowings	27,579,901	DCF	Discount rate
Debt securities issued	24,822,822	DCF	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities	19,489,898	DCF	Discount rate
	<u>₩423,777,696</u>		

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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4. Financial risk management (continued)

	2020		
	Fair value (*)	Valuation technique	Inputs
Financial instruments classified as level 2:			
Assets			
Due from banks measured at amortized cost	₩ 29,957,444	DCF	Discount rate
Loans measured at amortized cost	2,187,270	DCF	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost	26,172,786	DCF	Discount rate
Other financial assets	8,661,345	DCF	Discount rate
Financial instruments classified as level 3:			
Assets			
Due from banks measured at amortized cost	869,919	DCF	Discount rate
Loans measured at amortized cost	356,631,939	DCF	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost	80,451	DCF	Discount rate
Other financial assets	11,698,433	DCF	Discount rate
	<u>₩436,259,587</u>		
Financial instruments classified as level 2:			
Liabilities			
Deposits	₩156,266,212	DCF	Discount rate
Borrowings	1,768,542	DCF	Discount rate
Debt securities issued	43,684,992	DCF	Discount rate
Other financial liabilities	10,383,020	DCF	Discount rate
Financial instruments classified as level 3:			
Liabilities			
Deposits	170,272,583	DCF	Discount rate
Borrowings	39,835,395	DCF	Discount rate
Debt securities issued	32,419,598	DCF	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities	23,753,108	DCF	Discount rate
	<u>₩478,383,450</u>		

(*) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value

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4. Financial risk management (continued)

iii) Changes in gains or losses on valuation at the transaction date for the years ended December 31, 2019 and 2020, are as follows:

	<u>2019</u>	<u>2020</u>
Beginning balance	₩(126,111)	(172,859)
New transactions	(178,223)	(347,030)
Recognized in profit for the year	<u>131,475</u>	<u>227,290</u>
Ending balance	<u>₩(172,859)</u>	<u>(292,599)</u>

(f) Classification by categories of financial instruments

Financial assets and liabilities are measured at fair value or amortized cost. The financial instruments measured at fair value or amortized costs are measured in accordance with the Group's valuation methodologies, which are described in Note 4.(e) Measurement of fair value.

The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>				
	<u>FVTPL</u>	<u>FVOCI</u>	<u>Amortized cost</u>	<u>Derivatives held for hedging</u>	<u>Total</u>
Assets:					
Cash and due from banks at amortized cost	₩ —	—	28,423,744	—	28,423,744
Due from banks at fair value through profit or loss	897,525	—	—	—	897,525
Securities at fair value through profit or loss	50,110,797	—	—	—	50,110,797
Derivatives assets	2,586,068	—	—	243,206	2,829,274
Loans at fair value through profit or loss	2,154,821	—	—	—	2,154,821
Loans at amortized cost	—	—	323,244,979	—	323,244,979
Securities at fair value through other comprehensive income	—	59,381,053	—	—	59,381,053
Securities at amortized cost	—	—	45,582,065	—	45,582,065
Others	—	—	17,477,778	—	17,477,778
	<u>₩55,749,211</u>	<u>59,381,053</u>	<u>414,728,566</u>	<u>243,206</u>	<u>530,102,036</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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4. Financial risk management (continued)

	2019				
	FVTPL	FVTPL liabilities designated	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:					
Deposits	₩ —	—	294,874,256	—	294,874,256
Financial liabilities at fair value through profit or loss	1,632,457	—	—	—	1,632,457
Financial liabilities designated at FVTPL	—	9,409,456	—	—	9,409,456
Derivatives liabilities	2,001,004	—	—	302,008	2,303,012
Borrowings	—	—	34,863,156	—	34,863,156
Debt securities issued	—	—	75,363,364	—	75,363,364
Others	—	—	28,231,911	—	28,231,911
	<u>₩3,633,461</u>	<u>9,409,456</u>	<u>433,332,687</u>	<u>302,008</u>	<u>446,677,612</u>
	2020				
	FVTPL	FVOCI	Amortized cost	Derivatives held for hedging	Total
Assets:					
Cash and due from banks at amortized cost	₩ —	—	33,410,542	—	33,410,542
Due from banks at fair value through profit or loss	63,112	—	—	—	63,112
Securities at fair value through profit or loss	57,011,490	—	—	—	57,011,490
Derivatives assets	5,157,412	—	—	476,503	5,633,915
Loans at fair value through profit or loss	2,016,801	—	—	—	2,016,801
Loans at amortized cost	—	—	356,221,519	—	356,221,519
Securities at fair value through other comprehensive income	—	58,316,112	—	—	58,316,112
Securities at amortized cost	—	—	47,282,623	—	47,282,623
Others	—	—	20,341,191	—	20,341,191
	<u>₩64,248,815</u>	<u>58,316,112</u>	<u>457,255,875</u>	<u>476,503</u>	<u>580,297,305</u>

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4. Financial risk management (continued)

	2020				
	FVTPL	FVTPL liabilities designated	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:					
Deposits	₩ —	—	326,416,868	—	326,416,868
Financial liabilities at fair value through profit or loss	1,436,694	—	—	—	1,436,694
Financial liabilities designated at FVTPL	—	8,455,724	—	—	8,455,724
Derivatives liabilities	4,680,064	—	—	336,503	5,016,567
Borrowings	—	—	41,594,064	—	41,594,064
Debt securities issued	—	—	75,134,394	—	75,134,394
Others	—	—	34,129,626	—	34,129,626
	<u>₩6,116,758</u>	<u>8,455,724</u>	<u>477,274,952</u>	<u>336,503</u>	<u>492,183,937</u>

(g) Transfer of financial instruments

i) Transfers that do not qualify for derecognition

① Sale of repurchase bonds

Among the Group's sale of repurchase bonds, followings are the details of financial instruments that do not qualify for derecognition because the Group sold under repurchase agreement at a fixed price as of December 31, 2019 and 2020:

	<u>2019</u>	<u>2020</u>
Transferred asset:		
Securities at FVTPL	₩ 7,924,953	8,915,488
Securities at FVOCI	1,867,470	1,638,651
Securities at amortized cost	818,470	205,639
	<u>₩10,610,893</u>	<u>10,759,778</u>
Associated liabilities:		
Bonds sold under repurchase agreements	₩ 8,717,336	11,075,004

② Securities loaned

If the securities owned by the Group are loaned, the ownership of the securities is transferred, but is required to be returned at the end of the loan period. Therefore, the Group continues to recognize the entire securities loaned as it holds most of the risks and compensation of the securities.

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4. Financial risk management (continued)

Securities loaned as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>	<u>Borrowers</u>
Government bonds	₩3,951,869	3,213,719	Korea Securities Finance Corp., Korea Securities Depository
Financial institutions bonds	460,052	220,324	Korea Securities Finance Corp., Korea Securities Depository
Equity securities	30,242	99,670	Korea Securities Finance Corp.
	<u>₩4,442,163</u>	<u>3,533,713</u>	

ii) Financial instruments qualified for derecognition and continued involvement

There is no financial instruments which qualify for derecognition and in which the Group has continuing involvements as of December 31, 2019 and 2020.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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4. Financial risk management (continued)

(h) Offsetting financial assets and financial liabilities

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2019 and 2020 are as follows:

	2019					
	Gross amounts of recognized financial assets/liabilities	Gross amounts of financial assets/liabilities set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Assets:						
Derivatives (*1)	₩ 2,694,236	—	2,694,236	8,090,372	263,541	1,645,802
Other financial instruments (*1)	8,624,844	1,319,365	7,305,479			
Securities repurchased under repurchase agreements and bonds purchased under repurchase agreements (*2)	11,828,135	—	11,828,135	11,051,075	—	777,060
Securities loaned (*2)	1,927,674	—	1,927,674	1,927,674	—	—
Domestic exchange settlement debit (*3)	31,814,310	27,008,189	4,806,121	526,653	—	4,279,468
Receivables from disposal of securities (*4)	25,808	1,134	24,674	—	—	24,674
Insurance receivables	10,353	—	10,353	8,008	—	2,345
	<u>₩ 56,925,360</u>	<u>28,328,688</u>	<u>28,596,672</u>	<u>21,603,782</u>	<u>263,541</u>	<u>6,729,349</u>
Liabilities:						
Derivatives (*1)	₩ 12,803,450	—	12,803,450	8,279,924	11,693	10,704,107
Other financial instruments (*1)	7,511,639	1,319,365	6,192,274			
Bonds purchased under repurchase agreements (*2)	8,717,336	—	8,717,336	8,717,336	—	—
Securities borrowed (*2)	1,135,614	—	1,135,614	1,135,614	—	—
Domestic exchange settlement pending (*3)	28,936,661	27,008,189	1,928,472	1,857,152	—	71,320
Payable from purchase of securities (*4)	1,607	1,134	473	473	—	—
Insurance payables	8,202	—	8,202	8,008	—	194
	<u>₩ 59,114,509</u>	<u>28,328,688</u>	<u>30,785,821</u>	<u>19,998,507</u>	<u>11,693</u>	<u>10,775,621</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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4. Financial risk management (continued)

	2020				
	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial assets/ liabilities set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position	
				Financial instruments	Cash collateral received
Assets:					
Derivatives (*1)	₩ 5,361,225	—	5,361,225		
Other financial instruments (*1)	18,033,663	6,502,695	11,530,968	4,448,496	12,129,369
Securities repurchased under repurchase agreements and bonds purchased under repurchase agreements (*2)					
Securities loaned (*2)	13,694,305	—	13,694,305	13,185,633	508,672
Domestic exchange settlement debit (*3)	1,202,494	—	1,202,494	1,202,494	—
Receivables from disposal of securities (*4)	29,911,693	25,785,507	4,126,186	116,290	4,009,896
Insurance receivables	29,341	3,140	26,201	—	26,201
	8,374	—	8,374	5,526	2,848
	<u>₩68,241,095</u>	<u>32,291,342</u>	<u>35,949,753</u>	<u>18,958,439</u>	<u>16,676,986</u>
Liabilities:					
Derivatives (*1)	₩13,153,952	—	13,153,952		
Other financial instruments (*1)	17,340,722	6,502,695	10,838,027	5,490,974	1,000
Bonds purchased under repurchase agreements (*2)	11,065,584	—	11,065,584	10,260,684	804,900
Securities borrowed (*2)	897,129	—	897,129	897,129	—
Domestic exchange settlement pending (*3)	31,605,249	25,785,507	5,819,742	4,099,248	1,720,494
Payable from purchase of securities (*4)	3,148	3,140	8	8	—
Insurance payables	5,742	—	5,742	5,526	216
	<u>₩74,071,526</u>	<u>32,291,342</u>	<u>41,780,184</u>	<u>20,753,569</u>	<u>21,025,615</u>

(*1) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off. At the time of termination, the parties to the transaction will offset the amount of payment or payment to each other, and one party will pay the other party a single amount will be paid to the other party.

(*2) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

- (*3) The Group has legally enforceable right to set off and settles financial assets and liabilities on a net basis under normal business terms. Therefore, domestic exchanges settlement receivables (payables) are recorded on a net basis in the consolidated statements of financial position.
- (*4) It is an account that deals with bonds and liabilities based on the settlement of listed stocks traded in the market. The Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis. Therefore, the net amount is presented in the consolidated statement of financial position. The offset amount of related bonds and liabilities based on the settlement of over-the-counter derivatives in-house payment by Central Clearing System is included.
- (*5) As of December 31, 2019, the total amount of financial liabilities includes ₩ 9,409,456 million (₩ 8,455,724 million as of December 31, 2020) of ELS (equity-linked securities) products and of DLS (derivative-linked securities) products. In the course of this transaction, the Group has provided collateral for some transactions. The financial instruments provided as collateral of ₩ 122,129 million (₩ 1,087,349 million as of December 31, 2020) are included in the related instruments not offset in the statement of financial position. The total amount of financial liabilities recognized as of December 31, 2020 is ₩ 693,017 million for transactions with the other party with collective offset contracts or similar arrangements.

(i) Capital risk management

The criteria for capital adequacy to be complied with by the Group are 8.0% or more of the total equity capital ratio, 6.0% or higher of the basic capital ratio, and 4.5% or more of the common stock capital ratio. In addition, the minimum regulatory BIS capital ratio, which should be maintained additionally to increase the ability to absorb losses, has been raised to up to 14% as the capital regulation based on the Basel III standard is enforced from 2016. This is based on the addition of capital conservation capital (2.5%p) and domestic system-critical banks (D-SIB) capital (1.0%p) and economic response capital (2.5%p) to the existing lowest common equity capital ratio, and economic response capital can be charged up to 2.5%p during credit expansion period. As of December 31, 2020, the minimum regulatory BIS capital ratio to be observed is 11.5%, which is the standard for applying capital conservation capital (2.5%p), D-SIB capital (1.0%p), and economic response capital (0%p).

Basel III capital ratio is the concept of 'International Agreement on the Measurement and Standards of Equity Capital' of the Basel Bank Supervisory Commission of BIS (International Settlement Bank). It is calculated as '(common stock capital (after deduction of deductions) + other basic capital + supplementary capital) ÷ risk weighted assets'.

The capital of common stock can be the first to make up for the loss of the financial holding company. The capital of common stock consists of capital stock, capital reserve, retained earnings and other, which will not be redeemed until the liquidation and will be redeemed at the last during the liquidation. Other basic capital consists of capital securities that meet certain requirements as capital of permanent nature. Complementary capital is capital that can compensate for losses of financial holding companies during liquidation, and consists of capital securities, etc. that meet certain requirements. The deduction items are those held by the Group as assets or capital items, but do not contribute to the ability to absorb losses. Unless otherwise noted, it will be deducted from common stock capital.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

The capital ratio of the Group based on Basel III is as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Capital:		
Tier I common equity capital	₩ 28,561,568	32,461,864
Additional tier 1 capital	<u>3,138,262</u>	<u>3,805,372</u>
Tier I capital	31,699,830	36,267,236
Tier II capital	<u>4,014,740</u>	<u>3,441,841</u>
Total capital (A)	<u>₩ 35,714,570</u>	<u>39,709,077</u>
Total risk-weighted assets (B)	₩256,891,664	252,321,426
Capital adequacy ratio (A/B)	13.90%	15.74%
Tier I capital adequacy ratio	12.34%	14.37%
Common stock ratio	11.12%	12.87%

(*) As of December 31, 2020, the Group has maintained an appropriate consolidated equity capital ratio according to the BIS equity capital regulation.

5. Significant estimates and judgments

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgment in applying the Group's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimation of impairment of goodwill

The Group reviews the goodwill annually in accordance with the accounting policy in Note 3. The recoverable amount of the cash-generating unit (group) is determined based on the value-in-use calculation. These calculations are based on estimates.

(b) Income taxes

The Group is subject to tax laws from various countries. In the normal course of business, there are various types of transactions and different accounting methods that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred taxes that reflect tax consequences based on the best estimates in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, actual income taxes in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the period when the final tax effect is determined.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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5. Significant estimates and judgments (continued)

(c) Fair value of financial instruments

The fair values of financial instruments (e.g. over-the-counter derivatives) which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation techniques and assumptions based on significant market conditions at the end of each reporting period. Diverse valuation techniques are used to determine the fair value of financial instruments, from generic valuation techniques to internally developed valuation models that incorporate various types of assumptions and variables.

(d) Allowance for credit loss, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on debt securities, loans and other receivables measured at amortized cost or FVOCI, and recognizes provisions for guarantees and unused loan commitments through impairment testing. The accuracy of allowances and provisions for credit losses are determined by the estimation of expected cash flows for individually assessed allowances, and methodology and assumptions used for collectively assessed allowances and provisions for groups of loans, guarantees and unused loan commitments.

(e) Defined benefit obligation

The present value of a defined benefit obligation that is measured by actuarial valuation methods uses various assumptions which can change according to various elements. The assumptions used to determine the net cost (profit) of an annuity include a discount rate, and these changes will affect the carrying amount of the defined benefit obligation. The Group is deciding the appropriate discount rate for each half year. The discount rate represents the interest rate that should be used to determine the present value of the estimated future cash outflow expected to occur in settlement of the defined benefit obligation. The Group determines the appropriate discount rate by considering the interest rate of blue-chip corporate bonds that are denominated in the currency in which the pension is paid and have a maturity similar to the period of the associated defined benefit obligation. Other significant assumptions related to defined benefit obligations are based on current market situations.

(f) Hedging relationship

The Group expects a high risk hedging effect throughout the hedging period in designating the hedging relationship and it is probable that the hedged transaction will be highly probable in the cash flow hedge.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

6. Investment in subsidiaries

- (a) The summarized financial information of the controlling company and the Group's major subsidiaries as of December 31, 2019 and 2020 is as follows:

Investees(*1)(*2)	2019			2020		
	Asset balance	Liability balance	Equity balance	Asset balance	Liability balance	Equity balance
Shinhan Financial Group (separate)	₩ 32,261,322	9,795,896	22,465,426	35,483,914	10,426,817	25,057,097
Shinhan Bank	392,723,044	366,629,929	26,093,115	427,675,103	400,009,589	27,665,514
Shinhan Card Co., Ltd.	32,917,910	26,769,044	6,148,866	34,885,223	28,465,675	6,419,548
Shinhan Investment Corp.	37,375,487	33,138,930	4,236,557	46,632,433	42,258,341	4,374,092
Shinhan Life Insurance Co., Ltd.	34,133,649	32,062,490	2,071,159	36,777,496	34,232,052	2,545,444
Orange Life Insurance Co., Ltd.	32,841,359	29,654,711	3,186,648	33,813,587	30,574,073	3,239,514
Shinhan Capital Co., Ltd.	7,566,428	6,612,519	953,909	8,901,349	7,710,010	1,191,339
Jeju Bank	6,192,927	5,695,223	497,704	6,531,838	6,022,397	509,441
Shinhan Credit Information Co., Ltd.	25,292	10,044	15,248	27,806	10,826	16,980
Shinhan Alternative Investment Management Inc.	87,694	75,665	12,029	87,053	71,591	15,462
Shinhan BNP Paribas Asset Management Co., Ltd.	184,203	19,678	164,525	191,127	20,530	170,597
SHC Management Co., Ltd.	9,639	—	9,639	9,644	—	9,644
Shinhan DS	89,141	67,954	21,187	95,150	70,916	24,234
Shinhan Savings Bank	1,602,902	1,418,317	184,585	1,842,231	1,635,433	206,798
Asia Trust Co., Ltd.	172,793	43,933	128,860	259,899	85,274	174,625
Shinhan AITAS Co., Ltd.	77,086	10,962	66,124	87,378	12,159	75,219
Shinhan REITs Management Co., Ltd.	45,832	5,619	40,213	52,555	8,582	43,973
Shinhan AI Co., Ltd.	42,402	1,674	40,728	42,903	1,890	41,013
Neoplux Co., Ltd.	—	—	—	72,550	12,697	59,853

(*1) The consolidated financial statements of the consolidated subsidiaries are based on consolidated financial statements, if applicable.

(*2) Trusts, beneficiary certificates, securitization special limited liability companies, associates and private equity investment specialists that are not actually operating their own business are excluded.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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6. Investment in subsidiaries (continued)

(b) The summarized income information of the controlling company and the Group's major subsidiaries for the years ended December 31, 2018, 2019 and 2020 is as follows:

Investees>(*1)(*2)	2018			2019			2020		
	Operating Income	Net Income	Comprehensive Income	Operating Income	Net Income	Comprehensive Income	Operating Income	Net Income	Comprehensive Income
Shinhan Financial Group (separate)	₩ 1,519,197	1,234,883	1,234,044	1,480,030	1,129,173	1,127,202	1,718,407	1,274,443	1,274,892
Shinhan Bank	19,731,711	2,279,362	2,333,266	23,145,476	2,329,268	2,527,665	25,049,392	2,078,232	1,911,575
Shinhan Card Co., Ltd.	3,752,232	517,761	477,135	3,892,257	509,032	486,114	4,091,178	606,554	599,451
Shinhan Investment Corp.	5,279,567	251,268	269,058	6,139,926	220,764	225,963	9,290,965	154,531	147,210
Shinhan Life Insurance Co., Ltd.	5,633,679	131,021	150,997	5,413,175	123,870	326,783	5,405,933	177,834	227,596
Orange Life Insurance Co., Ltd. (*3)	—	—	—	4,662,085	271,455	433,510	4,456,340	279,282	132,425
Shinhan Capital Co., Ltd.	439,031	103,400	100,317	455,246	126,050	123,032	626,455	160,583	162,134
Jeju Bank	224,766	27,446	30,579	239,732	27,934	30,519	214,615	17,521	16,557
Shinhan Credit Information Co., Ltd.	37,616	1,392	985	38,648	507	658	42,658	1,493	1,650
Shinhan Alternative Investment Management Inc.	21,590	(780)	(780)	32,401	2,144	2,144	17,219	3,433	3,433
Shinhan BNP Paribas Asset Management Co., Ltd.	78,378	18,868	18,980	84,256	23,090	22,655	88,870	26,663	26,663
SHC Management Co., Ltd.	140	309	309	154	82	82	70	5	5
Shinhan DS	99,279	1,314	1,525	138,697	2,074	1,292	164,327	1,862	2,845
Shinhan Savings Bank	94,636	19,384	18,919	116,849	23,122	22,972	123,590	26,953	26,888
Asia Trust Co., Ltd. (*3)	—	—	—	54,920	18,098	18,128	102,816	45,791	45,765
Shinhan AITAS Co., Ltd.	44,729	8,461	8,461	51,823	10,821	10,821	58,599	13,020	12,954
Shinhan REITs Management Co., Ltd.	7,386	3,564	3,552	7,342	7,414	7,411	12,176	3,764	3,764
Shinhan AI Co., Ltd.	—	—	—	3,088	(654)	(654)	10,246	304	284
Neoplux Co., Ltd. (*3)	—	—	—	—	—	—	3,500	(1,146)	(1,015)

(*1) The consolidated financial statements of the consolidated subsidiaries are based on consolidated financial statements, if applicable.

(*2) Trusts, beneficiary certificates, securitization special limited liability companies, associates and private equity investment specialists that are not actually operating their own business are excluded.

(*3) For the acquired company, the amount is from the consolidated statements of comprehensive income for the period after the acquisition point.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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6. Investment in subsidiaries (continued)

(c) Change in the scope of consolidation

i) Change in consolidated subsidiaries for the year ended December 31, 2019 are as follows:

	Company	Description
Included	Orange Life Insurance Co., Ltd.	Newly acquired subsidiary
	Asia Trust Co., Ltd.	Newly acquired subsidiary
	Shinhan Vietnam Finance Co.,Ltd	Newly acquired subsidiary
	Shinhan AI Co., Ltd.	Newly invested subsidiary

(*) Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

ii) Change in consolidated subsidiaries for the year ended December 31, 2020 are as follows:

	Company	Description
Included	Neoplux Co., Ltd.	Newly acquired subsidiary
Included	SBJDNX	Newly invested subsidiary
Included	Shinhan Financial Plus	Newly invested subsidiary
Excluded	Shinhan Asia Ltd.	Liquidation

(*) Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

7. Operating segments

(a) Segment information

The general descriptions by operating segments as of December 31, 2020 are as follows:

Segment	Description
Banking	Credit to customers, lending to and receiving deposits from customers, and their accompanying work
Credit card	Sales of credit cards, cash services, card loan services and their accompanying work
Securities	Securities trading, consignment trading, underwriting and their accompanying work
Life insurance	Life insurance business and its accompanying work
Others	Business segments that do not belong to the above segments, such as leasing, rental, collection of bonds, assets management and other remaining business

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

7. Operating segments (continued)

(b) The following tables provide information of income and expense for each operating segment for the years ended December 31, 2018, 2019 and 2020:

	2018						
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩ 5,707,813	1,583,100	429,095	761,742	95,618	2,721	8,580,089
Net fees and commission income	850,646	433,043	388,944	69,780	198,828	(2,244)	1,938,997
Reversal of (provision for) ACL	(250,134)	(466,447)	(9,226)	(13,400)	(10,238)	1,568	(747,877)
General and administrative expenses	(3,098,629)	(751,580)	(493,906)	(227,740)	(263,046)	93,326	(4,741,575)
Other income (expense), net	(163,104)	74,954	17,963	(409,151)	80,857	(131,739)	(530,220)
Operating income (expense)	3,046,592	873,070	332,870	181,231	102,019	(36,368)	4,499,414
Equity method income (loss)	(977)	—	15,228	(1,026)	6,909	(2,646)	17,488
Income tax expense	832,494	225,837	95,438	50,429	59,556	4,591	1,268,345
Profit for the year	₩ 2,195,263	629,307	251,268	131,021	49,168	(57,762)	3,198,265
Controlling interest	₩ 2,194,950	630,993	251,265	131,021	49,168	(100,675)	3,156,722
Non-controlling interests	313	(1,686)	3	—	—	42,913	41,543
	2019						
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩ 5,989,462	1,753,966	457,852	1,647,795	127,564	(238,675)	9,737,964
Net fees and commission income	950,389	403,259	351,303	167,324	272,244	(4,000)	2,140,519
Reversal of (provision for) allowance for credit loss ("ACL")	(389,004)	(566,415)	1,325	(797)	(25,030)	(771)	(980,692)
General and administrative expenses	(3,177,158)	(745,848)	(511,418)	(443,013)	(335,090)	77,853	(5,134,674)
Other income (expense), net	(211,882)	(33,204)	(59,006)	(786,103)	129,272	244,056	(716,867)
Operating income	3,161,807	811,758	240,056	585,206	168,960	78,463	5,046,250
Equity method income (loss)	(764)	—	18,163	(1,296)	12,265	24,919	53,287
Income tax expense	718,650	205,863	68,311	187,608	73,213	15,479	1,269,124
Profit for the year	₩ 2,256,652	609,582	220,764	395,325	100,259	59,802	3,642,384
Controlling interest	₩ 2,256,576	609,350	220,850	395,325	100,259	(178,863)	3,403,497
Non-controlling interests	76	232	(86)	—	—	238,665	238,887
	2020						
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩ 6,037,632	1,755,039	517,044	1,608,953	166,622	(202,590)	9,882,700
Net fees and commission income	822,408	483,486	544,183	162,284	368,350	2,222	2,382,933
Reversal of (provision for) allowance for credit loss ("ACL")	(690,084)	(483,883)	(111,796)	(12,236)	(85,951)	1,771	(1,382,179)
General and administrative expenses	(3,237,641)	(698,796)	(565,485)	(463,439)	(372,591)	125,479	(5,212,473)
Other income (expense), net	(130,488)	(169,304)	(11,348)	(727,530)	260,873	36,552	(741,245)
Operating income	2,801,827	886,542	372,598	568,032	337,303	(36,566)	4,929,736
Equity method income (loss)	(811)	—	37,760	(1,244)	29,644	94,184	159,533
Income tax expense	673,972	251,357	48,464	156,698	94,094	31,210	1,255,795
Profit for the year	₩ 1,999,002	703,305	154,531	457,116	273,575	(89,453)	3,498,076
Controlling interest	₩ 1,998,563	703,204	154,772	457,116	273,575	(172,635)	3,414,595
Non-controlling interests	439	101	(241)	—	—	83,182	83,481

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7. Operating segments (continued)

- (c) Interest gains and losses from segment external customers and cross-sector interest gains and losses for the years ended December 31, 2018, 2019 and 2020 are as follows:

	2018						Total
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	
Net interest income from:							
External customers	₩5,714,568	1,602,849	423,156	762,978	76,538	—	8,580,089
Internal transactions	(6,755)	(19,749)	5,939	(1,236)	19,080	2,721	—
	<u>₩5,707,813</u>	<u>1,583,100</u>	<u>429,095</u>	<u>761,742</u>	<u>95,618</u>	<u>2,721</u>	<u>8,580,089</u>
	2019						Total
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment (*)	
Net interest income from:							
External customers (*)	₩5,995,097	1,781,266	450,268	1,647,988	103,161	(239,816)	9,737,964
Internal transactions	(5,635)	(27,300)	7,584	(193)	24,403	1,141	—
	<u>₩5,989,462</u>	<u>1,753,966</u>	<u>457,852</u>	<u>1,647,795</u>	<u>127,564</u>	<u>(238,675)</u>	<u>9,737,964</u>
	2020						Total
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment (*)	
Net interest income from:							
External customers (*)	₩6,037,205	1,809,149	526,167	1,605,575	114,290	(209,686)	9,882,700
Internal transactions	427	(54,110)	(9,123)	3,378	52,332	7,096	—
	<u>₩6,037,632</u>	<u>1,755,039</u>	<u>517,044</u>	<u>1,608,953</u>	<u>166,622</u>	<u>(202,590)</u>	<u>9,882,700</u>

- (*) Consolidated adjustment to net interest income from external customers is from the securities and others which were measured in fair values as a part of business combination accounting.

- (d) The following tables provide information of net fees and commission income (expense) of each operating segment for the years ended December 31, 2018, 2019 and 2020.

	2018						Total
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	
Net fees and commission income from:							
External customers	₩872,631	464,342	400,227	77,145	124,652	—	1,938,997
Internal transactions	(21,985)	(31,299)	(11,283)	(7,365)	74,176	(2,244)	—
	<u>₩850,646</u>	<u>433,043</u>	<u>388,944</u>	<u>69,780</u>	<u>198,828</u>	<u>(2,244)</u>	<u>1,938,997</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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7. Operating segments (continued)

	2019						Total
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	
Net fees and commission income from:							
External customers	₩974,636	436,523	361,526	175,171	192,663	—	2,140,519
Internal transactions	(24,247)	(33,264)	(10,223)	(7,847)	79,581	(4,000)	—
	<u>₩950,389</u>	<u>403,259</u>	<u>351,303</u>	<u>167,324</u>	<u>272,244</u>	<u>(4,000)</u>	<u>2,140,519</u>
	2020						Total
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	
Net fees and commission income from:							
External customers	₩859,225	531,394	553,308	173,865	265,141	—	2,382,933
Internal transactions	(36,817)	(47,908)	(9,125)	(11,581)	103,209	2,222	—
	<u>₩822,408</u>	<u>483,486</u>	<u>544,183</u>	<u>162,284</u>	<u>368,350</u>	<u>2,222</u>	<u>2,382,933</u>

(e) Financial information of geographical area

The following table provides information of income from external consumers by geographical area for the years ended December 31, 2018, 2019 and 2020.

	2018	2019	2020
Domestic	₩4,023,916	4,378,239	4,436,252
Overseas	475,498	668,011	493,484
	<u>₩4,499,414</u>	<u>5,046,250</u>	<u>4,929,736</u>

The following table provides information of non-current assets by geographical area as of December 31, 2019 and 2020.

	2019	2020
Domestic	₩ 9,816,600	9,734,468
Overseas	314,052	351,083
	<u>₩10,130,652</u>	<u>10,085,551</u>

(*) Non-current assets comprise property and equipment, intangible assets and investment properties.

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8. Cash and due from banks at amortized cost

(a) Cash and due from banks at amortized cost as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Cash and cash equivalents		
Cash	₩ 2,573,579	1,782,301
Cash equivalents	9,307	22,979
	<u>2,582,886</u>	<u>1,805,280</u>
Deposits denominated in Korean won:		
Reserve deposits	13,840,988	16,957,521
Time deposits	1,413,964	950,624
Other	1,890,541	3,953,337
	<u>17,145,493</u>	<u>21,861,482</u>
Deposits denominated in foreign currency:		
Deposits	5,616,049	5,576,206
Time deposits	2,393,885	2,721,849
Other	697,505	1,455,732
	<u>8,707,439</u>	<u>9,753,787</u>
Allowance for credit losses	<u>(12,074)</u>	<u>(10,007)</u>
	<u>₩ 28,423,744</u>	<u>33,410,542</u>

(b) Restricted due from banks at amortized cost as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>	<u>Related Regulations or Acts</u>
Deposits denominated in Korean won:			
Reserve deposits	₩13,840,988	16,957,521	Article 55 of the Bank of Korea Act Article 28 and 70 of the Bank of Korea Act, Article 74 of the Capital Markets and Financial Investment Business Act, etc.
Other	1,081,698	2,390,761	
	<u>14,922,686</u>	<u>19,348,282</u>	
Deposits denominated in foreign currency	1,584,239	2,621,129	Articles of the Bank of Korea Act, New York State Banking Act, derivatives, etc.
	<u>₩16,506,925</u>	<u>21,969,411</u>	

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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9. Financial assets at fair value through profit or loss

(a) Financial assets at fair value through profit or loss as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Debt instruments:		
Governments	₩ 2,873,419	4,248,448
Financial institutions	12,711,074	13,997,922
Corporations	8,541,514	9,356,842
Stocks with put option	598,858	583,590
Equity investment with put option	1,458,933	1,860,195
Beneficiary certificates	10,678,620	12,451,709
Commercial papers	5,160,063	6,369,854
CMA	3,723,401	2,806,485
Others (*)	2,655,260	3,411,647
	<u>48,401,142</u>	<u>55,086,692</u>
Equity instruments:		
Stocks	1,488,743	1,627,020
Equity investment	—	1,697
Others	109,197	107,742
	<u>1,597,940</u>	<u>1,736,459</u>
	<u>₩49,999,082</u>	<u>56,823,151</u>
Other:		
Loans at fair value	₩ 2,154,821	2,016,801
Due from banks at fair value	897,525	63,112
Gold/silver deposits	111,715	188,339
	<u>₩53,163,143</u>	<u>59,091,403</u>

(*) As of December 31, 2019 and 2020, restricted reserve for claims of customers' deposits (trusts) are ₩ 1,103,050 million and ₩ 1,907,210 million, respectively.

(b) Financial assets to which overlay approach are applied in accordance with IFRS 9 'Financial Instruments' and IFRS 4 'Insurance Contracts' as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Due from banks at fair value through profit or loss	₩ 897,525	63,112
Securities at fair value through profit or loss	5,139,380	4,865,908
	<u>₩6,036,905</u>	<u>4,929,020</u>

A financial asset is eligible for designation for the overlay approach, if it is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39; and it is not held in respect of an activity that is not associated with contracts within the scope of IFRS 4.

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9. Financial assets at fair value through profit or loss (continued)

The reclassified amounts between profit or loss and other comprehensive income due to the overlay approach as of and for the years ended December 31, 2019 and 2020 are as follows:

	2019			
	Profit or loss		Other comprehensive income	
	By IFRS 9	By IAS 39	Amount	Tax effect
Net gain (loss) on valuation of financial assets at fair value through profit or loss	₩ 150,865	(74,586)	225,451	(50,042)
Net gain (loss) on disposal of financial assets at fair value through profit or loss	65,627	43,493	22,134	(4,672)
	<u>₩ 216,492</u>	<u>(31,093)</u>	<u>247,585</u>	<u>(54,714)</u>
	2020			
	Profit or loss		Other comprehensive income (*)	
	By IFRS 9	By IAS 39	Amount	Tax effect
Net gain (loss) on valuation of financial assets at fair value through profit or loss	₩ 123,808	(21,488)	145,301	(39,140)
Net gain (loss) on disposal of financial assets at fair value through profit or loss	53,806	62,926	(9,120)	4,086
Net gain (loss) on foreign currency conversion of financial assets at fair value through profit or loss	74	—	74	(20)
	<u>₩ 177,688</u>	<u>41,438</u>	<u>136,255</u>	<u>(35,074)</u>

(*) The amount of the policyholders equity adjustment for the reclassification of other comprehensive income is ₩(10,883) million.

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10. Derivatives

(a) The notional amounts of derivatives outstanding as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Foreign currency related:		
Over the counter:		
Currency forwards	₩ 137,383,704	117,566,233
Currency swaps	40,826,444	33,562,251
Currency options	2,758,801	2,501,983
	<u>180,968,949</u>	<u>153,630,467</u>
Exchange traded:		
Currency futures	1,045,138	1,102,534
	<u>182,014,087</u>	<u>154,733,001</u>
Interest rates related:		
Over the counter:		
Interest rate swaps	37,801,528	36,205,843
Interest rate options	286,000	324,238
	<u>38,087,528</u>	<u>36,530,081</u>
Exchange traded:		
Interest rate futures	2,455,450	2,465,374
Interest rate swaps (*)	65,868,540	68,475,400
	<u>68,323,990</u>	<u>70,940,774</u>
	<u>106,411,518</u>	<u>107,470,855</u>
Credit related:		
Over the counter:		
Credit swaps	5,404,257	4,536,626
Equity related:		
Over the counter:		
Equity swaps and forwards	4,255,831	2,628,661
Equity options	864,038	508,686
	<u>5,119,869</u>	<u>3,137,347</u>
Exchange traded:		
Equity futures	876,220	1,638,126
Equity options	4,039,226	4,277,882
	<u>4,915,446</u>	<u>5,916,008</u>
	<u>10,035,315</u>	<u>9,053,355</u>
Commodity related:		
Over the counter:		
Commodity swaps and forwards	758,533	537,351
Exchange traded:		
Commodity futures and options	344,329	263,460
	<u>1,102,862</u>	<u>800,811</u>

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10. Derivatives (continued)

	<u>2019</u>	<u>2020</u>
Hedge:		
Currency forwards	₩ 1,869,518	1,281,945
Currency swaps	4,532,114	4,328,333
Interest rate swaps	10,091,632	7,844,392
	<u>16,493,264</u>	<u>13,454,670</u>
	<u>₩321,461,303</u>	<u>290,049,318</u>

(*) The notional amounts of derivatives outstanding those will be settled in the 'Central Counter Party (CCP)' system.

(b) Fair values of derivative instruments as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>		<u>2020</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Foreign currency related:				
Over the counter:				
Currency forwards	₩1,360,384	1,056,760	3,135,319	3,021,258
Currency swaps	473,797	519,445	1,145,619	979,022
Currency options	9,007	9,430	33,253	31,871
	<u>1,843,188</u>	<u>1,585,635</u>	<u>4,314,191</u>	<u>4,032,151</u>
Exchange traded:				
Currency futures	—	—	90	186
	<u>1,843,188</u>	<u>1,585,635</u>	<u>4,314,281</u>	<u>4,032,337</u>
Interest rates related:				
Over the counter:				
Interest rate swaps	260,020	247,723	311,403	363,297
Interest rate options	835	5,626	2,148	2,217
	<u>260,855</u>	<u>253,349</u>	<u>313,551</u>	<u>365,514</u>
Exchange traded:				
Interest rate futures	697	595	900	422
	<u>261,552</u>	<u>253,944</u>	<u>314,451</u>	<u>365,936</u>
Credit related:				
Over the counter:				
Credit swaps	283,015	38,598	273,578	29,682
Equity related:				
Over the counter:				
Equity swap and forwards	144,276	39,422	122,034	48,218
Equity options	4,526	9,402	2,750	9,840
	<u>148,802</u>	<u>48,824</u>	<u>124,784</u>	<u>58,058</u>

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10. Derivatives (continued)

	2019		2020	
	Assets	Liabilities	Assets	Liabilities
Exchange traded:				
Equity futures	₩ 4,318	6,417	34,816	7,711
Equity options	28,355	29,741	77,973	153,461
	<u>32,673</u>	<u>36,158</u>	<u>112,789</u>	<u>161,172</u>
	<u>181,475</u>	<u>84,982</u>	<u>237,573</u>	<u>219,230</u>
Commodity related:				
Over the counter:				
Commodity swaps and forwards	14,496	27,745	5,949	32,693
Exchange traded:				
Commodity futures and options	2,342	10,100	11,580	186
	<u>16,838</u>	<u>37,845</u>	<u>17,529</u>	<u>32,879</u>
Hedge:				
Currency forwards	14,380	21,121	91,747	10,507
Currency swaps	74,240	48,396	65,256	186,150
Interest rate forwards and swaps	154,586	232,491	319,500	139,846
	<u>243,206</u>	<u>302,008</u>	<u>476,503</u>	<u>336,503</u>
	<u>₩2,829,274</u>	<u>2,303,012</u>	<u>5,633,915</u>	<u>5,016,567</u>

(c) Gain or loss on valuation of derivatives for the years ended December 31, 2018, 2019 and 2020 are as follows:

	2018	2019	2020
Foreign currency related			
Over the counter			
Currency forwards	₩ 41,188	174,340	(108,854)
Currency swaps	(34,444)	(24,827)	210,072
Currency options	8,247	4,056	4,979
	<u>14,991</u>	<u>153,569</u>	<u>106,197</u>
Exchange traded			
Currency futures	11	—	(96)
	<u>15,002</u>	<u>153,569</u>	<u>106,101</u>
Interest rates related			
Over the counter			
Interest rate swaps	86,675	(75,349)	(73,926)
Interest rate options	(1,459)	(1,938)	(372)
	<u>85,216</u>	<u>(77,287)</u>	<u>(74,298)</u>
Exchange traded			
Interest rate futures	(2,512)	1,008	4,236
	<u>82,704</u>	<u>(76,279)</u>	<u>(70,062)</u>

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10. Derivatives (continued)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Credit related			
Over the counter			
Credit swaps	₩ (18,396)	213,754	7,255
Equity related			
Over the counter			
Equity swap and forwards	(271,457)	46,770	(15,979)
Equity options	4,326	(841)	(2,082)
	<u>(267,131)</u>	<u>45,929</u>	<u>(18,061)</u>
Exchange traded			
Equity futures	15,159	(2,275)	26,305
Equity options	(44,163)	58,721	196,288
	<u>(29,004)</u>	<u>56,446</u>	<u>222,593</u>
	<u>(296,135)</u>	<u>102,375</u>	<u>204,532</u>
Commodity related			
Over the counter			
Commodity swaps and forwards	(79,296)	3,191	(13,519)
Commodity options	33	29	—
	<u>(79,263)</u>	<u>3,220</u>	<u>(13,519)</u>
Exchange traded			
Commodity futures	4,209	(7,759)	11,374
	<u>(75,054)</u>	<u>(4,539)</u>	<u>(2,145)</u>
Hedge	<u>78,892</u>	<u>332,778</u>	<u>120,700</u>
	<u>₩(212,987)</u>	<u>721,658</u>	<u>366,381</u>

(d) Impact of hedge accounting on the consolidated financial statements

i) Gains(losses) on fair value hedged items and hedging instruments attributable to the hedged ineffectiveness for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>		
	Gains (losses) on fair value hedges (hedged items)	Gains (losses) on fair value hedges (hedging instruments)	Hedge ineffectiveness recognized in profit or loss (*2)
Fair value hedges:			
Interest rate swaps (*1)	₩(370,787)	377,121	6,334
Foreign exchange risk (*1)	13,725	(18,786)	(5,061)
	<u>₩(357,062)</u>	<u>358,335</u>	<u>1,273</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

10. Derivatives (continued)

	2020		
	Gains (losses) on fair value hedges (hedged items)	Gains (losses) on fair value hedges (hedging instruments)	Hedge ineffectiveness recognized in profit or loss (*2)
Fair value hedges:			
Interest rate swaps (*1)	₩(228,266)	233,008	4,742
Foreign exchange risk (*1)	(21,336)	12,071	(9,265)
	<u>₩(249,602)</u>	<u>245,079</u>	<u>(4,523)</u>

(*1) The related account categories are presented as interest rate swap assets / liabilities and currency swap assets.

(*2) Ineffective portion of hedge: the difference between hedging instruments and hedged items.

- ii) Due to the ineffectiveness of hedge of cash flow risk and hedge of net investment in foreign operations during the year, the amounts recognized in the income statement and other comprehensive income are as follows:

	2019		
	Gains (losses) on hedges recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss (*2)	From cash flow hedge reserve to profit or loss Reclassified amount
Cash flow hedges			
Interest rate risk (*1)	₩(11,126)	—	—
Foreign exchange risk (*1)	52,932	(25,709)	(57,870)
Discontinuation of cash flow hedges	(7,986)	—	7,986
Hedge of net investments			
Foreign exchange risk (*1)	(49,463)	(2,327)	—
	<u>₩(15,643)</u>	<u>(28,036)</u>	<u>(49,884)</u>

	2020		
	Gains (losses) on hedges recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss (*2)	From cash flow hedge reserve to profit or loss Reclassified amount
Cash flow hedges:			
Interest rate risk (*1)	₩ (3,220)	(343)	—
Foreign exchange risk (*1)	(16,693)	(6,539)	26,405
Discontinuation of cash flow hedges	(45)	—	45
Hedge of net investments:			
Foreign exchange risk (*1)	44,049	(2,134)	—
	<u>₩24,091</u>	<u>(9,016)</u>	<u>26,450</u>

(*1) The related account categories are presented as interest rate swap assets / liabilities and currency swap assets / liabilities, currency forwards assets / liabilities and borrowings.

(*2) Ineffective portion of hedge: The difference between hedging instruments and hedged items.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

10. Derivatives (continued)

(e) Effect of hedge accounting on financial statement, statement of comprehensive income, statement of changes in equity

i) Purpose and strategy of risk avoidance

The Group transacts with derivative financial instruments to hedge its interest rate risk and currency risk arising from the assets and liabilities of the Group. The Group applies the fair value hedge accounting for the changes in the market interest rates of the Korean won structured notes, foreign currency generated financial debentures, structured deposits in foreign currencies, foreign currency structured deposits and foreign currency investment receivables; and cash flow hedge accounting for interest rate swaps and currency swaps to hedge cash flow risk due to interest rates and foreign exchange rates of the Korean won debt, the Korean won bonds, foreign currency bonds, etc. In addition, in order to hedge the exchange rate risk of the net investment in overseas business, the Group applies the net investment hedge accounting for foreign operations using currency forward and non-derivative financial instruments.

ii) Nominal amounts and average hedge ratios for hedging instruments as of December 31, 2019 and 2020 are as follows:

	2019						
	Less than 1 year	1~2 years	2~3 years	3~4 years	4~5 years	More than 5 years	Total
Interest risk:							
Nominal values:	₩ 750,469	704,985	717,948	1,228,424	575,481	6,114,325	10,091,632
Average hedge ratio:	100%	100%	100%	100%	100%	100%	100%
Exchange risk:							
Nominal values:	3,651,118	1,075,886	1,269,520	968,770	84,275	534,898	7,584,467
Average hedge ratio:	100%	100%	100%	100%	100%	100%	100%
	2020						
	Less than 1 year	1~2 years	2~3 years	3~4 years	4~5 years	More than 5 years	Total
Interest risk:							
Nominal values:	₩ 657,656	640,992	1,217,588	456,688	247,244	4,624,224	7,844,392
Average price condition (*1)	1.12%	0.88%	1.30%	0.98%	0.67%	0.38%	0.67%
Average hedge ratio:	100%	100%	100%	100%	100%	100%	100%
Exchange risk: (*2)							
Nominal values:	2,340,409	1,448,787	1,734,593	457,199	575,527	250,014	6,806,529
Average hedge ratio:	100%	100%	100%	100%	100%	100%	100%

(*1) Interest rate swaps consist of 3M CD, 3M USD Libor, 3M Euribor, and 3M AUD Bond.

(*2) The average exchange rates of net investment hedge instruments are USD/KRW 1,154.76, JPY/KRW 10.61, EUR/KRW 1,287.16, GBP/KRW 1,480.30, AUD/KRW 800.67, CAD/KRW 895.95, SGD/KRW 847.09, CNY/KRW 168.84, SEK/KRW 124.60

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

10. Derivatives (continued)

- iii) Effect of derivatives on statement financial position, statement of comprehensive income, statement of changes in equity

	2019			
	Nominal amount	Carrying value of asset (*)	Carrying value of liabilities (*)	Changes in fair value in the period
Fair value hedges				
Interest rate swap	₩9,371,632	154,586	210,079	314,766
Currency swap	—	—	248	(1,813)
Currency forward	261,486	776	1,358	(582)
Cash flow hedge				
Interest rate swap	720,000	—	22,412	(11,126)
Currency swap	4,532,114	74,240	48,148	(29,829)
Currency forward	1,376,472	11,854	19,763	(4,426)
Hedge of net investments in foreign operations				
Currency forward	231,560	1,750	—	(4,036)
Borrowings	1,182,835	—	1,177,897	(47,755)
2020				
	Nominal amount	Carrying value of asset (*)	Carrying value of liabilities (*)	Changes in fair value in the period
Fair value hedges				
Interest rate swap	₩6,965,492	319,294	120,728	181,151
Currency swap	—	—	67	985
Currency forward	254,023	20,093	66	24,481
Cash flow hedge				
Interest rate swap	878,900	206	19,118	3,303
Currency swap	4,328,333	65,256	186,083	(8,560)
Currency forward	810,322	60,473	—	(4,181)
Hedge of net investments in foreign operations				
Currency forward	217,600	11,181	10,441	(2,991)
Borrowings	1,196,252	—	1,193,269	44,907

- (*) The related account categories are presented as interest rate swap assets / liabilities and currency forward assets and liabilities.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

10. Derivatives (continued)

- iv) Effect of hedging items on statement financial position, statement of comprehensive income, statement of changes in equity

		2019						
		Carrying value of asset (*)	Carrying value of liabilities (*)	Assets of Cumulative fair value hedge adjustment	Liabilities of Cumulative fair value hedge adjustment	Changes if fair value in the year	Cash flow hedge reserve	Foreign currency conversion reserves
Fair value hedges								
Interest rate risk: Borrowings and etc	₩	432,172	8,859,022	4,846	(56,292)	(308,463)	—	—
Foreign exchange risk Securities in foreign currency		306,638	—	—	—	1,671	—	—
Cash flow hedge								
Interest rate risk: Debentures in won and debentures in foreign currency		645,723	1,740,000	—	—	(11,126)	80,674	—
Foreign exchange risk: Debentures in foreign currency and loans in foreign currency		4,116,068	3,035,423	—	—	115,867	(11,188)	—
Hedge of net investments in foreign operations								
Foreign exchange risk: Net assets in foreign business establishment		—	—	—	—	(49,463)	—	(88,953)
		2020						
		Carrying value of asset (*)	Carrying value of liabilities (*)	Assets of Cumulative fair value hedge adjustment	Liabilities of Cumulative fair value hedge adjustment	Changes if fair value in the year	Cash flow hedge reserve	Foreign currency conversion reserves
Fair value hedges								
Interest rate risk: Borrowings and etc	₩	143,496	6,750,929	6,563	193,452	(175,369)	—	—
Foreign exchange risk Securities in foreign currency		342,205	—	—	—	(26,927)	—	—
Cash flow hedge								
Interest rate risk: Debentures in won and debentures in foreign currency		617,463	1,674,460	—	—	2,296	60,659	—
Foreign exchange risk: Debentures in foreign currency and loans in foreign currency		3,264,740	2,962,041	—	—	(58,557)	(32,001)	—
Hedge of net investments in foreign operations								
Foreign exchange risk: Net assets in foreign business establishment		—	—	—	—	44,049	—	(141,151)

(*) The related account categories are presented as interest rate swap assets / liabilities and currency forwards.

(f) Hedge relationships affected by an interest rate index

The revised Standard requires exceptions to the analysis of future information in relation to the application of hedge accounting, while uncertainty exists due to movements of the interest rate indicator reform. The

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

10. Derivatives (continued)

exception assumes that when assessing whether the expected cash flows that comply with existing interest rate indicators are highly probable, whether there is an economic relationship between the hedged item and the hedging instrument, and whether there is a high hedge effectiveness between the hedged item and the hedging instrument, the interest rate indicators that are based on the hedged item do not change due to the effect of the interest rate index reform. The nominal amount of the hedging instrument related to the interest rate index exposed to the hedging relationship due to the Group's reform of the interest rate index as of December 31, 2020 is as follows:

<u>Interest rate index</u>	<u>Carrying amount of hedged item, Assets</u>	<u>Carrying amount of hedged item, Liabilities</u>	<u>Nominal amount of hedging instrument (*2)</u>
KRW 3M CD (*1)	₩ —	3,329,530	3,440,000
USD 1M LIBOR	—	1,537,051	1,540,608
USD 3M LIBOR (*1)	357,072	3,438,080	3,790,651
EUR 1M LIBOR	—	264,074	264,450
EUR 3M LIBOR	—	267,648	267,648

(*1) Include nominal amount of the hedging instrument related to the CMS(Constant Maturity Swap) calculated based on the CD and LIBOR rate.

(*2) Include the nominal amount that will mature after the end of 2021.

From 2022, the USD LIBOR interest rate will be replaced by a Secured Overnight Financing Rate (SOFR) based on actual transactions, and the EUR LIBOR interest rate will be replaced by the next day's unsecured rate, Euro Short-Term Rate (ESTER). The Risk-Free Reference rate (RFR) is under development, and the RFR rate will be unveiled during the first half of 2021 in South Korea. The Group has assumed that in this hedging relationship, the spread changed on the basis of ESTER and RFR in 2022 would be similar to the spread included in the interest rate swap and interest rate forward used as the hedging instrument.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost

- (a) Details of securities at FVOCI and securities at amortized cost as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Securities at FVOCI:		
Debt securities:		
Government bonds	₩ 17,597,910	19,370,393
Financial institutions bonds	21,527,242	20,053,716
Corporate bonds and others	19,447,942	17,985,324
	<u>58,573,094</u>	<u>57,409,433</u>
Equity securities (*):		
Stocks	728,311	777,901
Equity investments	5,356	4,445
Others	74,292	124,333
	<u>807,959</u>	<u>906,679</u>
	<u>59,381,053</u>	<u>58,316,112</u>
Securities at amortized cost:		
Debt securities:		
Government bonds	30,385,084	31,816,320
Financial institutions bonds	4,770,204	3,835,577
Corporate bonds and others	10,426,777	11,630,726
	<u>45,582,065</u>	<u>47,282,623</u>
	<u>₩104,963,118</u>	<u>105,598,735</u>

- (*) Equity securities in the above table are classified as other comprehensive income—equity securities designated as fair value items, and other comprehensive income and fair value options are exercised for the purpose of holding as required by the policy.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(b) Changes in carrying value of debt securities at fair value through other comprehensive income and securities at amortized cost for the years ended December 31, 2019 and 2020 are as follows:

	2019					
	Securities at fair value through other comprehensive income			Securities at amortized cost		
	12-month expected credit loss	Life time expected credit loss	Total	12-month expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩ 37,571,814	105,831	37,677,645	28,464,921	22,475	28,487,396
Transfer to 12-month expected credit loss	34,555	(34,555)	—	20,198	(20,198)	—
Transfer to life time expected credit loss	(64,928)	64,928	—	—	—	—
Transfer to impaired financial asset	—	—	—	—	—	—
Purchase	46,847,222	61,410	46,908,632	12,209,898	—	12,209,898
Disposal	(16,109,006)	(10,222)	(16,119,228)	—	—	—
Repayment	(21,129,182)	—	(21,129,182)	(6,722,560)	—	(6,722,560)
Others (*)	230,733	51,702	282,435	322,107	20,995	343,102
Business combination	10,952,792	—	10,952,792	11,273,999	—	11,273,999
Ending balance	₩ 58,334,000	239,094	58,573,094	45,568,563	23,272	45,591,835

	2020					
	Securities at fair value through other comprehensive income			Securities at amortized cost		
	12-month expected credit loss	Life time expected credit loss	Total	12-month expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩ 58,334,000	239,094	58,573,094	45,568,563	23,272	45,591,835
Transfer to 12-month expected credit loss	30,233	(30,233)	—	—	—	—
Transfer to life time expected credit loss	(83,132)	83,132	—	—	—	—
Transfer to impaired financial asset	—	—	—	—	—	—
Purchase	52,637,678	19,675	52,657,353	7,645,000	—	7,645,000
Disposal	(34,969,744)	(21,247)	(34,990,991)	—	—	—
Repayment	(17,610,988)	(12)	(17,611,000)	(5,900,311)	(23,272)	(5,923,583)
Others (*)	(1,195,749)	(23,274)	(1,219,023)	(20,143)	—	(20,143)
Ending balance	₩ 57,142,298	267,135	57,409,433	47,293,109	—	47,293,109

(*) Included the effects from changes in foreign exchange rate, amortization of fair value adjustments recognized through business combination accountings.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

- (c) Changes in allowance for credit loss of debt securities at fair value through other comprehensive income and securities at amortized cost for the years ended December 31, 2019 and 2020 are as follows:

	2019					
	Securities at fair value through other comprehensive income			Securities at amortized cost		
	12 months expected credit loss	Life time expected credit loss	Total	12 months expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩25,722	362	26,084	9,243	17	9,260
Transfer to 12 months expected credit loss	33	(33)	—	4,301	(4,301)	—
Transfer to life time expected credit loss	(60)	60	—	—	—	—
Transfer to impaired financial asset	—	—	—	—	—	—
Provision (reversal)	8,403	(2,616)	5,787	(3,752)	4,295	543
Disposal	(5,340)	(258)	(5,598)	—	—	—
Others (*)	(1,177)	3,140	1,963	(33)	—	(33)
Ending balance	₩27,581	655	28,236	9,759	11	9,770

	2020					
	Securities at fair value through other comprehensive income			Securities at amortized cost		
	12 months expected credit loss	Life time expected credit loss	Total	12 months expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩27,581	655	28,236	9,759	11	9,770
Transfer to 12 months expected credit loss	22	(22)	—	—	—	—
Transfer to life time expected credit loss	(193)	193	—	—	—	—
Transfer to impaired financial asset	—	—	—	—	—	—
Provision (reversal)	3,480	349	3,829	1,086	(11)	1,075
Disposal	(9,019)	(487)	(9,506)	—	—	—
Others (*)	622	(10)	612	(359)	—	(359)
Ending balance	₩22,493	678	23,171	10,486	—	10,486

(*) Included the effects from changes in foreign exchange rate, debt restructuring, debt-equity swap.

- (d) Gain or loss on disposal of securities at fair value through other comprehensive income and securities at amortized cost for the years ended December 31, 2019 and 2020 are as follows:

	2019	2020
Gain on disposal of securities at FVOCI	₩159,883	301,920
Loss on disposal of securities at FVOCI	(7,605)	(28,127)
Gain on disposal of securities at amortized cost (*)	86	42
Loss on disposal of securities at amortized cost (*)	(20)	(67)
	₩152,344	273,768

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(*) The issuers of those securities have exercised the early redemption options and the others.

- (e) Income or loss on equity securities at fair value through other comprehensive income
- i) The Group recognizes dividends, amounting to ₩16,586 million and ₩21,503 million, related to equity securities at fair value through other comprehensive income for the years ended December 31, 2019 and 2020, respectively.
- ii) The details of disposal of equity securities at fair value through other comprehensive income for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Fair value at the date of disposal	₩ 45,074	69,969
Cumulative net gain at the time of disposal	(10,843)	(38,380)

12. Loans at amortized cost and other assets

- (a) Loans at amortized cost for configuration by customer as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Household loans	₩134,423,473	146,789,916
Corporate loans	161,029,877	179,011,251
Public and other loans	3,311,735	3,734,629
Loans to banks	2,633,532	5,492,400
Credit card receivables	24,024,491	23,759,422
	<u>325,423,108</u>	<u>358,787,618</u>
Discount	(27,824)	(21,948)
Deferred loan origination costs	534,530	516,815
	<u>325,929,814</u>	<u>359,282,485</u>
Less: Allowance for credit loss	(2,684,835)	(3,060,966)
	<u>₩323,244,979</u>	<u>356,221,519</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(In millions of won)

12. Loans at amortized cost and other assets (continued)

(b) Changes in carrying value of loans at amortized cost and other assets as of December 31, 2019 and 2020 are as follows:

i) Loans at amortized cost

	2019													
	Retail						Corporate						Others	
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	Total	
Beginning balance	₩114,279,870	6,820,058	348,722	129,468,766	21,782,590	919,381	18,155,156	3,830,509	413,175	5,695,187	605,440	15,686	302,334,540	
Transfer (from) to 12 months expected credit losses	2,619,036	(2,614,416)	(4,620)	4,093,725	(4,088,373)	(5,352)	320,288	(320,129)	(159)	37,430	(37,430)	—	—	
Transfer (from) to lifetime expected credit losses	(5,385,659)	5,406,091	(20,432)	(16,484,206)	16,597,346	(113,140)	(603,069)	603,280	(211)	(210,161)	210,333	(172)	—	
Transfer (from) to credit- impaired financial assets	(627,950)	(43,168)	671,118	(1,088,270)	(76,177)	1,164,447	(36,483)	(22,473)	58,956	(39,844)	—	39,844	—	
Net increase and decrease (*1)	13,234,263	(1,700,287)	(222,961)	19,326,283	(9,567,098)	(443,468)	1,583,714	33,389	305,336	(315,219)	(148,875)	(11,979)	22,073,098	
Charge off	—	—	(257,742)	—	—	(259,400)	—	—	(332,862)	—	—	(8,718)	(858,722)	
Disposal	—	(5,122)	(108,624)	(117,453)	(3,806)	(283,747)	—	—	—	—	—	(18,398)	(537,150)	
Business combination	2,466,991	7,752	10,431	392,828	17,180	22,866	—	—	—	—	—	—	2,918,048	
Ending balance	₩126,586,551	7,870,908	415,892	135,591,673	24,661,662	1,001,587	19,419,606	4,124,576	444,235	5,167,393	629,468	16,263	325,929,814	

(*1) The amount is due to execution, collection, debt restructuring, investment conversion, exchange rate fluctuation, etc.

(*2) The amount of uncollected loans currently in recovery (principal and interest) is ₩10,155,562 million, which is written off as of December 31, 2019.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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12. Loans at amortized cost and other assets (continued)

ii) Other financial assets

	2019			Total
	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning balance	₩31,508,694	99,461	32,003	31,640,158
Transfer (from) to 12 month expected credit losses	12,685	(12,675)	(10)	—
Transfer (from) to lifetime expected credit losses	(253,546)	253,575	(29)	—
Transfer (from) to credit- impaired financial assets	(3,124)	(5,324)	8,448	—
Net increase and decrease (*2)	10,746,289	(230,014)	25,245	10,541,520
Charge off	—	—	(29,456)	(29,456)
Disposal (*3)	(182,212)	(3)	(1,062)	(183,277)
Business combination	1,416,216	1,497	10,826	1,428,539
Ending balance	<u>₩43,245,002</u>	<u>106,517</u>	<u>45,965</u>	<u>43,397,484</u>

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) The amount is due to execution, collection, debt restructuring, investment conversion, exchange rate fluctuation, etc.

(*3) Included the disposal amount of financial instruments for the purpose of collecting loans for credit concentration risk management of non-current assets, which recognized gains of ₩13,317 million.

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12. Loans at amortized cost and other assets (continued)

i) Loans at amortized cost

	2020													
	Retail						Corporate						Others	
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	Total	
Beginning balance	₩126,586,551	7,870,908	415,892	135,591,673	24,661,662	1,001,587	19,419,606	4,124,576	444,235	5,167,393	629,468	16,263	325,929,814	
Transfer (from) to 12 months expected credit losses	2,891,847	(2,885,809)	(6,038)	6,009,242	(6,006,226)	(3,016)	351,253	(350,651)	(602)	15,976	(15,976)	—	—	
Transfer (from) to lifetime expected credit losses	(3,916,612)	3,944,714	(28,102)	(9,015,428)	9,027,416	(11,988)	(571,971)	572,291	(320)	(85,337)	85,337	—	—	
Transfer (from) to credit-impaired financial assets	(189,681)	(157,637)	347,318	(195,863)	(441,969)	637,832	(114,388)	(191,777)	306,165	(3,964)	(37)	4,001	—	
Net increase and decrease (*1)	13,457,675	(556,142)	81,131	20,679,401	(1,030,466)	15,944	(115,242)	(202,750)	290,907	3,311,105	(33,596)	2,402	35,900,369	
Charge off	—	—	(254,723)	—	—	(317,514)	—	—	(572,008)	—	—	(2,531)	(1,146,776)	
Disposal	(313,150)	(897)	(89,051)	(731,001)	—	(264,913)	—	—	—	—	—	(1,910)	(1,400,922)	
Ending balance	₩138,516,630	8,215,137	466,427	152,338,024	26,210,417	1,057,932	18,969,258	3,951,689	468,377	8,405,173	665,196	18,225	359,282,485	

(*1) Other changes are due to debt restructuring, debt-equity swap and changes in foreign exchange rate.

(*2) The amount of uncollected loans currently in recovery (principal and interest) is ₩10,436,407 million, which is written off as of December 31, 2020.

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12. Loans at amortized cost and other assets (continued)

ii) Other financial assets

	2020			Total
	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning balance	₩43,245,002	106,517	45,965	43,397,484
Transfer (from) to 12 month expected credit losses	15,157	(15,123)	(34)	—
Transfer (from) to lifetime expected credit losses	(25,839)	25,848	(9)	—
Transfer (from) to credit- impaired financial assets	(1,628)	(7,342)	8,970	—
Net increase and decrease (*2)	8,633,124	(10,001)	30,490	8,653,613
Charge off	—	—	(26,814)	(26,814)
Disposal	—	—	(910)	(910)
Business combination(Note 47)	15,982	—	—	15,982
Ending balance	<u>₩51,881,798</u>	<u>99,899</u>	<u>57,658</u>	<u>52,039,355</u>

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) The amount is due to execution, collection, debt restructuring, investment conversion, exchange rate fluctuation, etc.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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12. Loans at amortized cost and other assets (continued)

(c) Changes in allowance for credit loss of loans at amortized cost and other financial assets as of December 31, 2019 and 2020 are as follows:

i) Loans at amortized cost

	2019													
	Retail				Corporate				Credit cards				Others	
	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	Total	
Beginning balance	₩115,295	88,360	156,459	434,793	581,915	519,683	170,242	351,765	280,098	10,670	5,882	9,906	2,725,068	
Transfer (from) to 12 months expected credit losses	18,079	(17,592)	(487)	50,720	(48,295)	(2,425)	55,815	(55,712)	(103)	757	(757)	—	—	
Transfer (from) to lifetime expected credit losses	(9,411)	17,342	(7,931)	(35,790)	118,605	(82,815)	(20,607)	20,756	(149)	(159)	289	(130)	—	
Transfer (from) to credit-impaired financial assets	(942)	(3,739)	4,681	(565)	(13,332)	13,897	(1,250)	(3,916)	5,166	—	—	—	—	
Provision (reversal)	(7,751)	19,130	214,260	(43,230)	(31,265)	277,436	57,062	280,047	147,332	(4,067)	1,907	37	910,898	
Charge off	—	—	(257,742)	—	—	(259,400)	—	—	(332,862)	—	—	(8,718)	(858,722)	
Amortization of discount	—	—	(274)	—	—	(19,396)	—	—	(5,541)	—	—	—	(25,211)	
Disposal	—	(241)	(21,561)	(6)	(245)	(30,436)	—	—	—	—	—	(820)	(53,309)	
Collection	—	—	70,319	—	—	62,973	—	—	190,738	—	—	1,876	325,906	
Others (*)	2,484	(15,353)	4,522	13,810	(76,711)	(27,910)	(87,378)	(227,692)	30,171	300	160	—	(383,597)	
Business combination	15,658	3,118	6,792	20	614	17,600	—	—	—	—	—	—	43,802	
Ending balance	₩133,412	91,025	169,038	419,752	531,286	469,207	173,884	365,248	314,850	7,501	7,481	2,151	2,684,835	

(*) Other changes are due to debt restructuring, debt-equity swap and changes in foreign exchange rate.

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12. Loans at amortized cost and other assets (continued)

ii) Other financial assets

	2019			Total
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning balance	₩39,927	6,930	24,764	71,621
Transfer (from) to 12 months expected credit losses	458	(453)	(5)	—
Transfer (from) to lifetime expected credit losses	(231)	244	(13)	—
Transfer (from) to credit- impaired financial assets	(172)	(2,310)	2,482	—
Provision	2,822	2,667	28,456	33,945
Charge off	—	—	(29,456)	(29,456)
Collection	—	—	1,873	1,873
Others (*2)	(9,738)	9	435	(9,294)
Business combination	921	185	9,054	10,160
Ending balance	<u>₩33,987</u>	<u>7,272</u>	<u>37,590</u>	<u>78,849</u>

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) Other changes are due to debt restructuring, debt-equity swap and changes in foreign exchange rate.

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12. Loans at amortized cost and other assets (continued)

i) Loans at amortized cost

	2020												
	Retail			Corporate			Credit cards			Others			
	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	Total
Beginning balance	₩133,412	91,025	169,038	419,752	531,286	469,207	173,884	365,248	314,850	7,501	7,481	2,151	2,684,835
Transfer (from) to 12 months expected credit losses	20,082	(19,487)	(595)	67,590	(66,777)	(813)	22,148	(21,591)	(557)	164	(164)	—	—
Transfer (from) to lifetime expected credit losses	(9,077)	18,772	(9,695)	(49,727)	55,512	(5,785)	(11,568)	11,834	(266)	(242)	242	—	—
Transfer (from) to credit- impaired financial assets	(3,247)	(9,010)	12,257	(1,590)	(52,383)	53,973	(901)	(2,041)	2,942	(13)	(9)	22	—
Provision (reversal)	5,253	(5,319)	199,765	149,400	211,341	265,557	103,793	210,592	137,254	4,188	2,048	6,823	1,290,695
Charge off	—	—	(254,723)	—	—	(317,514)	—	—	(572,008)	—	—	(2,531)	(1,146,776)
Amortization of discount	—	—	(5,630)	—	—	(15,151)	—	—	(7,807)	—	—	—	(28,588)
Disposal	(343)	(8)	(18,605)	(726)	—	(24,473)	—	—	—	—	—	(182)	(44,337)
Collection	—	—	85,819	—	—	63,822	—	—	200,234	—	—	134	350,009
Others (*)	2,954	10,075	20,809	(16,085)	(13,896)	(7,579)	(83,448)	(189,589)	232,048	(164)	3	—	(44,872)
Ending balance	₩149,034	86,048	198,440	568,614	665,083	481,244	203,908	374,453	306,690	11,434	9,601	6,417	3,060,966

(*) Other changes are due to debt restructuring, debt-equity swap and changes in foreign exchange rate.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(In millions of won)

12. Loans at amortized cost and other assets (continued)

ii) Other financial assets

	2020			
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	Total
Beginning balance	₩33,987	7,272	37,590	78,849
Transfer (from) to 12 months expected credit losses	286	(273)	(13)	—
Transfer (from) to lifetime expected credit losses	(259)	264	(5)	—
Transfer (from) to credit- impaired financial assets	(256)	(1,492)	1,748	—
Provision (reversal)	(2,143)	2,650	33,278	33,785
Charge off	—	—	(26,814)	(26,814)
Disposal	(2)	—	(32)	(34)
Collection	—	—	2,166	2,166
Others (*2)	4,078	(140)	1,012	4,950
Ending balance	<u>₩35,691</u>	<u>8,281</u>	<u>48,930</u>	<u>92,902</u>

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) Other changes are due to debt restructuring, debt-equity swap and changes in foreign exchange rate.

(d) Changes in deferred loan origination costs for the years ended December 31, 2019 and 2020 are as follows:

	2019	2020
Beginning balance	₩ 497,368	534,530
Loan origination	232,943	257,034
Amortization	(208,998)	(274,749)
Business combination	13,217	—
Ending balance	<u>₩ 534,530</u>	<u>516,815</u>

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13. Property and equipment

(a) Details of property and equipment as of December 31, 2019 and 2020 are as follows:

	2019		
	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩1,815,112	—	1,815,112
Buildings	1,167,514	(377,065)	790,449
Right-of-use assets	1,357,206	(244,410)	1,112,796
Others	2,130,805	(1,765,834)	364,971
	<u>₩6,470,637</u>	<u>(2,387,309)</u>	<u>4,083,328</u>
	2020		
	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩2,219,227	—	2,219,227
Buildings	1,230,187	(419,426)	810,761
Right-of-use assets	1,016,183	(425,766)	590,417
Others	2,197,485	(1,828,193)	369,292
	<u>₩ 6,663,082</u>	<u>(2,673,385)</u>	<u>3,989,697</u>

(b) Changes in property and equipment for the years ended December 31, 2019 and 2020 are as follows:

	2019				
	Land	Buildings	Right-of-use assets	Others	Total
Beginning balance	₩1,827,711	852,569	583,576	313,853	3,577,709
Acquisition (*1)	69,045	16,946	805,783	184,630	1,076,404
Disposal (*1)	(249)	(1,719)	(12,595)	(29,081)	(43,644)
Depreciation	—	(55,450)	(298,538)	(125,669)	(479,657)
Amounts transferred from(to) investment property	(81,311)	(23,262)	—	—	(104,573)
Amounts transferred from(to) intangible assets	—	—	—	271	271
Amounts transferred from(to) non-current assets held for sale (*2)	(410)	(45)	—	—	(455)
Effects of foreign currency movements	326	1,410	2,981	9,314	14,031
Business combination	—	—	31,589	11,653	43,242
Ending balance	<u>₩1,815,112</u>	<u>790,449</u>	<u>1,112,796</u>	<u>364,971</u>	<u>4,083,328</u>

(*1) ₩76,004 million transferred from assets-under-construction is included.

(*2) Included buildings, and land.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

13. Property and equipment (continued)

	2020				
	Land	Buildings	Right-of-use assets	Others	Total
Beginning balance	₩1,815,112	790,449	1,112,796	364,971	4,083,328
Acquisition (*1)	78,066	56,828	305,958	140,958	581,810
Disposal (*1)	(92,683)	(46,897)	(24,173)	(2,398)	(166,151)
Depreciation	—	(56,041)	(286,028)	(133,437)	(475,506)
Amounts transferred from(to) investment property	55,316	(51,252)	—	—	4,064
Amounts transferred from(to) intangible assets	—	—	—	3,738	3,738
Amounts transferred from(to) non-current assets held for sale (*2)	(31,622)	(11)	—	—	(31,633)
Amounts transferred from(to) right-of-use assets (*2)	395,346	118,091	(513,437)	—	—
Others	—	—	—	(2,235)	(2,235)
Effects of foreign currency movements	(308)	(406)	(5,380)	(2,459)	(8,553)
Business combination (Note 47)	—	—	681	154	835
Ending balance	<u>₩2,219,227</u>	<u>810,761</u>	<u>590,417</u>	<u>369,292</u>	<u>3,989,697</u>

(*1) ₩56,575 million transferred from assets-under-construction is included.

(*2) Included buildings, and land.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(In millions of won)

13. Property and equipment (continued)

(c) Insured assets and liability insurance as of December 31, 2020 are as follows:

Type of insurance	Insured assets and objects	2020	
		Amount covered	Insurance company
Comprehensive insurance for financial institutions	Cash(including ATM)	₩ 25,200	Samsung Fire & Marine Insurance Co., Ltd., etc.
Comprehensive Property insurance	Property Total Risk, Machine Risk, General Liability Collateral	1,510,644	Samsung Fire & Marine Insurance Co., Ltd., etc.
Fire insurance	Business property and real estate	24,235	Meritz Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for officers	Officer liability of executives	110,000	Meritz Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for employee accident	Employee	71,287	Meritz Fire & Marine Insurance Co., Ltd., etc.
Burglary insurance	Cash and securities	80,165	Samsung Fire & Marine Insurance Co., Ltd., etc.
Others	Personal information liability insurance etc.	32,549	Samsung Fire & Marine Insurance Co., Ltd., etc.

14. Intangible assets

(a) Details of intangible assets as of December 31, 2019 and 2020 are as follows:

	2019	2020
Goodwill	₩4,690,049	4,689,792
Software	129,235	144,535
Development cost	144,100	183,592
Others	595,330	462,700
	<u>₩ 5,558,714</u>	<u>5,480,619</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

14. Intangible assets (continued)

(b) Changes in intangible assets for the years ended December 31, 2019 and 2020 are as follows:

	2019				
	Goodwill	Software	Development cost	Others	Total
Beginning balance	₩3,903,518	102,393	82,536	231,687	4,320,134
Acquisition	—	56,834	71,713	675,070	803,617
Disposal	—	(428)	(1,310)	(16,476)	(18,214)
Amounts transferred from(to) property and equipment	—	697	(968)	—	(271)
Impairment (*1)(*2)	—	—	(474)	(151,169)	(151,643)
Amortization (*3)	—	(40,578)	(37,832)	(189,533)	(267,943)
Effects of foreign currency movements	—	848	—	901	1,749
Business combination	786,531	9,469	30,435	44,850	871,285
Ending balance	₩4,690,049	129,235	144,100	595,330	5,558,714

(*1) The Group reviewed the recoverable value of intangible assets related to the rights to be the depository bank of local governments due to the performance below forecast and future prospects. For the year ended December 31, 2019, the impairment loss amounted to ₩151,523 million. The impairment loss is included in the non-operating expenses in the consolidated statement of comprehensive income.

(*2) Memberships were impaired. Memberships such as golf and condominium memberships are intangible assets that cannot be limited to a specific period of time. If the market value of the exchanges is less than the carrying amount as of December 31, 2019, the impairment loss is recognized.

(*3) Included in general administrative expense and other operating income of the consolidated statements of comprehensive income.

	2020				
	Goodwill	Software	Development cost	Others	Total
Beginning balance	₩4,690,049	129,235	144,100	595,330	5,558,714
Acquisition	—	64,195	105,101	64,079	233,375
Disposal	—	(1)	(75)	(26,785)	(26,861)
Amounts transferred from(to) property and equipment	—	1,415	(7,820)	2,667	(3,738)
Impairment (*1)(*2)	(14,235)	—	—	(27,075)	(41,310)
Amortization (*3)	—	(49,159)	(57,690)	(145,756)	(252,605)
Effects of foreign currency movements	—	(1,150)	(24)	(222)	(1,396)
Business combination (Note 47)	13,978	—	—	462	14,440
Ending balance	₩4,689,792	144,535	183,592	462,700	5,480,619

(*1) The number of customer contacts decreased due to the decrease in the base interest rate in Indonesia in 2020 and the impact of COVID-19. Therefore, reclaimable amount decreased due to reduced loan and increased provisioning by corporate borrowers. PT Bank Shinhan Indonesia's CGUs can recover ₩409,968 million. The carrying amount exceeding the recoverable amount of PT Bank Shinhan Indonesia's CGUs is

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

14. Intangible assets (continued)

₩14,379 million. The Group recognized as impairment losses of ₩14,235 million based on the 99% stake the Group owns.

(*2) The Group reviewed the recoverable value of intangible assets related to the rights to be the depository bank of local governments due to the performance below forecast and future prospects. For the year ended December 31, 2020, the impairment loss amounted to ₩27,133 million. The impairment loss is included in the non-operating expenses in the consolidated statement of comprehensive income.

(*3) Included in general administrative expense and other operating income of the consolidated statements of comprehensive income.

(c) Goodwill

i) Goodwill allocated in the Group's CGUs as of December 31, 2019 and 2020

	<u>2019</u>	<u>2020</u>
Banking	₩ 810,058	795,823
Credit card	2,880,383	2,880,383
Securities	7,904	7,904
Life insurance (Shinhan Life Insurance Co., Ltd.)	275,371	275,371
Life insurance (Orange Life Insurance Co., Ltd.)	564,576	564,576
Others	151,757	165,735
	<u>₩4,690,049</u>	<u>4,689,792</u>

ii) Changes in goodwill for the years ended December 31, 2019 and 2020

	<u>2019</u>	<u>2020</u>
Beginning balance	₩3,903,518	4,690,049
Acquisitions through business combinations (*1)(*2)	786,531	13,978
Impairment losses	—	(14,235)
Ending balance	<u>₩4,690,049</u>	<u>4,689,792</u>

(*1) It is the goodwill recognized by the Group as it newly acquired the Neoflux Co., Ltd. (Note 47)

(*2) It is the goodwill recognized by the Group as it newly acquired the Orange Life Insurance Co., Ltd. ("Orange Life"), Asia Trust Co., and the Shinhan Card's acquisition of the new business for the year ended December 31, 2019.

iii) Goodwill impairment test

The recoverable amounts of each CGU are evaluated based on their respective value in use.

- Explanation on evaluation method

The income approach is applied when evaluating the recoverable amounts based on value in use, considering the characteristics of each unit or group of CGU.

- Projection period

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

14. Intangible assets (continued)

When evaluating the value in use, 5.5 years of cash flow estimates are used in projection and the value thereafter is reflected as terminal value. 30 years and 60 years of cash flow estimates for Shinhan Life and Orange Life, respectively are applied and the present value of the future cash flows thereafter is not applied as it is not significant.

- Discount rates and terminal growth rates

The required rates of return expected by shareholders are applied to the discount rates. It is calculated in consideration of which comprises a risk-free interest rate, a market risk premium and systemic risk (beta factor). In addition, terminal growth rate is estimated based on inflation rate.

- Discount rates and terminal growth rates applied to each CGU are as follows:

	<u>Discount rate(%)</u>	<u>Terminal growth rate(%)</u>
Banking	9.3~13.1	1.0~2.0
Credit card	8.4~12.9	1.0~2.0
Securities	12.3~13.0	2.0
Life insurance (Shinhan Life Insurance)	7.0	—
Life insurance (Orange Life Insurance Co., Ltd.)	7.0	—
Others	10.9~13.5	1.0

iv) Key assumptions

Key assumptions used in the discounted cash flow calculations of CGUs (other than life insurance components) are as follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
CPI growth(%)	0.4	1.2	1.8	1.7	1.7	1.7
Private consumption growth(%)	(3.2)	2.6	2.8	2.6	2.4	2.4
Real GDP growth(%)	(1.8)	2.6	2.9	2.7	2.7	2.7

Key assumptions used in the discounted cash flow calculations of life insurance components are as follows:

	<u>Key assumptions</u>
Rate of return on investment(%)	2.4~2.8
Risk-based capital ratio(%)	150.0

- v) Total recoverable amount and total carrying value of CGUs to which goodwill has been allocated, are as follows:

	<u>Amount</u>
Total recoverable amount	₩49,034,706
Total carrying value (*1)	43,690,747
	<u>₩ 5,343,959</u>

(*1) It is the carrying amount after reflecting the impairment loss in the banking sector.

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14. Intangible assets (continued)

(*2) The goodwill that the fair value assessment of the intangible asset identification and identification assets for allocation of the consideration for Neoplux Co., Ltd. is excluded because the valuations are not completed(Note 47).

15. Investments in associates

(a) Investments in associates as of December 31, 2019 and 2020 are as follows:

Investees	Country	Date of financial information	Ownership (%)	
			2019	2020
BNP Paribas Cardif Life Insurance (*1)(*2)	Korea	September 30	14.99	14.99
Songrim Partners (*1)(*3)	Korea	December 31	35.34	35.34
Neoplux Technology Valuation Investment Fund (*11)	Korea	—	33.33	—
Partners 4th Growth Investment Fund (*1)	Korea	September 30	25.00	25.00
KTB Newlake Global Healthcare PEF (*1)	Korea	September 30	30.00	30.00
Daekwang Semiconductor Co., Ltd. (*1)(*3)	Korea	September 30	20.94	20.94
Shinhan-Neoplux Energy Newbiz Fund	Korea	December 31	23.33	31.66
Shinhan-Albatross tech investment Fund (*4)	Korea	December 31	50.00	49.97
Plutus-SG Private Equity Fund (*6)	Korea	—	26.67	—
Eum Private Equity Fund No.3	Korea	December 31	20.76	20.76
KTB Confidence Private Placement (*6)	Korea	—	31.43	—
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	Korea	December 31	23.89	23.89
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	Korea	December 31	20.16	20.16
VOGO Debt Strategy Qualified INV Private	Korea	December 31	20.00	20.00
Shinhan-Midas Donga Secondary Fund (*5)	Korea	December 31	50.00	50.00
ShinHan – Soo Young Entrepreneur Investment Fund No.1	Korea	December 31	24.00	24.00
Synergy-Shinhan Mezzanine New Technology Investment Fund (*6)	Korea	—	47.62	—
Shinhan Praxis K-Growth Global Private Equity Fund (*8)	Korea	December 31	18.87	18.87
Credian Healthcare Private Equity Fund II	Korea	December 31	34.07	34.07
Kiwoom Milestone Professional Private Real Estate Trust 19	Korea	December 31	50.00	50.00
AIP EURO Green Private Real Estate Trust No.3	Korea	December 31	21.28	21.28
Hanhwa US Equity Strategy Private Real Estate Fund No.1	Korea	December 31	44.84	44.84
Shinhan Global Healthcare Fund 1 (*8)	Korea	December 31	4.41	4.41
JB Power TL Investment Type Private Placement Special Asset Fund 7	Korea	December 31	33.33	33.33
IBK AONE convertible 1 (*6)	Korea	—	47.25	—
Rico synergy collabo Multi-Mezzanine 3 (*6)	Korea	—	50.03	—
KB NA Hickory Private Special Asset Fund	Korea	December 31	37.50	37.50

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15. Investments in associates (continued)

Investees	Country	Date of financial information	Ownership (%)	
			2019	2020
Koramco Europe Core Private Placement Real Estate Fund No.2-2	Korea	December 31	44.02	44.02
BNP Paribas Cardif General Insurance (*1)(*2)	Korea	September 30	10.00	7.46
Axis Global Growth New Technology Investment Association (*6)	Korea	—	31.85	—
Hermes Private Investment Equity Fund	Korea	December 31	29.17	29.17
SHC ULMUS Fund No.1 (*6)	Korea	—	29.41	—
Shinhan-Nvestor Liquidity Solution Fund	Korea	December 31	24.92	24.92
Shinhan AIM FoF Fund 1a	Korea	December 31	25.00	25.00
IGIS Global Credit Fund 150-1	Korea	December 31	25.00	25.00
GX Shinhan Intervest 1st Private Equity Fund (*6)	Korea	—	25.27	—
Soo Commerce Platform Growth Fund	Korea	December 31	24.62	24.62
Partner One Value up I Private Equity Fund	Korea	December 31	27.91	27.91
Genesis No.1 Private Equity Fund	Korea	December 31	22.80	22.80
GMB ICT New Technology Investment Fund (*6)	Korea	—	26.75	—
Korea Omega Project Fund III	Korea	December 31	23.53	23.53
Soo Delivery Platform Growth Fund	Korea	December 31	30.00	30.00
Genesis North America Power Company No.1 PEF	Korea	December 31	39.92	39.96
Hyungje art printing (*1)(*3)	Korea	December 31	31.54	31.54
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	Korea	December 31	23.33	23.33
Shinhan-Rhinos 1 Fund	Korea	December 31	22.48	22.48
Pacific Private Investment Trust No.20	Korea	December 31	21.74	21.74
Susung Mezzanine project P1 Private Investment Trust	Korea	December 31	41.18	41.31
Korea Finance Security (*1)(*8)	Korea	September 30	14.91	14.91
Multimedia Tech Co.Ltd (*1)(*3)	Korea	December 31	21.06	21.06
MIEL CO.,LTD (*1)(*3)	Korea	December 31	28.77	28.77
AIP Transportation Specialized Privately Placed Fund Trust #1	Korea	December 31	35.73	35.73
DB Epic Convertiblebond Private Trust No.2 (*7)(*9)	Korea	December 31	50.00	50.98
PCC S/W 2nd Fund (*6)	Korea	—	29.56	—
E&Healthcare Investment Fund No.6	Korea	December 31	20.37	21.05
One Shinhan Global Fund1 (*4)(*8)	Korea	December 31	19.98	19.96
Kiwoom-Shinhan Innovation Fund I (*5)	Korea	December 31	50.00	50.00
Daishin-K&T New Technology Investment Fund	Korea	December 31	31.25	31.25
Midas Asset Global CRE Debt Private Fund No.6	Korea	December 31	20.05	41.16
Richmond Private Investment Trust No.82 (*7)	Korea	December 31	60.00	60.00
Tiger Alternative Real Estate Professional Private5	Korea	December 31	48.71	48.71
Samchully Midstream Private Placement Special Asset Fund 5-4	Korea	December 31	42.92	42.92
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	Korea	December 31	20.00	20.00
AUCTUS FITRIN Corporate Recovery Private Equity Fund (*6)	Korea	—	21.43	—

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<u>Investees</u>	<u>Country</u>	<u>Date of financial information</u>	<u>Ownership (%)</u>	
			<u>2019</u>	<u>2020</u>
NH-Amundi Global Infrastructure Trust 14 Pacific Private Real Estate Fund Investment Trust No.30 (*6)	Korea	December 31	30.00	30.00
Jarvis Memorial Private Investment Trust 1 (*7)	Korea	—	37.50	—
Mastern Private Private Investment Trust 68 (*7)	Korea	December 31	99.01	99.01
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37 (*7)	Korea	December 31	53.76	53.76
Milestone Private Real Estate Fund 3 (Derivative Type)	Korea	December 31	60.00	60.00
IGIS Private Real Estate Investment Trust 286	Korea	December 31	32.06	32.06
Nomura-Rifa Private Real Estate Investment Trust 31	Korea	December 31	41.56	41.44
Lime Pricing Private Equity Fund (*6)	Korea	December 31	31.31	31.31
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	Korea	—	25.85	—
DS Solid.II Hedge Fund (*6)	Korea	December 31	21.27	21.27
Hana Semiconductor New Technology Fund	Korea	—	27.41	—
J&Magnet Startup Venture Specialized Private Equity Fund	Korea	December 31	24.30	24.30
Cape IT Fund No.3	Korea	December 31	24.39	24.39
FuturePlay-Shinhan TechInnovation Fund 1 (*5)	Korea	December 31	32.89	32.89
Stonebridge Corporate 1st Fund	Korea	December 31	50.00	50.00
Vogo Realty Partners Private Real Estate Fund V	Korea	December 31	44.12	44.12
IL GU FARM CO.,LTD (*6)	Korea	December 31	21.64	21.64
Korea Credit Bureau (*1)(*8)	Korea	—	28.47	—
Goduck Gangill PFV Co., Ltd (*1)(*8)	Korea	September 30	9.00	9.00
SBC PFV Co., Ltd (*1)(*10)	Korea	September 30	1.04	1.04
Sprott Global Renewable Private Equity Fund II (*6)	Korea	September 30	25.00	25.00
NH-amundi global infra private fund 16	Korea	—	23.10	—
IMM Global Private Equity Fund	Korea	December 31	50.00	50.00
HANA Alternative Estate Professional Private122 (*7)	Korea	December 31	31.85	33.00
Hanwha-Incus Plus New Technology Fund No.1	Korea	December 31	75.19	75.19
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	Korea	December 31	42.64	42.64
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust (*12)	Korea	December 31	45.96	45.96
PSA EMP Private Equity Fund	Korea	December 31	57.50	72.39
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24 (*7)	Korea	December 31	28.99	28.99
SHBNPP Peace of Mind TDF 2035 Security Investment Trust [Equity Balanced-FoF] (*6)	Korea	December 31	52.28	52.28
SHBNPP Peace of Mind TDF 2040 Security Investment Trust [Equity Balanced-FoF] (*6)	Korea	—	25.70	—
BRAIN DO PROFESSIONALE PRIVATE No. 27	Korea	—	25.42	—
VISION US Muni US Local Debt Opportunities Professional Private1 (*11)	Korea	December 31	29.13	29.13
	Korea	—	25.00	—

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<u>Investees</u>	<u>Country</u>	<u>Date of financial information</u>	<u>Ownership (%)</u>	
			<u>2019</u>	<u>2020</u>
UI Venture Fund 7th (*5)	Korea	December 31	—	24.39
Sparklabs-Shinhan Opportunity Fund 1 (*5)	Korea	December 31	—	49.50
BNW Tech-Innovation Private Equity Fund (*5)	Korea	December 31	—	29.85
IGIS Real-estate Private Investment Trust No.33	Korea	December 31	—	40.86
Findvalue PreIPO 6th Professional Investment Type Private Investment Trust	Korea	December 31	—	31.58
WWG Global Real Estate Investment Trust no.4	Korea	December 31	—	29.55
Fidelis Global Private Real Estate Trust No.2 (*7)	Korea	December 31	—	78.26
IGIS PRIVATE REAL ESTATE TRUST NO.331	Korea	December 31	—	30.77
AIP EURO PRIVATE REAL ESTATE TRUST No. 12	Korea	December 31	—	28.70
Pebblestone CGV Private Real Estate Trust No.1	Korea	December 31	—	48.53
Shinhan AIM Real Estate Fund No.2	Korea	December 31	—	30.00
Shinhan AIM Real Estate Fund No.1	Korea	December 31	—	21.01
SHBNPP Daegu Green Power Cogeneration System Professional Investment Type Private Special Asset Investment Trust [Infra business]	Korea	December 31	—	22.02
SHBNPP Sangju YC Expressway Professional Investment Type Private Special Asset Investment Trust [Infra business]	Korea	December 31	—	29.19
SHBNPP Global Infrastructure Professional Investment Type Private Special Asset Investment Trust No.7-2(USD) (*7)	Korea	December 31	—	71.43
SHBNPP Japan Photovoltaic Private Special Asset Investment Trust No. 1 [Equity securities-Derivative]	Korea	December 31	—	30.00
Korea Omega-Shinhan Project Fund I (*5)	Korea	December 31	—	50.00
New Green Shinhan Mezzanine Fund (*5)	Korea	December 31	—	39.22
KORAMKO-Daum Professional Private Investment Trust No.12	Korea	December 31	—	33.33
Samsung SRA Real Estate Professional Private 45[FoFs]	Korea	December 31	—	25.00
IBK Global New Renewable Energy Special Asset Professional Private2	Korea	December 31	—	28.98
VS Cornerstone Fund	Korea	December 31	—	41.18
Aone Mezzanine Opportunity Professional Private (*7)	Korea	December 31	—	66.12
KiwoomUnicorn3New Technology Business Investment Fund	Korea	December 31	—	21.28
Multi Asset The United States Thortons Professional Private1	Korea	December 31	—	25.00
Kiwoom Milestone US Real Estate Professional Private20 (*7)	Korea	December 31	—	75.27
NH-Amundi US Infrastructure Private Fund2	Korea	December 31	—	25.91
KB Distribution Private Real Estate1 (*7)	Korea	December 31	—	62.00

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<u>Investees</u>	<u>Country</u>	<u>Date of financial information</u>	<u>Ownership (%)</u>	
			<u>2019</u>	<u>2020</u>
SHBNPP Jigae Namsan BTO professional Investment Type Private Special Asset Investment Trust [Infra business]	Korea	December 31	—	28.93
SHBNPP Japan Photovoltaic Private Special Asset Investment Trust No.2 [Loan-Derivative]	Korea	December 31	—	30.00
Kakao-Shinhan 1st TNYT Fund (*5)	Korea	December 31	—	48.62
IMM Special Situation 1-2 PRIVATE EQUITY FUND (*5)	Korea	December 31	—	20.02
Pacific Private Placement Real Estate Fund No.40	Korea	December 31	—	24.73
Mastern Private Real Estate Loan Fund No.2	Korea	December 31	—	33.57
LB Scotland Amazon Fulfillment Center Fund 29 (*7)	Korea	December 31	—	70.14
JR AMC Hungary Budapest Office Fund 16	Korea	December 31	—	32.57
IGIS 372 Real Estate Professional Private	Korea	December 31	—	28.39
KoFC-Neoplux R&D-Biz Creation 2013-1 Venture Capital Fund (*4)	Korea	December 31	—	19.00
Future-Creation Neoplux Venture Capital Fund (*4)	Korea	December 31	—	16.25
Gyeonggi-Neoplux Superman Fund (*4)	Korea	December 31	—	21.76
NewWave 6th Fund (*4)	Korea	December 31	—	30.00
Neoplux No.3 Private Equity Fund (*4)	Korea	December 31	—	10.00
PCC Amberstone Private Equity Fund I	Korea	December 31	—	21.67
KIAMCO POWERLOAN TRUST 4TH	Korea	December 31	—	47.37
Mastern Opportunity Seeking Real Estate Fund II	Korea	December 31	—	20.00
AION ELFIS PROFESSIONAL PRIVATE 1	Korea	December 31	—	20.00
T&F 2020 SS Private Equity Fund Specializing in Start-up and Venture Business	Korea	December 31	—	29.68
Neoplux Market-Frontier Secondary Fund (*4)	Korea	December 31	—	19.74
Synergy Green New Deal 1st New Technology Business Investment Fund	Korea	December 31	—	28.17
KAIM Real-estate Private Investment Trust 20	Korea	December 31	—	38.46
KIAMCO Vietnam Solar Special Asset Private Investment Trust	Korea	December 31	—	50.00
CSQUARE SNIPER PROFESSIONAL PRIVATE 10 (*7)	Korea	December 31	—	62.50
IGIS GLIP Professional Investment Private Real Estate Investment Trust No. 1-1 (*7)	Korea	December 31	—	97.85
IGIS GLIP Professional Investment Private Real Estate Investment Trust No. 1-2 (*7)	Korea	December 31	—	97.85
Pacific Sunny Professional Investors Private Placement Real Estate Investment Company No.45	Korea	December 31	—	25.00
IGIS Professional Investors Private Investment Real Estate Investment LLC No.395 (*7)	Korea	December 31	—	58.82
SHBNPP Green New Deal Energy Professional Investment Type Private Special Asset Investment Trust No.2	Korea	December 31	—	30.00

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15. Investments in associates (continued)

Investees	Country	Date of financial information	Ownership (%)	
			2019	2020
Eum Private Equity Fund No.7	Korea	December 31	—	21.00
Kiwoom Private Equity Ant-Man Startup Venture Specialized Private Equity Fund	Korea	December 31	—	25.00
Kiwoom Hero No.4 Private Equity Fund	Korea	December 31	—	21.05
Vogo Canister Professional Trust Private Fund I	Korea	December 31	—	36.68

- (*1) The latest financial statements are used for the equity method since the financial statements as of December 31, 2020 are not available. Significant trades and events occurred within the period are properly reflected.
- (*2) The Group applies the equity method accounting as the Group has a significant influence on the investees through important business transactions.
- (*3) As a part of the rehabilitation process, the Group acquired shares through the conversion of equity investments, as the Group cannot exercise voting rights during the process, the Group has classified the shares as investments at fair value through profit or loss. The Group reclassified Securities at fair value through profit or loss to investments in associates as the reorganization procedures are completed and now the Group can normally exercise its voting rights to the investees.
- (*4) As a managing partner, the Group has a significant influence over the investees.
- (*5) As a limited partner, the Group does not have an ability to participate in policy-making processes to obtain economic benefit from the investees that would allow the Group to control the entity.
- (*6) Excluded from the investments in associates due to full or partial disposal of shares, or loss of significant influence.
- (*7) Although the ownership interests are more than 50%, the Group applies the equity method accounting as the Group does not have an ability to participate in the financial and operating policy-making process.
- (*8) Although the ownership percentages are less than 20%, the Group applies the equity method accounting since it participates in policy-making processes and therefore can exercise significant influence on investees.
- (*9) For the year ended December 31, 2020, the name is changed from 'Lime Neptune Professional Private 6' to 'DB Epic Convertible bond Private Trust No.2'.
- (*10) The rate of Group's voting rights is 4.65%.
- (*11) For the year ended December 31, 2020, it is incorporated into the consolidation target as it held control due to increased equity ratio.
- (*12) It has a significant influence with a 50% or more stake. However, the full payment guarantee for the investment does not expose the variable profit. Therefore, the investment amount is classified as an investment assets in the associates.

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15. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2019 and 2020 are as follows:

Investees	2019					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance	₩49,816	(373)	(517)	3,660	—	52,586
Songrim Partners. (*1)	—	—	—	—	—	—
Neoplux Technology Valuation						
Investment Fund	18,738	(1,661)	(693)	—	—	16,384
Partners 4th Growth Investment Fund	16,612	(1,219)	(476)	—	—	14,917
KTB Newlake Global Healthcare PEF	9,885	1,500	(105)	—	—	11,280
Daekwang Semiconductor Co., Ltd.	3,334	—	52	2	—	3,388
Shinhan-Neoplux Energy Newbiz Fund	3,974	4,200	(294)	—	—	7,880
Shinhan-Albatross tech						
investment Fund	8,908	—	132	(306)	—	8,734
KCLAVIS Meister Fund No.17	3,083	(1,801)	(84)	—	—	1,198
Plutus-SG Private Equity Fund	4,252	(132)	111	—	—	4,231
SG ARGES Private Equity Fund No.1	4,341	(4,796)	455	—	—	—
Eum Private Equity Fund No.3	4,889	(2,476)	1,161	—	—	3,574
KTB Confidence Private Placement	5,302	(215)	980	—	—	6,067
Meritz AI-SingA330-A Investment						
Type Private Placement Special						
Asset Fund	5,432	(1,266)	90	—	—	4,256
Meritz AI-SingA330-B Investment						
Type Private Placement Special						
Asset Fund	8,429	242	245	—	—	8,916
VOGO Debt Strategy Qualified INV						
Private R/E INV TR 4	4,831	4,820	279	—	—	9,930
Platform Partners brick save Private						
Investment trust	8,120	(8,197)	77	—	—	—
Shinhan-Midas Donga Secondary Fund	2,061	1,750	(325)	—	—	3,486
ShinHan – Soo Young Entrepreneur						
Investment Fund No.1	2,554	1,968	27	—	—	4,549
Synergy-Shinhan Mezzanine New						
Technology Investment Fund	10,149	(6,492)	255	—	—	3,912
Shinhan Praxis K-Growth Global						
Private Equity Fund	16,527	(8,745)	2,520	—	—	10,302
Credian Healthcare Private						
Equity Fund II	4,553	(2,526)	350	—	—	2,377
Kiwoom Milestone Professional Private						
Real Estate Trust 19	10,419	(241)	229	—	—	10,407
AIP EURO Green Private Real Estate						
Trust No.3	20,544	(1,248)	1,588	—	—	20,884
Brain Professional Private Trust No.4	5,244	(5,175)	(69)	—	—	—

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15. Investments in associates (continued)

Investees	2019					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
Hanhwa US Equity Strategy Private Real Estate Fund No.1	₩26,232	(1,866)	1,598	—	—	25,964
Brain KS Qualified Privately Placed Fund No.6	5,097	(5,041)	(56)	—	—	—
Shinhan Global Healthcare Fund 1	3,285	—	(76)	—	—	3,209
JB Power TL Investment Type Private Placement Special Asset Fund 7	17,484	(1,513)	829	—	—	16,800
IBK AONE convertible 1	5,906	—	171	—	—	6,077
Rico synergy collabo Multi-Mezzanine 3	5,290	(2,501)	428	—	—	3,217
KB NA Hickory Private Special Asset Fund	34,360	445	1,125	—	—	35,930
GB Professional Private Investment Trust 6	8,588	(8,588)	—	—	—	—
Koramco Europe Core Private Placement Real Estate Fund No.2-2	18,616	(1,458)	2,404	—	—	19,562
SHBNPP Private Korea Equity Long-Short Professional Feeder	14,370	(14,325)	(45)	—	—	—
Shinhan-Stonebridge Petro PEF	18,681	(19,589)	909	—	—	1
BNP Paribas Cardif General Insurance	3,423	—	(1,296)	(14)	—	2,113
Axis Global Growth New Technology Investment Association	4,875	(1,592)	(78)	—	—	3,205
Polaris No7 Start up and Venture Private Equity Fund	4,338	(2,300)	265	—	—	2,303
Hermes Private Investment Equity Fund	7,065	—	(689)	—	—	6,376
SHC ULMUS Fund No.1	2,890	—	259	—	—	3,149
Shinhan-Nvestor Liquidity Solution Fund	2,689	2,700	(524)	—	—	4,865
Shinhan AIM FoF Fund 1a	4,351	2,363	528	—	—	7,242
Daishin Heim Qualified Investor Private Investment Trust No.1808	10,126	(10,297)	171	—	—	—
Heungkuk High Class Professional Trust Private Fund 37	9,438	(9,505)	67	—	—	—
IGIS Global Credit Fund 150-1	8,896	781	41	—	—	9,718
GX Shinhan Interinvest 1st Private Equity Fund	31,831	—	1,335	—	—	33,166
Soo Commerce Platform Growth Fund	6,378	—	(35)	—	—	6,343
Partner One Value up I Private Equity Fund	11,939	—	(48)	—	—	11,891
Genesis No.1 Private Equity Fund	45,758	404	4,988	—	—	51,150
GMB ICT New Technology Investment Fund	7,934	—	(80)	—	—	7,854

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Investees	2019					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
Korea Omega Project Fund III	₩ 1,992	—	1,024	—	—	3,016
Soo Delivery Platform Growth Fund	8,983	(171)	110	—	—	8,922
Genesis North America Power Company No.1 PEF	20,824	(4,035)	1,486	—	—	18,275
Hyungje art printing (*1)	—	—	—	—	—	—
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	6,204	14,147	361	—	—	20,712
Shinhan-Rhinos 1 Fund	—	3,000	29	—	—	3,029
Pacific Private Investment Trust No.20	—	3,819	257	—	—	4,076
Susung Mezzanine project P1 Private Investment Trust	—	4,000	1,128	—	—	5,128
Korea Finance Security (*2)	—	3,448	(213)	—	—	3,235
MIEL CO.,LTD (*3)	—	—	—	—	—	—
AIP Transportation Specialized Privately Placed Fund Trust #1	—	31,136	444	—	—	31,580
Lime Neptune Professional Private 6	—	5,000	63	—	—	5,063
PCC S/W 2nd Fund	—	3,000	1	—	—	3,001
E&Healthcare Investment Fund No.6	—	7,030	746	—	—	7,776
One Shinhan Global Fund 1	—	4,520	(79)	—	—	4,441
Kiwoom-Shinhan Innovation Fund I	—	7,500	(216)	—	—	7,284
Daishin-K&T New Technology Investment Fund	—	7,000	57	—	—	7,057
Midas Asset Global CRE Debt Private Fund No.6	—	23,194	537	—	—	23,731
Richmond Private Investment Trust No.82	—	14,569	551	—	—	15,120
Tiger Alternative Real Estate Professional Private5	—	19,876	(56)	—	—	19,820
Samchully Midstream Private Placement Special Asset Fund 5-4	—	29,436	1,306	—	—	30,742
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	—	52,048	1,783	—	—	53,831
AUCTUS FITRIN Corporate Recovery Private Equity Fund	—	14,250	108	—	—	14,358
NH-Amundi Global Infrastructure Trust 14	—	17,769	728	—	—	18,497
Pacific Private Real Estate Fund Investment Trust No.30	—	14,236	580	—	—	14,816
Jarvis Memorial Private Investment Trust 1	—	9,888	278	—	—	10,166

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Investees	2019					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
Mastern Private Private Investment Trust 68	₩ —	9,764	235	—	—	9,999
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37	—	4,434	(37)	—	—	4,397
Milestone Private Real Estate Fund 3 (Derivative Type)	—	17,016	170	—	—	17,186
IGIS Private Real Estate Investment Trust 286 (2 class)	—	10,100	(332)	—	—	9,768
Nomura-Rifa Private Real Estate Investment Trust 31 (2 class)	—	9,018	(104)	—	—	8,914
Lime Pricing Private Equity Fund	—	8,400	(100)	—	—	8,300
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	—	39,376	2,615	—	—	41,991
DS Solid.II Hedge Fund	—	4,300	(177)	—	—	4,123
Hana Semiconductor New Technology Fund	—	13,000	(144)	—	—	12,856
J&Magnet Startup Venture Specialized Private Equity Fund	—	6,000	(21)	—	—	5,979
Cape IT Fund No.3	—	10,000	(33)	—	—	9,967
Vogo Realty Partners Private Real Estate Fund V	—	10,611	(235)	—	—	10,376
IL GU FARM CO.,LTD	—	—	—	—	—	—
Korea Credit Bureau (*2)	—	4,500	2,312	—	—	6,812
SBC PFV Co., Ltd	—	20,000	—	—	—	20,000
Sprott Global Renewable Private Equity Fund II	—	20,131	(1,115)	—	—	19,016
NH-amundi global infra private fund 16	—	49,530	(1,372)	—	—	48,158
IMM Global Private Equity Fund	—	28,945	(20)	—	—	28,925
HANA Alternative Estate Professional Private122	—	28,487	(2,282)	—	—	26,205
Hanwha-Incus Plus New Technology Fund No.1	—	5,500	(1)	—	—	5,499
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	—	51,293	—	—	—	51,293
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust	—	146,045	4,272	—	—	150,317
PSA EMP Private Equity Fund	—	10,000	(73)	—	—	9,927

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15. Investments in associates (continued)

Investees	2019					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24	₩ —	28,314	1,149	—	—	29,463
SHBNPP Peace of Mind TDF 2035 Security Investment Trust [Equity Balanced-FoF]	—	5,727	—	—	—	5,727
SHBNPP Peace of Mind TDF 2040 Security Investment Trust [Equity Balanced-FoF]	—	5,729	—	—	—	5,729
BRAIN DO PROFESSIONALE PRIVATE No. 27	—	3,000	65	—	—	3,065
VISION US Muni US Local Debt Opportunities Professional Private1(S)	—	9,500	369	—	—	9,869
Others	81,490	(14,513)	18,954	—	—	85,931
	<u>₩671,330</u>	<u>724,902</u>	<u>53,287</u>	<u>3,342</u>	<u>—</u>	<u>1,452,861</u>

(*1) The Group has stopped recognizing its equity method income or loss due to the carrying amount of '0' resulting from the investees' cumulative loss.

(*2) Classified as investments in associates without cash transactions.

(*3) No gains or losses from the equity method investees have been recognized after the acquisition of a debt-equity swap in 2019.

Investees	2020					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance	₩ 52,586	—	(928)	(1,058)	—	50,600
Songrim Partners (*1)	—	—	—	—	—	—
Neoplux Technology Valuation Investment Fund (*3)	16,384	(16,171)	(213)	—	—	—
Partners 4th Growth Investment Fund	14,917	(4,474)	1,515	—	—	11,958
KTB Newlake Global Healthcare PEF	11,280	(1,950)	74	—	—	9,404
Daekwang Semiconductor Co., Ltd.	3,388	—	243	—	—	3,631
Shinhan-Neoplux Energy Newbiz Fund (*4)	7,880	5,887	703	—	—	14,470
Shinhan-Albatross tech investment Fund	8,734	4,650	(62)	—	—	13,322
Plutus-SG Private Equity Fund	4,231	(5,230)	999	—	—	—
Eum Private Equity Fund No.3	3,574	(5,621)	2,050	—	—	3
KTB Confidence Private Placement	6,067	(6,063)	(4)	—	—	—

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15. Investments in associates (continued)

Investees	2020					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	₩ 4,256	(772)	(3,484)	—	—	—
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	8,916	(48)	(8,868)	—	—	—
VOGO Debt Strategy Qualified INV Private	9,930	(1,700)	472	—	—	8,702
Shinhan-Midas Donga Secondary Fund	3,486	1,150	116	—	—	4,752
ShinHan – Soo Young Entrepreneur Investment Fund No.1	4,549	1,495	3,924	—	—	9,968
Synergy-Shinhan Mezzanine New Technology Investment Fund	3,912	(4,406)	494	—	—	—
Shinhan Praxis K-Growth Global Private Equity Fund	10,302	78	(435)	—	—	9,945
Credian Healthcare Private Equity Fund II	2,377	(4,937)	8,395	—	—	5,835
Kiwoom Milestone Professional Private Real Estate Trust 19	10,407	(265)	(224)	—	—	9,918
AIP EURO Green Private Real Estate Trust No.3	20,884	(1,189)	1,326	—	—	21,021
Hanhwa US Equity Strategy Private Real Estate Fund No.1	25,964	(26,907)	3,220	—	—	2,277
Shinhan Global Healthcare Fund 1	3,209	—	128	—	(3,337)	—
JB Power TL Investment Type Private Placement Special Asset Fund 7	16,800	(1,359)	745	—	—	16,186
IBK AONE convertible 1	6,077	(6,048)	(29)	—	—	—
Rico synergy collabo Multi-Mezzanine 3	3,217	(3,221)	4	—	—	—
KB NA Hickory Private Special Asset Fund	35,930	(2,609)	1,617	—	—	34,938
Koramco Europe Core Private Placement Real Estate Fund No.2-2	19,562	(1,330)	386	—	—	18,618
BNP Paribas Cardif General Insurance	2,113	3,066	(1,244)	(40)	—	3,895
Axis Global Growth New Technology Investment Association	3,205	(2,920)	(285)	—	—	—
Hermes Private Investment Equity Fund	6,376	—	(277)	—	—	6,099
SHC ULMUS Fund No.1	3,149	(3,289)	140	—	—	—
Shinhan-Nvestor Liquidity Solution Fund	4,865	(1,004)	632	—	—	4,493
Shinhan AIM FoF Fund 1a	7,242	1,324	194	—	—	8,760

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15. Investments in associates (continued)

Investees	2020					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
IGIS Global Credit Fund 150-1	₩ 9,718	(4,002)	1,566	—	—	7,282
GX Shinhan Interinvest 1st Private Equity Fund	33,166	(54,515)	21,349	—	—	—
Soo Commerce Platform Growth Fund	6,343	(8,474)	3,278	—	—	1,147
Partner One Value up I Private Equity Fund	11,891	(20)	(92)	—	—	11,779
Genesis No.1 Private Equity Fund	51,150	388	28,575	—	—	80,113
GMB ICT New Technology Investment Fund	7,854	(7,853)	(1)	—	—	—
Korea Omega Project Fund III	3,016	—	547	—	—	3,563
Soo Delivery Platform Growth Fund	8,922	(7,929)	3,075	—	—	4,068
Genesis North America Power Company No.1 PEF	18,275	(3,869)	2,577	—	—	16,983
Hyungje art printing (*1)	—	—	—	—	—	—
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	20,712	(10,794)	664	—	—	10,582
Shinhan-Rhinos 1 Fund	3,029	(1,004)	574	—	—	2,599
Pacific Private Investment Trust No.20	4,076	(1,289)	212	—	—	2,999
Susung Mezzanine project P1 Private Investment Trust	5,128	(3,613)	(170)	—	—	1,345
Korea Finance Security	3,235	—	(180)	—	—	3,055
Multimedia Tech Co.Ltd (*1)	19	—	(19)	—	—	—
MIEL CO.,LTD (*1)	—	—	—	—	—	—
AIP Transportation Specialized Privately Placed Fund Trust #1	31,580	1,366	47	—	—	32,993
DB Epic Convertiblebond Private Trust No.2	5,063	202	520	—	—	5,785
PCC S/W 2nd Fund	3,001	(3,328)	327	—	—	—
E&Healthcare Investment Fund No.6	7,776	—	7,387	—	—	15,163
One Shinhan Global Fund1	4,441	—	(412)	—	—	4,029
Kiwoom-Shinhan Innovation Fund I	7,284	7,500	1,185	—	—	15,969
Daishin-K&T New Technology Investment Fund	7,057	—	(57)	—	—	7,000
Midas Asset Global CRE Debt Private Fund No.6	23,731	21,537	2,121	—	—	47,389
Richmond Private Investment Trust No.82	15,120	(855)	784	—	—	15,049
Tiger Alternative Real Estate Professional Private5	19,820	(1,376)	55	—	—	18,499
Samchully Midstream Private Placement Special Asset Fund 5-4	30,742	(968)	(956)	—	—	28,818

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15. Investments in associates (continued)

Investees	2020					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	₩ 53,831	9,253	2,532	—	—	65,616
AUCTUS FITRIN Corporate Recovery Private Equity Fund	14,358	(14,484)	126	—	—	—
NH-Amundi Global Infrastructure Trust 14	18,497	(460)	782	—	—	18,819
Pacific Private Real Estate Fund Investment Trust No.30 (*3)	14,816	(15,374)	558	—	—	—
Jarvis Memorial Private Investment Trust 1	10,166	(763)	640	—	—	10,043
Mastern Private Private Investment Trust 68	9,999	(460)	471	—	—	10,010
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37	4,397	30,510	734	—	—	35,641
Milestone Private Real Estate Fund 3 (Derivative Type)	17,186	(838)	2,180	—	—	18,528
IGIS Private Real Estate Investment Trust 286	9,768	(1,361)	437	—	—	8,844
Nomura-Rifa Private Real Estate Investment Trust 31	8,914	(932)	425	—	—	8,407
Lime Pricing Private Equity Fund	8,300	(8,217)	(83)	—	—	—
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	41,991	(29,980)	1,312	—	—	13,323
DS Solid.II Hedge Fund	4,123	(6,397)	2,274	—	—	—
Hana Semiconductor New Technology Fund	12,856	(2,557)	13,832	—	—	24,131
J&Magnet Startup Venture Specialized Private Equity Fund	5,979	(2,151)	2,107	—	—	5,935
Cape IT Fund No.3	9,967	(580)	1,262	—	—	10,649
FuturePlay-Shinhan TechInnovation Fund 1	868	3,661	(234)	—	—	4,295
Stonebridge Corporate 1st Fund	2,981	—	258	—	—	3,239
Vogo Realty Partners Private Real Estate Fund V	10,376	(566)	1,017	—	—	10,827
IL GU FARM CO.,LTD (*1)	—	—	—	—	—	—
Korea Credit Bureau	6,812	(90)	254	—	—	6,976
Goduck Gangil1 PFV Co., Ltd (*1)	48	—	(48)	—	—	—
SBC PFV Co., Ltd	20,000	—	(1,792)	—	—	18,208
Sprott Global Renewable Private Equity Fund II	19,016	(18,909)	(107)	—	—	—

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15. Investments in associates (continued)

Investees	2020					Ending balance
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	
NH-amundi global infra private fund 16	₩ 48,158	(1,236)	(3,083)	—	—	43,839
IMM Global Private Equity Fund	28,925	90,776	1,154	—	—	120,855
HANA Alternative Estate Professional Private122	26,205	(644)	4,070	—	—	29,631
Hanwha-Incus Plus New Technology Fund No.1	5,499	—	5,527	—	—	11,026
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	51,293	(1,613)	1,530	—	—	51,210
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust	150,317	127,753	8,461	—	—	286,531
PSA EMP Private Equity Fund	9,927	(278)	165	—	—	9,814
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24	29,463	(239)	177	—	—	29,401
SHBNPP Peace of Mind TDF 2035 Security Investment Trust [Equity Balanced-FoF]	5,727	(5,727)	—	—	—	—
SHBNPP Peace of Mind TDF 2040 Security Investment Trust [Equity Balanced-FoF]	5,729	(5,729)	—	—	—	—
BRAIN DO PROFESSIONALE PRIVATE No. 27	3,065	—	376	—	—	3,441
VISION US Muni US Local Debt Opportunities Professional Private1 (*3)	9,869	(10,032)	163	—	—	—
UI Venture Fund 7th	—	3,000	279	—	—	3,279
Sparklabs-Shinhan Opportunity Fund 1	—	4,999	(167)	—	—	4,832
BNW Tech-Innovation Private Equity Fund	—	6,000	(58)	—	—	5,942
IGIS Real-estate Private Investment Trust No.33	—	13,945	154	—	—	14,099
Findvalue PreIPO 6th Professional Investment Type Private Investment Trust.	—	3,000	2	—	—	3,002
WWG Global Real Estate Investment Trust no.4	—	16,874	878	—	—	17,752
Fidelis Global Private Real Estate Trust No.2	—	18,582	903	—	—	19,485

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15. Investments in associates (continued)

Investees	2020					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
IGIS PRIVATE REAL ESTATE TRUST NO.331	₩ —	3,932	(167)	—	—	3,765
AIP EURO PRIVATE REAL ESTATE TRUST No. 12	—	45,082	3,262	—	—	48,344
Pebblestone CGV Private Real Estate Trust No.1	—	12,793	553	—	—	13,346
Shinhan AIM Real Estate Fund No.2 (*2)	—	36,186	(7,652)	—	(6,070)	22,464
Shinhan AIM Real Estate Fund No.1 (*2)	—	45,415	1,530	—	—	46,945
SHBNPP Daegu Green Power Cogeneration System Professional Investment Type Private Special Asset Investment Trust [Infra business] (*2)	—	32,258	686	—	—	32,944
SHBNPP Sangju YC Expressway Professional Investment Type Private Special Asset Investment Trust [Infra business] (*2)	—	22,003	(1,101)	—	—	20,902
SHBNPP Global Infrastructure Professional Investment Type Private Special Asset Investment Trust No.7-2(USD)	—	7,273	(581)	—	—	6,692
SHBNPP Japan Photovoltaic Private Special Asset Investment Trust No. 1 [Equity securities-Derivative] (*2)	—	4,859	(14)	—	—	4,845
Korea Omega-Shinhan Project Fund I	—	6,000	(69)	—	—	5,931
New Green Shinhan Mezzanine Fund	—	4,000	916	—	—	4,916
KORAMKO-Daum Professional Private Investment Trust No.12	—	6,930	598	—	—	7,528
Samsung SRA Real Estate Professional Private 45[FoFs]	—	10,701	(35)	—	—	10,666
IBK Global New Renewable Energy Special Asset Professional Private2	—	29,177	3,172	—	—	32,349
VS Cornerstone Fund	—	3,500	(36)	—	—	3,464
Aone Mezzanine Opportunity Professional Private	—	8,000	1,580	—	—	9,580
KiwoomUnicorn3New Technology Business Investment Fund	—	3,000	1,283	—	—	4,283
Multi Asset The United States Thortons Professional Private1 (*2)	—	44,202	(2,762)	—	—	41,440

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15. Investments in associates (continued)

Investees	2020					Ending balance
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	
Kiwoom Milestone US Real Estate Professional Private20	₩ —	49,791	1,721	—	—	51,512
NH-Amundi US Infrastructure Private Fund2 (*2)	—	24,647	783	—	—	25,430
KB Distribution Private Real Estate1 (*2)	—	29,984	714	—	—	30,698
SHBNPP Jigae Namsan BTO professional Investment Type Private Special Asset Investment Trust [Infra business] (*2)	—	19,968	744	—	—	20,712
SHBNPP Japan Photovoltaic Private Special Asset Investment Trust No.2 [Loan-Derivative] (*2)	—	28,251	898	—	—	29,149
Kakao-Shinhan 1st TNYT Fund	—	6,000	(319)	—	—	5,681
IMM Special Situation 1-2 PRIVATE EQUITY FUND	—	10,000	870	—	—	10,870
Pacific Private Placement Real Estate Fund No.40	—	11,273	374	—	—	11,647
Mastern Private Real Estate Loan Fund No.2	—	5,740	(48)	—	—	5,692
LB Scotland Amazon Fulfillment Center Fund 29	—	30,753	429	—	—	31,182
JR AMC Hungary Budapest Office Fund 16	—	11,380	824	—	—	12,204
IGIS 372 Real Estate Professional Private	—	58,200	(1,365)	—	—	56,835
KoFC-Neoplux R&D-Biz Creation 2013-1 Venture Capital Fund (*4)	—	4,058	(228)	—	—	3,830
Future-Creation Neoplux Venture Capital Fund (*4)	—	4,204	(408)	—	—	3,796
Gyeonggi-Neoplux Superman Fund (*4)	—	7,665	(1,266)	—	—	6,399
NewWave 6th Fund (*4)	—	6,242	(92)	—	—	6,150
Neoplux No.3 Private Equity Fund (*4)	—	10,825	(530)	—	—	10,295
PCC Amberstone Private Equity Fund I (*2)	—	22,066	414	—	—	22,480
KIAMCO POWERLOAN TRUST 4TH	—	43,390	565	—	—	43,955
Mastern Opportunity Seeking Real Estate Fund II	—	19,508	291	—	—	19,799
AION ELFIS PROFESSIONAL PRIVATE 1	—	5,000	528	—	—	5,528

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15. Investments in associates (continued)

Investees	2020					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income(loss)	Impairment loss	Ending balance
T&F 2020 SS Private Equity Fund Specializing in Start-up and Venture Business	₩ —	4,500	(47)	—	—	4,453
Neoplux Market-Frontier Secondary Fund (*4)	—	10,974	571	—	—	11,545
Synergy Green New Deal 1st New Technology Business Investment Fund	—	10,000	8	—	—	10,008
KAIM Real-estate Private Investment Trust 20	—	5,000	98	—	—	5,098
KIAMCO Vietnam Solar Special Asset Private Investment Trust	—	8,150	(202)	—	—	7,948
CSQUARE SNIPER PROFESSIONAL PRIVATE 10	—	3,125	—	—	—	3,125
IGIS GLIP Professional Investment Private Real Estate Investment Trust No. 1-1	—	44,780	(9)	(177)	—	44,594
IGIS GLIP Professional Investment Private Real Estate Investment Trust No. 1-2	—	44,780	(9)	(177)	—	44,594
Pacific Sunny Professional Investors Private Placement Real Estate Investment Company No.45	—	16,000	(145)	—	—	15,855
IGIS Professional Investors Private Investment Real Estate Investment LLC No.395	—	30,000	(356)	—	—	29,644
SHBNPP Green New Deal Energy Professional Investment Type Private Special Asset Investment Trust No.2	—	21,142	—	—	—	21,142
Eum Private Equity Fund No.7	—	7,872	—	—	—	7,872
Kiwoom Private Equity Ant-Man Startup Venture Specialized Private Equity Fund	—	5,034	—	—	—	5,034
Kiwoom Hero No.4 Private Equity Fund	—	4,707	—	—	—	4,707
Vogo Canister Professional Trust Private Fund I (*2)	—	43,975	—	—	—	43,975
Others	85,517	25,966	19,814	(5)	—	131,292
	<u>₩1,452,861</u>	<u>1,056,238</u>	<u>159,533</u>	<u>(1,457)</u>	<u>(9,407)</u>	<u>2,657,768</u>

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15. Investments in associates (continued)

- (*1) The Group has stopped recognizing its equity method income or loss due to the carrying amount of '0' resulting from the investees' cumulative loss.
- (*2) Classified as investments in associates without cash transactions.
- (*3) For the year ended December 31, 2020, it is incorporated into the consolidation target as it held control due to increased equity ratio.
- (*4) For the year ended December 31, 2020, it is incorporated into the investments in associates as Neoplux Co., Ltd. is incorporated into the consolidation target.
- (c) The statement of financial information as of and for the years ended December 31, 2019 and 2020 are as follows:

Investees	2019					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BNP Paribas Cardif Life Insurance	₩3,896,875	3,545,682	37,067	(3,919)	24,402	20,483
Neoplux Technology Valuation Investment Fund	49,890	738	3,953	(2,078)	—	(2,078)
Partners 4th Growth Investment Fund	60,775	1,106	14	(1,904)	—	(1,904)
KTB Newlake Global Healthcare PEF	37,187	151	387	(349)	—	(349)
Daekwang Semiconductor Co., Ltd.	23,507	7,328	1,248	248	9	257
Shinhan-Neoplux Energy Newbiz Fund	33,791	18	26	(1,259)	—	(1,259)
Shinhan-Albatross tech investment Fund	17,681	182	1,263	551	(917)	(366)
KCLAVIS Meister Fund No.17	4,689	96	425	(322)	—	(322)
Plutus-SG Private Equity Fund	16,006	138	700	419	—	419
Eum Private Equity Fund No.3	17,243	27	6,305	5,604	—	5,604
KTB Confidence Private Placement	19,369	64	7,328	3,122	—	3,122
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	17,821	1	1,280	377	—	377
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	44,228	2	3,445	1,217	—	1,217
VOGO Debt Strategy Qualified INV Private R/E INV TR 4	49,683	33	4,198	1,391	—	1,391
Shinhan-Midas Donga Secondary Fund	6,973	1	88	(651)	—	(651)
ShinHan – Soo Young Entrepreneur Investment Fund No.1	18,963	9	1,656	113	—	113
Synergy-Shinhan Mezzanine New Technology Investment Fund	8,266	51	834	535	—	535
Shinhan Praxis K-Growth Global Private Equity Fund	54,786	185	27,588	13,361	—	13,361
Credian Healthcare Private Equity Fund II	7,001	24	1,542	1,031	—	1,031
Kiwoom Milestone Professional Private Real Estate Trust 19	59,559	38,744	3,100	470	—	470
AIP EURO Green Private Real Estate Trust No.3	98,221	86	18,362	7,462	—	7,462

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15. Investments in associates (continued)

Investees	2019					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Hanhwa US Equity Strategy Private Real Estate Fund No.1	₩ 59,652	1,750	14,838	3,742	—	3,742
Shinhan Global Healthcare Fund 1	73,388	701	5,480	(1,722)	—	(1,722)
JB Power TL Investment Type Private Placement Special Asset Fund 7	50,468	66	15,476	2,487	—	2,487
IBK AONE convertible 1	12,861	0	1,515	410	—	410
Rico synergy collabo Multi-Mezzanine 3	6,433	2	1,296	856	—	856
KB NA Hickory Private Special Asset Fund	96,289	476	16,132	2,489	—	2,489
Koramco Europe Core Private Placement Real Estate Fund No.2-2	46,742	2,304	9,328	5,462	—	5,462
Shinhan-Stonebridge Petro PEF	1,388	1,350	52,928	49,878	—	49,878
BNP Paribas Cardif General Insurance	43,064	21,936	17,613	(12,962)	(136)	(13,098)
Axis Global Growth New Technology Investment Association	10,064	—	1	(244)	—	(244)
Polaris No7 Start up and Venture Private Equity Fund	8,113	52	1,037	928	—	928
Hermes Private Investment Equity Fund	21,954	95	45	(2,366)	—	(2,366)
SHC ULMUS Fund No.1	10,706	—	1,073	881	—	881
Shinhan-Nvestor Liquidity Solution Fund	19,524	—	209	(2,101)	—	(2,101)
Shinhan AIM FoF Fund 1a	28,987	20	5,556	2,111	—	2,111
IGIS Global Credit Fund 150-1	38,912	38	2,674	166	—	166
GX Shinhan Interinvest 1st Private Equity Fund	131,237	—	6,689	5,283	—	5,283
Soo Commerce Platform Growth Fund	25,765	3	36	(140)	—	(140)
Partner One Value up I Private Equity Fund	42,602	—	457	(173)	—	(173)
Genesis No.1 Private Equity Fund	224,322	7	23,180	21,872	—	21,872
GMB ICT New Technology Investment Fund	29,359	—	2	(298)	—	(298)
Korea Omega Project Fund III	12,818	—	4,432	4,351	—	4,351
Soo Delivery Platform Growth Fund	29,743	3	675	367	—	367
Genesis North America Power Company No.1 PEF	46,041	281	4,323	3,756	—	3,756
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	89,450	687	4,262	1,546	—	1,546
Shinhan-Rhinos 1 Fund	13,474	—	143	129	—	129
Pacific Private Investment Trust No.20	18,764	15	1,247	1,187	—	1,187
Susung Mezzanine project P1 Private Investment Trust	10,023	351	22	(91)	—	(91)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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15. Investments in associates (continued)

Investees	2019					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Korea Finance Security	₩ 32,079	10,386	64,964	(1,297)	—	(1,297)
AIP Transportation Specialized Privately Placed Fund Trust #1	94,437	6,042	12,473	1,242	—	1,242
Lime Neptune Professional Private 6	10,166	41	460	125	—	125
PCC S/W 2nd Fund	10,154	—	151	4	—	4
E&Healthcare Investment Fund No.6	38,181	2	4,405	3,664	—	3,664
One Shinhan Global Fund 1	22,244	—	92	(406)	—	(406)
Kiwoom-Shinhan Innovation Fund I	14,719	151	13	(432)	—	(432)
Daishin-K&T New Technology Investment Fund	55,686	33,103	1,292	183	—	183
Midas Asset Global CRE Debt Private Fund No.6	118,438	70	3,907	2,677	—	2,677
Richmond Private Investment Trust No.82	50,079	24,879	1,155	919	—	919
Tiger Alternative Real Estate Professional Private5	40,792	103	1,628	(116)	—	(116)
Samchully Midstream Private Placement Special Asset Fund 5-4	71,680	55	14,423	3,015	—	3,015
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	269,203	48	8,854	8,289	—	8,289
AUCTUS FITRIN Corporate Recovery Private Equity Fund	67,222	218	1,187	449	—	449
NH-Amundi Global Infrastructure Trust 14	61,696	39	7,404	2,427	—	2,427
Pacific Private Real Estate Fund Investment Trust No.30	39,779	270	1,817	1,547	—	1,547
Jarvis Memorial Private Investment Trust 1	10,279	12	293	281	—	281
Mastern Private Private Investment Trust 68	18,600	2	533	437	—	437
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37	7,336	7	214	(61)	—	(61)
Milestone Private Real Estate Fund 3 (Derivative Type)	53,610	3	603	532	—	532
IGIS Private Real Estate Investment Trust 286 (2 class)	75,372	51,870	2,838	(798)	—	(798)
Nomura-Rifa Private Real Estate Investment Trust 31 (2 class)	99,976	71,507	2,383	(331)	—	(331)
Lime Pricing Private Equity Fund	32,231	118	10	(388)	—	(388)

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15. Investments in associates (continued)

Investees	2019					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	₩ 197,536	119	12,963	12,296	—	12,296
DS Solid.II Hedge Fund	15,042	—	4	(605)	—	(605)
Hana Semiconductor New Technology Fund	52,905	—	73	(595)	—	(595)
J&Magnet Startup Venture Specialized Private Equity Fund	24,513	—	—	(87)	—	(87)
Cape IT Fund No.3	30,333	35	—	(101)	—	(101)
Vogo Realty Partners Private Real Estate Fund V	47,992	34	281	(1,084)	—	(1,084)
Korea Credit Bureau	95,764	20,075	66,314	10,604	—	10,604
SBC PFV Co., Ltd	120,000	40,000	—	—	—	—
Sprott Global Renewable Private Equity Fund II	82,721	3	1,416	(4,833)	—	(4,833)
NH-amundi global infra private fund 16	100,513	4,197	4,128	(2,744)	—	(2,744)
IMM Global Private Equity Fund	90,870	63	—	(63)	—	(63)
HANA Alternative Estate Professional Private122	34,897	45	1,561	(3,035)	—	(3,035)
Hanwha-Incus Plus New Technology Fund No.1	12,900	1	—	(1)	—	(1)
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	127,339	15,732	—	—	—	—
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust	402,633	141,200	10,036	7,256	—	7,256
PSA EMP Private Equity Fund	34,535	285	1	(250)	—	(250)
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24	57,088	728	2,735	2,198	—	2,198
SHBNPP Peace of Mind TDF 2035 Security Investment Trust [Equity Balanced-FoF]	22,926	641	—	—	—	—
SHBNPP Peace of Mind TDF 2040 Security Investment Trust [Equity Balanced-FoF]	23,865	1,329	—	—	—	—
BRAIN DO PROFESSIONALE PRIVATE No. 27	10,305	10	58	(5)	—	(5)
VISION US Muni US Local Debt Opportunities Professional Private1(S)	39,175	80	1,440	1,088	—	1,088

(*) Excluded the associates' financial information that are not subject to recognizing equity method income or loss or financial information is not available.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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15. Investments in associates (continued)

Investees	2020					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BNP Paribas Cardif Life Insurance	₩3,526,148	3,188,562	38,669	(6,555)	(7,052)	(13,607)
Songrim Partners	1,003	1,065	548	—	—	—
Partners 4th Growth Investment Fund	48,678	846	7,231	6,059	—	6,059
KTB Newlake Global Healthcare PEF	31,005	225	598	244	—	244
Daekwang Semiconductor Co., Ltd.	23,682	6,339	3,836	1,163	—	1,163
Shinhan-Neoplux Energy Newbiz Fund	44,615	25	4,221	1,749	—	1,749
Shinhan-Albatross tech investment Fund	27,685	385	982	594	—	594
Eum Private Equity Fund No.3	20	4	13,445	9,875	—	9,875
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	1	1	89	89	—	89
Meritz AI-SingA330-B Investment Type Private Private Placement Special Asset Fund	2	2	363	361	—	361
VOGO Debt Strategy Qualified INV Private	43,540	28	6,361	2,359	—	2,359
Shinhan-Midas Donga Secondary Fund	9,504	—	365	233	—	233
ShinHan – Soo Young Entrepreneur Investment Fund No.1	41,532	—	16,561	16,349	—	16,349
Shinhan Praxis K-Growth Global Private Equity Fund	52,890	183	201	(2,306)	—	(2,306)
Credian Healthcare Private Equity Fund II	17,141	15	25,926	24,638	—	24,638
Kiwoom Milestone Professional Private Real Estate Trust 19	58,393	38,558	2,772	(449)	—	(449)
AIP EURO Green Private Real Estate Trust No.3	98,866	86	6,893	6,231	—	6,231
Hanhwa US Equity Strategy Private Real Estate Fund No.1	5,798	721	32,667	7,180	—	7,180
Shinhan Global Healthcare Fund 1	55	2,104	1,034	(74,736)	—	(74,736)
JB Power TL Investment Type Private Placement Special Asset Fund 7	48,605	45	23,547	2,251	—	2,251
KB NA Hickory Private Special Asset Fund	93,236	69	13,464	4,312	—	4,312
Koramco Europe Core Private Placement Real Estate Fund No.2-2	46,239	3,948	4,920	877	—	877
BNP Paribas Cardif General Insurance	85,278	33,063	23,632	(7,972)	(161)	(8,133)
Hermes Private Investment Equity Fund	20,919	8	11	(948)	—	(948)
Shinhan-Nvestor Liquidity Solution Fund	18,032	—	2,704	2,537	—	2,537
Shinhan AIM FoF Fund 1a	35,060	20	4,378	777	—	777
IGIS Global Credit Fund 150-1	29,153	24	10,076	6,263	—	6,263
Soo Commerce Platform Growth Fund	4,661	3	13,172	13,314	—	13,314

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15. Investments in associates (continued)

Investees	2020					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Partner One Value up I Private Equity Fund	₩ 42,205	—	457	(329)	—	(329)
Genesis No.1 Private Equity Fund	382,353	31,024	158,070	125,312	—	125,312
Korea Omega Project Fund III	15,141	—	2,383	2,323	—	2,323
Soo Delivery Platform Growth Fund	13,563	3	11,300	10,249	—	10,249
Genesis North America Power Company No.1 PEF	48,221	5,727	6,976	6,449	—	6,449
Hyungje art printing	866	1,130	253	—	—	—
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	46,514	1,164	11,240	2,846	—	2,846
Shinhan-Rhinos 1 Fund	11,561	1	2,784	2,554	—	2,554
Pacific Private Investment Trust No.20	13,805	11	974	974	—	974
Susung Mezzanine project P1 Private Investment Trust	3,220	—	3,412	(373)	—	(373)
Korea Finance Security	37,522	17,032	118,906	(1,174)	—	(1,174)
Multimedia Tech Co.Ltd	593	662	555	(158)	—	(158)
MIEL CO.,LTD	474	559	585	(169)	—	(169)
AIP Transportation Specialized Privately Placed Fund Trust #1	92,454	101	17,221	132	—	132
DB Epic Convertiblebond Private Trust No.2	11,382	34	1,169	1,021	—	1,021
E&Healthcare Investment Fund No.6	72,023	—	36,332	33,844	—	33,844
One Shinhan Global Fund1	22,244	—	92	(406)	—	(406)
Kiwoom-Shinhan Innovation Fund I	32,096	158	2,984	2,371	—	2,371
Daishin-K&T New Technology Investment Fund	55,501	33,101	64	(183)	—	(183)
Midas Asset Global CRE Debt Private Fund No.6	115,240	118	7,041	5,153	—	5,153
Richmond Private Investment Trust No.82	49,961	24,879	1,658	1,306	—	1,306
Tiger Alternative Real Estate Professional Private5	38,064	86	7,827	113	—	113
Samchully Midstream Private Placement Special Asset Fund 5-4	67,177	36	8,012	(2,228)	—	(2,228)
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	327,973	56	13,607	12,656	—	12,656
NH-Amundi Global Infrastructure Trust 14	62,729	1	7,216	2,606	—	2,606
Jarvis Memorial Private Investment Trust 1	10,147	4	651	647	—	647

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15. Investments in associates (continued)

Investees	2020					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Mastern Private Private Investment Trust 68	₩ 18,620	—	878	877	—	877
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37	59,422	20	6,374	1,224	—	1,224
Milestone Private Real Estate Fund 3	57,792	2	7,083	6,797	—	6,797
IGIS Private Real Estate Investment Trust 286	74,406	53,065	5,298	696	—	696
Nomura-Rifa Private Real Estate Investment Trust 31	98,291	71,442	7,584	1,356	—	1,356
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	62,682	45	6,511	6,169	—	6,169
Hana Semiconductor New Technology Fund	111,661	12,346	70,303	56,926	—	56,926
J&Magnet Startup Venture Specialized Private Equity Fund	24,381	50	8,291	8,638	—	8,638
Cape IT Fund No.3	32,448	75	4,145	3,837	—	3,837
FuturePlay-Shinhan TechInnovation Fund 1	8,621	31	5	(469)	—	(469)
Stonebridge Corporate 1st Fund	7,342	1	679	584	—	584
Vogo Realty Partners Private Real Estate Fund V	50,139	99	8,137	4,701	—	4,701
Korea Credit Bureau	114,571	37,062	93,275	3,992	—	3,992
Goduck Gangil1 PFV Co., Ltd	334,349	348,276	—	(10,065)	—	(10,065)
SBC PFV Co., Ltd	119,994	7,199	—	(7,169)	—	(7,169)
NH-amundi global infra private fund 16	87,908	230	20,499	(6,215)	—	(6,215)
IMM Global Private Equity Fund	367,570	1,368	17,222	2,995	—	2,995
HANA Alternative Estate Professional Private122	39,449	38	6,836	5,487	—	5,487
Hanwha-Incus Plus New Technology Fund No.1	25,860	—	13,169	12,961	—	12,961
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	198,644	87,218	4,479	3,329	—	3,329
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust	395,815	—	14,737	11,688	—	11,688
PSA EMP Private Equity Fund	33,953	97	8	(393)	—	(393)
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24	57,026	784	13,342	339	—	339

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15. Investments in associates (continued)

Investees	2020					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BRAIN DO PROFESSIONALE						
PRIVATE No. 27	₩ 11,827	12	1,414	1,292	—	1,292
UI Venture Fund 7th	13,466	21	2,044	1,145	—	1,145
Sparklabs-Shinhan Opportunity Fund 1	9,760	—	—	(340)	—	(340)
BNW Tech-Innovation Private Equity Fund	20,119	213	45	(194)	—	(194)
IGIS Real-estate Private Investment Trust No.33	88,319	53,812	1,570	378	—	378
Findvalue PreIPO 6th Professional Investment Type Private Investment Trust	9,505	—	5	5	—	5
WWG Global Real Estate Investment Trust no.4	60,083	12	8,431	2,971	—	2,971
Fidelis Global Private Real Estate Trust No.2	24,901	2	1,902	1,214	—	1,214
IGIS PRIVATE REAL ESTATE TRUST NO.331	57,655	45,417	20	(388)	—	(388)
AIP EURO PRIVATE REAL ESTATE TRUST No. 12	173,538	783	40,882	13,425	—	13,425
Pebblestone CGV Private Real Estate Trust No.1	63,907	36,405	7,451	1,141	—	1,141
Shinhan AIM Real Estate Fund No.2	75,018	138	7,611	(45,741)	—	(45,741)
Shinhan AIM Real Estate Fund No.1	223,471	28	22,855	7,284	—	7,284
SHBNPP Daegu Green Power Cogeneration System Professional Investment Type Private Special Asset Investment Trust [Infra business]	149,686	75	3,342	3,117	—	3,117
SHBNPP Sangju YC Expressway Professional Investment Type Private Special Asset Investment Trust [Infra business]	71,774	169	4,948	(3,773)	—	(3,773)
SHBNPP Global Infrastructure Professional Investment Type Private Special Asset Investment Trust No.7-2	9,380	12	576	(814)	—	(814)
SHBNPP Japan Photovoltaic Private Special Asset Investment Trust No. 1 [Equity securities-Derivative]	61,389	45,239	47,240	(46)	—	(46)
Korea Omega-Shinhan Project Fund I	11,861	—	—	(139)	—	(139)
New Green Shinhan Mezzanine Fund	12,538	1	2,387	2,337	—	2,337
KORAMKO-Daum Professional Private Investment Trust No.12	22,740	157	1,949	1,792	—	1,792

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15. Investments in associates (continued)

Investees	2020					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Samsung SRA Real Estate Professional Private 45[FoFs]	₩ 42,895	230	4,155	(355)	—	(355)
IBK Global New Renewable Energy Special Asset Professional Private2	116,284	4,679	19,514	10,943	—	10,943
VS Cornerstone Fund	8,413	—	2	(87)	—	(87)
Aone Mezzanine Opportunity Professional Private	14,530	40	2,507	2,390	—	2,390
Kiwoom Unicorn3 New Technology Business Investment Fund	20,132	—	6,112	6,031	—	6,031
Multi Asset The United States Thortons Professional Private1	165,775	15	2,111	671	—	671
Kiwoom Milestone US Real Estate Professional Private20	68,591	157	3,508	2,286	—	2,286
NH-Amundi US Infrastructure Private Fund2	99,409	1,248	16,758	3,025	—	3,025
KB Distribution Private Real Estate1	50,013	500	1,174	1,151	—	1,151
SHBNPP Jigae Namsan BTO professional Investment Type Private Special Asset Investment Trust [Infra business]	71,647	54	2,677	2,571	—	2,571
SHBNPP Japan Photovoltaic Private Special Asset Investment Trust No.2 [Loan-Derivative]	97,412	248	5,176	2,993	—	2,993
Kakao-Shinhan 1st TNYT Fund	12,014	331	2	(657)	—	(657)
IMM Special Situation 1-2 PRIVATE EQUITY FUND	54,328	33	4,378	4,344	—	4,344
Pacific Private Placement Real Estate Fund No.40	145,123	98,029	2,554	1,511	—	1,511
Mastern Private Real Estate Loan Fund No.2	17,156	201	98	(143)	—	(143)
LB Scotland Amazon Fulfillment Center Fund 29	44,483	28	1,975	612	—	612
JR AMC Hungary Budapest Office Fund 16	38,581	1,112	2,531	2,531	—	2,531
IGIS 372 Real Estate Professional Private	628,769	428,577	10,221	(4,808)	—	(4,808)
KoFC-Neoplux R&D-Biz Creation 2013-1 Venture Capital Fund	18,460	2,824	1,673	240	—	240
Future-Creation Neoplux Venture Capital Fund	27,271	4,137	7,270	4,300	—	4,300
Gyeonggi-Neoplux Superman Fund	31,898	186	533	(212)	—	(212)
NewWave 6th Fund	20,501	—	2,757	1,528	—	1,528

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15. Investments in associates (continued)

Investees	2020					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Neoplux No.3 Private Equity Fund	₩ 103,712	756	9,114	(7,108)	—	(7,108)
PCC Amberstone Private Equity Fund I	104,930	1,194	12,280	5,501	—	5,501
KIAMCO POWERLOAN TRUST 4TH	92,817	23	815	1,193	—	1,193
Mastern Opportunity Seeking Real Estate Fund II	99,087	93	1,391	1,453	—	1,453
AION ELFIS PROFESSIONAL PRIVATE 1	27,672	30	2,710	2,642	—	2,642
T&F 2020 SS Private Equity Fund Specializing in Start-up and Venture Business	15,074	73	—	(160)	—	(160)
Neoplux Market-Frontier Secondary Fund	56,363	1,636	1,359	(339)	—	(339)
Synergy Green New Deal 1st New Technology Business Investment Fund	35,539	12	39	27	—	27
KAIM Real-estate Private Investment Trust 20	13,254	—	254	254	—	254
KIAMCO Vietnam Solar Special Asset Private Investment Trust	15,902	6	—	(404)	—	(404)
CSQUARE SNIPER PROFESSIONAL PRIVATE 10	5,010	10	10	—	—	—
IGIS GLIP Professional Investment Private Real Estate Investment Trust No. 1-1	45,582	9	—	(9)	—	(9)
IGIS GLIP Professional Investment Private Real Estate Investment Trust No. 1-2	45,582	9	—	(9)	—	(9)
Pacific Sunny Professional Investors Private Placement Real Estate Investment Company No.45	141,811	93,336	1	1,290	—	1,290
IGIS Professional Investors Private Investment Real Estate Investment LLC No.395	116,853	66,459	—	(605)	—	(605)
SHBNPP Green New Deal Energy Professional Investment Type Private Special Asset Investment Trust No.2	70,487	14	194	180	—	180
Kiwoom Private Equity Ant-Man Startup Venture Specialized Private Equity Fund	20,174	40	4,210	4,134	—	4,134
Kiwoom Hero No.4 Private Equity Fund	22,359	1	—	3,358	—	3,358
Vogo Canister Professional Trust Private Fund I	119,968	76	17,022	4,148	—	4,148

(*) Excluded the financial information of associates that are not subject to equity method due to disposal or of which the financial information is not available as of end of the year.

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15. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2019 and 2020 are as follows:

Investees	2019					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
BNP Paribas Cardif Life Insurance	₩ 351,193	14.99	52,665	(79)	—	52,586
Songrim Partners. (*1)	(62)	35.34	(22)	—	22	—
Neoplux Technology Valuation Investment Fund	49,152	33.33	16,384	—	—	16,384
Partners 4th Growth Investment Fund	59,669	25.00	14,917	—	—	14,917
KTB Newlake Global Healthcare PEF (*2)	37,036	30.00	11,110	—	170	11,280
Daekwang Semiconductor Co., Ltd.	16,179	20.94	3,388	—	—	3,388
Shinhan-Neoplux Energy Newbiz Fund	33,773	23.33	7,880	—	—	7,880
Shinhan-Albatross tech investment Fund	17,499	50.00	8,734	—	—	8,734
KCLAVIS Meister Fund No.17	4,593	26.09	1,198	—	—	1,198
Plutus-SG Private Equity Fund	15,868	26.67	4,231	—	—	4,231
Eum Private Equity Fund No.3	17,216	20.76	3,574	—	—	3,574
KTB Confidence Private Placement	19,305	31.43	6,067	—	—	6,067
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	17,820	23.89	4,256	—	—	4,256
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	44,226	20.16	8,916	—	—	8,916
VOGO Debt Strategy Qualified INV Private R/E INV TR 4	49,650	20.00	9,930	—	—	9,930
Shinhan-Midas Donga Secondary Fund	6,972	50.00	3,486	—	—	3,486
ShinHan – Soo Young Entrepreneur Investment Fund No.1	18,954	24.00	4,549	—	—	4,549
Synergy-Shinhan Mezzanine New Technology Investment Fund	8,215	47.62	3,912	—	—	3,912
Shinhan Praxis K-Growth Global Private Equity Fund	54,601	18.87	10,302	—	—	10,302
Credian Healthcare Private Equity Fund II	6,977	34.07	2,377	—	—	2,377
Kiwoom Milestone Professional Private Real Estate Trust 19	20,816	50.00	10,407	—	—	10,407
AIP EURO Green Private Real Estate Trust No.3	98,135	21.28	20,884	—	—	20,884
Hanhwa US Equity Strategy Private Real Estate Fund No.1	57,901	44.84	25,964	—	—	25,964
Shinhan Global Healthcare Fund 1	72,687	4.41	3,209	—	—	3,209
JB Power TL Investment Type Private Placement Special Asset Fund 7	50,402	33.33	16,800	—	—	16,800
IBK AONE convertible 1	12,861	47.25	6,077	—	—	6,077

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15. Investments in associates (continued)

Investees	2019					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Rico synergy collabo Multi-Mezzanine 3	₩ 6,431	50.03	3,217	—	—	3,217
KB NA Hickory Private Special Asset Fund	95,813	37.50	35,930	—	—	35,930
Koramco Europe Core Private Placement Real Estate Fund No.2-2	44,438	44.02	19,562	—	—	19,562
Shinhan-Stonebridge Petro PEF	38	1.82	1	—	—	1
BNP Paribas Cardif General Insurance	21,128	10.00	2,113	—	—	2,113
Axis Global Growth New Technology Investment Association	10,064	31.85	3,205	—	—	3,205
Polaris No7 Start up and Venture Private Equity Fund	8,061	28.57	2,303	—	—	2,303
Hermes Private Investment Equity Fund	21,859	29.17	6,376	—	—	6,376
SHC ULMUS Fund No.1	10,706	29.41	3,149	—	—	3,149
Shinhan-Nvestor Liquidity Solution Fund	19,524	24.92	4,865	—	—	4,865
Shinhan AIM FoF Fund 1a	28,967	25.00	7,242	—	—	7,242
IGIS Global Credit Fund 150-1	38,874	25.00	9,718	—	—	9,718
GX Shinhan Interinvest 1st Private Equity Fund	131,237	25.27	33,166	—	—	33,166
Soo Commerce Platform Growth Fund	25,762	24.62	6,343	—	—	6,343
Partner One Value up I Private Equity Fund	42,602	27.91	11,891	—	—	11,891
Genesis No.1 Private Equity Fund	224,315	22.80	51,150	—	—	51,150
GMB ICT New Technology Investment Fund	29,359	26.75	7,854	—	—	7,854
Korea Omega Project Fund III	12,818	23.53	3,016	—	—	3,016
Soo Delivery Platform Growth Fund	29,740	30.00	8,922	—	—	8,922
Genesis North America Power Company No.1 PEF	45,759	39.92	18,275	—	—	18,275
Hyungje art printing (*1)	(264)	31.54	(83)	—	83	—
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	88,763	23.33	20,712	—	—	20,712
Shinhan-Rhinos 1 Fund	13,474	22.48	3,029	—	—	3,029
Pacific Private Investment Trust No.20	18,749	21.74	4,076	—	—	4,076
Susung Mezzanine project P1 Private Investment Trust	9,672	41.18	5,128	—	—	5,128
Korea Finance Security	21,693	14.91	3,235	—	—	3,235
MIEL CO.,LTD (*1)	(119)	28.77	(34)	—	34	—
AIP Transportation Specialized Privately Placed Fund Trust #1	88,395	35.73	31,580	—	—	31,580
Lime Neptune Professional Private 6	10,125	50.00	5,063	—	—	5,063

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Investees	2019					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
PCC S/W 2nd Fund	₩ 10,154	29.56	3,001	—	—	3,001
E&Healthcare Investment Fund No.6	38,179	20.37	7,776	—	—	7,776
One Shinhan Global Fund 1	22,244	19.98	4,441	—	—	4,441
Kiwoom-Shinhan Innovation Fund I	14,568	50.00	7,284	—	—	7,284
Daishin-K&T New Technology Investment Fund	22,583	31.25	7,057	—	—	7,057
Midas Asset Global CRE Debt Private Fund No.6	118,368	20.05	23,731	—	—	23,731
Richmond Private Investment Trust No.82	25,200	60.00	15,120	—	—	15,120
Tiger Alternative Real Estate Professional Private5	40,689	48.71	19,820	—	—	19,820
Samchully Midstream Private Placement Special Asset Fund 5-4	71,625	42.92	30,742	—	—	30,742
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	269,155	20.00	53,831	—	—	53,831
AUCTUS FITRIN Corporate Recovery Private Equity Fund	67,004	21.43	14,358	—	—	14,358
NH-Amundi Global Infrastructure Trust 14	61,657	30.00	18,497	—	—	18,497
Pacific Private Real Estate Fund Investment Trust No.30	39,509	37.50	14,816	—	—	14,816
Jarvis Memorial Private Investment Trust 1	10,267	99.01	10,166	—	—	10,166
Mastern Private Private Investment Trust 68	18,598	53.76	9,999	—	—	9,999
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37	7,329	60.00	4,397	—	—	4,397
Milestone Private Real Estate Fund 3 (Derivative Type)	53,608	32.06	17,186	—	—	17,186
IGIS Private Real Estate Investment Trust 286 (2 class)	23,502	41.56	9,768	—	—	9,768
Nomura-Rifa Private Real Estate Investment Trust 31 (2 class)	28,469	31.31	8,914	—	—	8,914
Lime Pricing Private Equity Fund	32,113	25.85	8,300	—	—	8,300
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	197,417	21.27	41,991	—	—	41,991
DS Solid.II Hedge Fund	15,042	27.41	4,123	—	—	4,123
Hana Semiconductor New Technology Fund	52,905	24.30	12,856	—	—	12,856

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15. Investments in associates (continued)

Investees	2019					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
J&Magnet Startup Venture Specialized Private Equity Fund	₩ 24,513	24.39	5,979	—	—	5,979
Cape IT Fund No.3	30,298	32.89	9,967	—	—	9,967
Vogo Realty Partners Private Real Estate Fund V	47,958	21.64	10,376	—	—	10,376
IL GU FARM CO.,LTD (*1)	(316)	28.47	(90)	—	90	—
Korea Credit Bureau	75,689	9.00	6,812	—	—	6,812
SBC PFV Co., Ltd	80,000	25.00	20,000	—	—	20,000
Sprott Global Renewable Private Equity Fund II	82,718	23.10	19,016	—	—	19,016
NH-amundi global infra private fund 16	96,316	50.00	48,158	—	—	48,158
IMM Global Private Equity Fund	90,807	31.85	28,925	—	—	28,925
HANA Alternative Estate Professional Private122	34,853	75.19	26,205	—	—	26,205
Hanwha-Incus Plus New Technology Fund No.1	12,899	42.64	5,499	—	—	5,499
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	111,607	45.96	51,293	—	—	51,293
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust	261,433	57.50	150,317	—	—	150,317
PSA EMP Private Equity Fund	34,250	28.99	9,927	—	—	9,927
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24	56,360	52.28	29,463	—	—	29,463
SHBNPP Peace of Mind TDF 2035 Security Investment Trust [Equity Balanced-FoF]	22,285	25.70	5,727	—	—	5,727
SHBNPP Peace of Mind TDF 2040 Security Investment Trust [Equity Balanced-FoF]	22,536	25.42	5,729	—	—	5,729
BRAIN DO PROFESSIONALE PRIVATE No. 27	10,295	29.13	3,065	—	—	3,065
VISION US Muni US Local Debt Opportunities Professional Private1(S)	39,095	25.00	9,869	—	—	9,869
Other	337,794	—	85,931	—	—	85,931
	<u>₩4,951,196</u>		<u>1,452,541</u>	<u>(79)</u>	<u>399</u>	<u>1,452,861</u>

(*1) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.

(*2) Other represents the adjustments of fair value when acquired.

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Investees	2020					Carrying Value
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	
BNP Paribas Cardif Life Insurance	₩337,586	14.99	50,632	(32)	—	50,600
Songrim Partners (*1)	(62)	35.34	(22)	—	22	—
Partners 4th Growth Investment Fund	47,832	25.00	11,958	—	—	11,958
KTB Newlake Global Healthcare PEF (*2)	30,780	30.00	9,234	—	170	9,404
Daekwang Semiconductor Co., Ltd.	17,343	20.94	3,631	—	—	3,631
Shinhan-Neoplux Energy Newbiz Fund	44,590	31.66	14,470	—	—	14,470
Shinhan-Albatross tech investment Fund	27,300	49.97	13,322	—	—	13,322
Eum Private Equity Fund No.3	16	20.76	3	—	—	3
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	—	23.89	—	—	—	—
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	—	20.16	—	—	—	—
VOGO Debt Strategy Qualified INV Private	43,512	20.00	8,702	—	—	8,702
Shinhan-Midas Donga Secondary Fund	9,504	50.00	4,752	—	—	4,752
ShinHan – Soo Young Entrepreneur Investment Fund No.1	41,532	24.00	9,968	—	—	9,968
Shinhan Praxis K-Growth Global Private Equity Fund	52,707	18.87	9,945	—	—	9,945
Credian Healthcare Private Equity Fund II	17,126	34.07	5,835	—	—	5,835
Kiwoom Milestone Professional Private Real Estate Trust 19	19,835	50.00	9,918	—	—	9,918
AIP EURO Green Private Real Estate Trust No.3	98,780	21.28	21,021	—	—	21,021
Hanhwa US Equity Strategy Private Real Estate Fund No.1	5,077	44.84	2,277	—	—	2,277
Shinhan Global Healthcare Fund 1	(2,049)	4.41	(90)	—	90	—
JB Power TL Investment Type Private Placement Special Asset Fund 7	48,560	33.33	16,186	—	—	16,186
KB NA Hickory Private Special Asset Fund	93,167	37.50	34,938	—	—	34,938
Koramco Europe Core Private Placement Real Estate Fund No.2-2	42,291	44.02	18,618	—	—	18,618
BNP Paribas Cardif General Insurance	52,215	7.46	3,895	—	—	3,895
Hermes Private Investment Equity Fund	20,911	29.17	6,099	—	—	6,099
Shinhan-Nvestor Liquidity Solution Fund	18,032	24.92	4,493	—	—	4,493
Shinhan AIM FoF Fund 1a	35,040	25.00	8,760	—	—	8,760
IGIS Global Credit Fund 150-1	29,129	25.00	7,282	—	—	7,282
Soo Commerce Platform Growth Fund	4,658	24.62	1,147	—	—	1,147
Partner One Value up I Private Equity Fund	42,205	27.91	11,779	—	—	11,779
Genesis No.1 Private Equity Fund	351,329	22.80	80,113	—	—	80,113
Korea Omega Project Fund III	15,141	23.53	3,563	—	—	3,563
Soo Delivery Platform Growth Fund	13,560	30.00	4,068	—	—	4,068

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Investees	2020					Carrying Value
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	
Genesis North America Power Company No.1 PEF	₩ 42,494	39.96	16,983	—	—	16,983
Hyungje art printing (*1)	(264)	31.54	(83)	—	83	—
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	45,350	23.33	10,582	—	—	10,582
Shinhan-Rhinos 1 Fund	11,560	22.48	2,599	—	—	2,599
Pacific Private Investment Trust No.20	13,794	21.74	2,999	—	—	2,999
Susung Mezzanine project P1 Private Investment Trust	3,220	41.31	1,345	—	—	1,345
Korea Finance Security	20,490	14.91	3,055	—	—	3,055
Multimedia Tech Co.Ltd. (*1)	(69)	21.06	(15)	—	15	—
MIEL CO.,LTD (*1)	(85)	28.77	(25)	—	25	—
AIP Transportation Specialized Privately Placed Fund Trust #1	92,353	35.73	32,993	—	—	32,993
DB Epic Convertiblebond Private Trust No.2	11,348	50.98	5,785	—	—	5,785
E&Healthcare Investment Fund No.6	72,023	21.05	15,163	—	—	15,163
One Shinhan Global Fund1	22,244	19.96	4,029	—	—	4,029
Kiwoom-Shinhan Innovation Fund I	31,938	50.00	15,969	—	—	15,969
Daishin-K&T New Technology Investment Fund	22,400	31.25	7,000	—	—	7,000
Midas Asset Global CRE Debt Private Fund No.6	115,122	41.16	47,389	—	—	47,389
Richmond Private Investment Trust No.82	25,082	60.00	15,049	—	—	15,049
Tiger Alternative Real Estate Professional Private5	37,978	48.71	18,499	—	—	18,499
Samchully Midstream Private Placement Special Asset Fund 5-4	67,141	42.92	28,818	—	—	28,818
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	327,917	20.00	65,616	—	—	65,616
NH-Amundi Global Infrastructure Trust 14	62,728	30.00	18,819	—	—	18,819
Jarvis Memorial Private Investment Trust 1	10,143	99.01	10,043	—	—	10,043
Mastern Private Private Investment Trust 68	18,620	53.76	10,010	—	—	10,010
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37	59,402	60.00	35,641	—	—	35,641
Milestone Private Real Estate Fund 3	57,790	32.06	18,528	—	—	18,528
IGIS Private Real Estate Investment Trust 286	21,341	41.44	8,844	—	—	8,844
Nomura-Rifa Private Real Estate Investment Trust 31	26,849	31.31	8,407	—	—	8,407
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	62,637	21.27	13,323	—	—	13,323

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Investees	2020					Carrying Value
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	
Hana Semiconductor New Technology Fund	₩ 99,315	24.30	24,131	—	—	24,131
J&Magnet Startup Venture Specialized Private Equity Fund	24,331	24.39	5,935	—	—	5,935
Cape IT Fund No.3	32,373	32.89	10,649	—	—	10,649
FuturePlay-Shinhan TechInnovation Fund 1	8,590	50.00	4,295	—	—	4,295
Stonebridge Corporate 1st Fund	7,341	44.12	3,239	—	—	3,239
Vogo Realty Partners Private Real Estate Fund V	50,040	21.64	10,827	—	—	10,827
Korea Credit Bureau	77,509	9.00	6,976	—	—	6,976
Goduck Gangill PFV Co., Ltd (*1)	(13,927)	1.04	(145)	—	145	—
SBC PFV Co., Ltd	112,795	25.00	18,208	—	—	18,208
NH-amundi global infra private fund 16	87,678	50.00	43,839	—	—	43,839
IMM Global Private Equity Fund	366,202	33.00	120,855	—	—	120,855
HANA Alternative Estate Professional Private122	39,411	75.19	29,631	—	—	29,631
Hanwha-Incus Plus New Technology Fund No.1	25,860	42.64	11,026	—	—	11,026
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	111,426	45.96	51,210	—	—	51,210
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust	395,815	72.39	286,531	—	—	286,531
PSA EMP Private Equity Fund	33,856	28.99	9,814	—	—	9,814
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24	56,242	52.28	29,401	—	—	29,401
BRAIN DO PROFESSIONALE PRIVATE No. 27	11,815	29.13	3,441	—	—	3,441
UI Venture Fund 7th	13,445	24.39	3,279	—	—	3,279
Sparklabs-Shinhan Opportunity Fund 1	9,760	49.50	4,832	—	—	4,832
BNW Tech-Innovation Private Equity Fund	19,906	29.85	5,942	—	—	5,942
IGIS Real-estate Private Investment Trust No.33	34,507	40.86	14,099	—	—	14,099
Findvalue PreIPO 6th Professional Investment Type Private Investment Trust.	9,505	31.58	3,002	—	—	3,002
WWG Global Real Estate Investment Trust no.4	60,071	29.55	17,752	—	—	17,752
Fidelis Global Private Real Estate Trust No.2	24,899	78.26	19,485	—	—	19,485
IGIS PRIVATE REAL ESTATE TRUST NO.331	12,238	30.77	3,765	—	—	3,765
AIP EURO PRIVATE REAL ESTATE TRUST No. 12	172,755	28.70	48,344	—	—	48,344

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Investees	2020					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Pebblestone CGV Private Real Estate Trust No.1	₩ 27,502	48.53	13,346	—	—	13,346
Shinhan AIM Real Estate Fund No.2	74,880	30.00	22,464	—	—	22,464
Shinhan AIM Real Estate Fund No.1	223,443	21.01	46,945	—	—	46,945
SHBNPP Daegu Green Power Cogeneration System Professional Investment Type Private Special Asset Investment Trust [Infra business]	149,611	22.02	32,944	—	—	32,944
SHBNPP Sangju YC Expressway Professional Investment Type Private Special Asset Investment Trust [Infra business]	71,605	29.19	20,902	—	—	20,902
SHBNPP Global Infrastructure Professional Investment Type Private Special Asset Investment Trust No.7-2	9,368	71.43	6,692	—	—	6,692
SHBNPP Japan Photovoltaic Private Special Asset Investment Trust No. 1 [Equity securities-Derivative]	16,150	30.00	4,845	—	—	4,845
Korea Omega-Shinhan Project Fund I	11,861	50.00	5,931	—	—	5,931
New Green Shinhan Mezzanine Fund	12,537	39.22	4,916	—	—	4,916
KORAMKO-Daum Professional Private Investment Trust No.12	22,583	33.33	7,528	—	—	7,528
Samsung SRA Real Estate Professional Private 45[FoFs]	42,665	25.00	10,666	—	—	10,666
IBK Global New Renewable Energy Special Asset Professional Private2	111,605	28.98	32,349	—	—	32,349
VS Cornerstone Fund	8,413	41.18	3,464	—	—	3,464
Aone Mezzanine Opportunity Professional Private	14,490	66.12	9,580	—	—	9,580
Kiwoom Unicorn3 New Technology Business Investment Fund	20,132	21.28	4,283	—	—	4,283
Multi Asset The United States Thortons Professional Private1 (*2)	165,760	25.00	41,440	—	—	41,440
Kiwoom Milestone US Real Estate Professional Private20	68,434	75.27	51,512	—	—	51,512
NH-Amundi US Infrastructure Private Fund2 (*2)	98,161	25.91	25,430	—	—	25,430
KB Distribution Private Real Estate1 (*2)	49,513	62.00	30,698	—	—	30,698
SHBNPP Jigae Namsan BTO professional Investment Type Private Special Asset Investment Trust [Infra business] (*2)	71,593	28.93	20,712	—	—	20,712

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Investees	2020					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
SHBNPP Japan Photovoltaic Private Special Asset Investment Trust No.2 [Loan- Derivative] (*2)	₩ 97,164	30.00	29,149	—	—	29,149
Kakao-Shinhan 1st TNYT Fund	11,683	48.62	5,681	—	—	5,681
IMM Special Situation 1-2 PRIVATE EQUITY FUND	54,295	20.02	10,870	—	—	10,870
Pacific Private Placement Real Estate Fund No.40	47,094	24.73	11,647	—	—	11,647
Mastern Private Real Estate Loan Fund No.2	16,955	33.57	5,692	—	—	5,692
LB Scotland Amazon Fulfillment Center Fund 29	44,455	70.14	31,182	—	—	31,182
JR AMC Hungary Budapest Office Fund 16	37,469	32.57	12,204	—	—	12,204
IGIS 372 Real Estate Professional Private	200,192	28.39	56,835	—	—	56,835
KoFC-Neoplux R&D-Biz Creation 2013-1 Venture Capital Fund	15,636	19.00	3,830	—	—	3,830
Future-Creation Neoplux Venture Capital Fund	23,134	16.25	3,796	—	—	3,796
Gyeonggi-Neoplux Superman Fund	31,712	21.76	6,399	—	—	6,399
NewWave 6th Fund	20,501	30.00	6,150	—	—	6,150
Neoplux No.3 Private Equity Fund	102,956	10.00	10,295	—	—	10,295
PCC Amberstone Private Equity Fund I	103,736	21.67	22,480	—	—	22,480
KIAMCO POWERLOAN TRUST 4TH	92,794	47.37	43,955	—	—	43,955
Mastern Opportunity Seeking Real Estate Fund II	98,994	20.00	19,799	—	—	19,799
AION ELFIS PROFESSIONAL PRIVATE 1	27,642	20.00	5,528	—	—	5,528
T&F 2020 SS Private Equity Fund Specializing in Start-up and Venture Business	15,001	29.68	4,453	—	—	4,453
Neoplux Market-Frontier Secondary Fund	54,727	19.74	11,545	—	—	11,545
Synergy Green New Deal 1st New Technology Business Investment Fund	35,527	28.17	10,008	—	—	10,008
KAIM Real-estate Private Investment Trust 20	13,254	38.46	5,098	—	—	5,098
KIAMCO Vietnam Solar Special Asset Private Investment Trust	15,896	50.00	7,948	—	—	7,948
CSQUARE SNIPER PROFESSIONAL PRIVATE 10	5,000	62.50	3,125	—	—	3,125
IGIS GLIP Professional Investment Private Real Estate Investment Trust No. 1-1	45,573	97.85	44,594	—	—	44,594
IGIS GLIP Professional Investment Private Real Estate Investment Trust No. 1-2	45,573	97.85	44,594	—	—	44,594
Pacific Sunny Professional Investors Private Placement Real Estate Investment Company No.45	48,475	25.00	15,855	—	—	15,855

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15. Investments in associates (continued)

Investees	2020					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
IGIS Professional Investors Private Investment Real Estate Investment LLC No.395	₩ 50,394	58.82	29,644	—	—	29,644
SHBNPP Green New Deal Energy Professional Investment Type Private Special Asset Investment Trust No.2	70,473	30.00	21,142	—	—	21,142
Kiwoom Private Equity Ant-Man Startup Venture Specialized Private Equity Fund	20,134	25.00	5,034	—	—	5,034
Kiwoom Hero No.4 Private Equity Fund	22,358	21.05	4,707	—	—	4,707
Vogo Canister Professional Trust Private Fund I	119,892	36.68	43,975	—	—	43,975
Others	519,091		139,164	—	—	139,164
	<u>₩8,101,037</u>		<u>2,657,250</u>	<u>(32)</u>	<u>550</u>	<u>2,657,768</u>

(*1) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.

(*2) Other represents the adjustments of fair value when acquired.

(e) The unrecognized equity method losses as of and for the years ended December 31, 2019 and 2020 are as follows:

Investees	2019	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Songrim Partners.	₩ (14)	(22)
Hyungje art printing	(45)	(83)
MIEL CO.,LTD	(34)	(34)
IL GU FARM CO.,LTD	(90)	(90)
	<u>₩(183)</u>	<u>(229)</u>

Investees	2020	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Songrim Partners.	₩ —	(22)
Multimedia Tech Co.Ltd	(15)	(15)
Hyungje art printing	(83)	(83)
MIEL CO.,LTD	(25)	(25)
Goduck Gangil1 PFV Co., Ltd	(145)	(145)
	<u>₩(268)</u>	<u>(290)</u>

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16. Investment properties

(a) Investment properties as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Acquisition cost	₩ 605,773	767,118
Accumulated depreciation	(117,163)	(151,883)
Carrying value	<u>₩ 488,610</u>	<u>615,235</u>

(b) Changes in investment properties for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Beginning balance	₩474,820	488,610
Acquisition	2,767	244,100
Disposal	(73,588)	(92,337)
Depreciation	(17,565)	(20,165)
Amounts transferred from (to) property and equipment	104,573	(4,064)
Amounts transferred to assets held for sale (*)	(15,795)	(910)
Foreign currency adjustment	(169)	1
Business combination (Note 47)	13,567	—
Ending balance	<u>₩488,610</u>	<u>615,235</u>

(*) Comprise land and buildings, etc.

(c) Income and expenses on investment property for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Rental income	₩32,488	43,777	23,890
Direct operating expenses for investment properties that generated rental income	12,191	12,107	11,951

(d) The fair value of investment property as of December 31, 2019 and 2020 is as follows:

	<u>2019</u>	<u>2020</u>
Land and buildings (*)	₩1,062,195	1,254,149

(*) Fair value of investment properties is estimated based in the recent market transaction conditions with an independent third party and certain significant unobservable inputs. Accordingly, fair value of investment properties is classified as level 3.

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17. Other assets

(a) Other assets as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Accounts receivable	₩9,355,388	12,511,880
Domestic exchange settlement debit	4,337,628	4,055,744
Guarantee deposits	1,184,572	1,145,045
Present value discount on guarantee deposits	(45,316)	(33,062)
Accrued income	2,612,823	2,535,847
Prepaid expense	193,849	202,218
Provisional payments	71,764	183,935
Sundry assets	93,766	106,341
Separate account assets	8,253,351	9,267,722
Advance payments	317,365	203,023
Unamortized deferred acquisition cost	907,868	979,942
Others	661,998	1,118,926
Allowances for credit loss of other assets	(66,775)	(82,895)
	<u>₩27,878,281</u>	<u>32,194,666</u>

(b) Changes in unamortized deferred acquisition cost by insurance type for the year ended December 31, 2020 are as follows:

	<u>2020</u>					<u>Ending balance</u>
	<u>Beginning balance</u>	<u>Acquisition cost incurred</u>			<u>Amortization</u>	
		<u>Cost</u>	<u>Expensed</u>	<u>Deferral</u>		
Individual insurance						
Pure endowment insurance	₩ 67,856	11,602	(6,450)	5,152	(35,504)	37,504
Death insurance	834,415	771,973	(298,355)	473,618	(375,111)	932,922
Endowment insurance	4,764	19,024	(11,001)	8,023	(3,862)	8,925
	<u>907,035</u>	<u>802,599</u>	<u>(315,806)</u>	<u>486,793</u>	<u>(414,477)</u>	<u>979,351</u>
Group insurance						
Pure protection	833	343	(164)	179	(421)	591
	<u>₩907,868</u>	<u>802,942</u>	<u>(315,970)</u>	<u>486,972</u>	<u>(414,898)</u>	<u>979,942</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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18. Leases

- (a) Gross investment and present value of minimum lease payment of finance lease as of December 31, 2019 and 2020, are as follows:

	2019		
	Gross investment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩ 529,326	94,809	434,517
1 ~ 2 years	443,708	63,226	380,482
2 ~ 3 years	469,754	37,725	432,029
3 ~ 4 years	289,798	16,773	273,025
4 ~ 5 years	150,811	4,225	146,586
Later than 5 years	16,782	44	16,738
	<u>₩1,900,179</u>	<u>216,802</u>	<u>1,683,377</u>

- (*) Interest income on finance lease receivables recognized for the year ended December 31, 2019 is ₩74,933 million.

	2020		
	Gross investment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩ 678,790	73,230	605,560
1 ~ 2 years	527,757	43,701	484,056
2 ~ 3 years	391,447	21,169	370,278
3 ~ 4 years	219,040	6,089	212,951
4 ~ 5 years	93,975	432	93,543
Later than 5 years	6,320	53	6,267
	<u>₩1,917,329</u>	<u>144,674</u>	<u>1,772,655</u>

- (*) Interest income on finance lease receivables recognized for the year ended December 31, 2020 is ₩76,742 million.

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18. Leases (continued)

(b) Minimum lease payment receivable schedule for lease contracts of the Group as lessor as of December 31, 2019 and 2020 are as follows:

i) Finance lease

	2019		
	Minimum lease payment	Present value adjustment	Present value of minimum lease payment
Not later than 1 year	₩ 529,326	94,809	434,517
1 ~ 2 years	443,708	63,226	380,482
2 ~ 3 years	469,754	37,725	432,029
3 ~ 4 years	289,798	16,773	273,025
4 ~ 5 years	150,811	4,225	146,586
Later than 5 years	16,782	44	16,738
	<u>₩1,900,179</u>	<u>216,802</u>	<u>1,683,377</u>

	2020		
	Minimum lease payment	Present value adjustment	Present value of minimum lease payment
Not later than 1 year	₩ 678,790	73,230	605,560
1 ~ 2 years	527,757	43,701	484,056
2 ~ 3 years	391,447	21,169	370,278
3 ~ 4 years	219,040	6,089	212,951
4 ~ 5 years	93,975	432	93,543
Later than 5 years	6,320	53	6,267
	<u>₩1,917,329</u>	<u>144,674</u>	<u>1,772,655</u>

ii) Operating lease

	Minimum lease payment	
	2019	2020
Not later than 1 year	₩142,140	276,590
1 ~ 2 years	118,781	233,443
2 ~ 3 years	76,379	182,261
3 ~ 4 years	37,047	124,556
4 ~ 5 years	14,984	52,997
Later than 5 years	83	95,414
	<u>₩389,414</u>	<u>965,261</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

18. Leases (continued)

(c) Changes in operating lease assets for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Beginning balance	₩ 370,868	549,741
Acquisition	411,971	681,607
Disposal	(134,810)	(54,042)
Depreciation	(98,288)	(163,006)
Ending balance	<u>₩ 549,741</u>	<u>1,014,300</u>

(d) The details of the right-of-use assets by the lessee's underlying asset type as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>		
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Carrying value</u>
Real estate	₩1,306,759	(228,956)	1,077,803
Vehicle	30,051	(8,057)	21,994
Others	20,396	(7,397)	12,999
	<u>₩1,357,206</u>	<u>(244,410)</u>	<u>1,112,796</u>

	<u>2020</u>		
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Carrying value</u>
Real estate	₩953,135	(396,716)	556,419
Vehicle	36,680	(16,059)	20,621
Others	26,368	(12,991)	13,377
	<u>₩1,016,183</u>	<u>(425,766)</u>	<u>590,417</u>

(e) The details of the changes in the right-of-use assets for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>			
	<u>Real estate</u>	<u>Vehicle</u>	<u>Others</u>	<u>Total</u>
Beginning balance	₩ 554,478	16,528	12,570	583,576
Acquisition	781,097	16,523	8,163	805,783
Disposal	(10,808)	(1,638)	(149)	(12,595)
Depreciation	(280,691)	(10,094)	(7,753)	(298,538)
Effects of foreign currency movements	2,890	91	—	2,981
Business combination	30,837	584	168	31,589
Ending balance	<u>₩1,077,803</u>	<u>21,994</u>	<u>12,999</u>	<u>1,112,796</u>

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18. Leases (continued)

	2020			
	Real estate	Vehicle	Others	Total
Beginning balance	₩1,077,803	21,994	12,999	1,112,796
Acquisition	286,981	12,556	6,421	305,958
Disposal	(21,763)	(2,394)	(16)	(24,173)
Depreciation	(268,376)	(11,625)	(6,027)	(286,028)
Substitution	(513,437)	—	—	(513,437)
Effects of foreign currency movements	(5,375)	(5)	—	(5,380)
Business combination (Note 47)	586	95	—	681
Ending balance	<u>₩ 556,419</u>	<u>20,621</u>	<u>13,377</u>	<u>590,417</u>

(f) The details of the maturity of the lease liability as of December 31, 2019 and 2020 are as follows:

	2019						Total
	1 month or less	1 month ~ 3 months or less	3 months ~ 6 months or less	6 months ~ 1 year or less	1 year ~ 5 years or less	More than 5 years	
Real estate	₩20,967	34,357	47,644	86,228	848,699	28,973	1,066,868
Vehicle	1,378	1,542	2,178	4,108	14,410	—	23,616
Others	959	994	1,288	2,057	8,477	—	13,775
	<u>₩23,304</u>	<u>36,893</u>	<u>51,110</u>	<u>92,393</u>	<u>871,586</u>	<u>28,973</u>	<u>1,104,259</u>

(*) The above amounts are based on undiscounted cash flows, and have been classified at the earliest maturity that the Group has the obligation to pay.

	2020						Total
	1 month or less	1 month ~ 3 months or less	3 months ~ 6 months or less	6 months ~ 1 year or less	1 year ~ 5 years or less	More than 5 years	
Real estate	₩22,560	36,746	49,746	90,057	287,932	69,083	556,124
Vehicle	3,404	1,840	2,490	4,765	11,632	—	24,131
Others	520	806	1,203	2,031	9,345	1	13,906
	<u>₩26,484</u>	<u>39,392</u>	<u>53,439</u>	<u>96,853</u>	<u>308,909</u>	<u>69,084</u>	<u>594,161</u>

(g) The lease payments for low-value assets and short-term leases for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Low-value assets	₩5,045	6,181
Short-term lease (*)	907	836
Total	<u>₩5,952</u>	<u>7,017</u>

(*) The payments for leases with terms less than 1 month are included.

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19. Pledged assets

(a) Assets pledged as collateral as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>	<u>Reasons for collateral</u>
Loans at amortized cost	₩ 128,163	—	Borrowings
Securities:			
Securities at FVTPL	15,016,057	15,328,573	Customer RP
Securities at FVOCI	2,387,555	4,058,033	Borrowings, Settlement security for Bank of Korea, Borrowing securities, etc
Securities at amortized cost	12,791,744	14,516,567	Borrowings, Settlement security for Bank of Korea, Customer RP, etc
	<u>30,195,356</u>	<u>33,903,173</u>	
Deposits at amortized cost	1,090,161	784,626	Borrowings
Property and Equipment (real estate)	121,446	301,098	Set for near mortgage, etc
Other financial assets	404	355	Performance guarantee, etc
	<u>₩31,535,530</u>	<u>34,989,252</u>	

(*) The carrying amounts of assets pledged that the pledgees have the right to sell or re-pledge regardless of the Group's default as of December 31, 2019 and 2020 are ₩9,696,487 million and ₩11,190,218 million, respectively.

(b) The fair value of collateral held that the Group has the right to sell or re-pledge regardless of the pledger's default as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>		<u>The fair value of collateral sold or re-provided as collateral</u>
	<u>Collateral held</u>		
	<u>Assets pledged as collateral</u>	<u>Assets received as collateral</u>	
Securities	₩9,240,573	2,007,036	—
	<u>2020</u>		<u>The fair value of collateral sold or re-provided as collateral</u>
	<u>Collateral held</u>		
	<u>Assets pledged as collateral</u>	<u>Assets received as collateral</u>	
Securities	₩10,487,095	2,871,910	—

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20. Deposits

Deposits as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Demand deposits:		
Korean won	₩103,048,895	132,444,929
Foreign currencies	13,233,812	16,280,268
	<u>116,282,707</u>	<u>148,725,197</u>
Time deposits:		
Korean won	139,824,896	137,719,464
Foreign currencies	18,602,551	20,114,427
	<u>158,427,447</u>	<u>157,833,891</u>
Certificates of deposits	9,707,791	5,946,704
Discount note deposits	4,579,587	6,226,937
CMA	3,987,372	4,006,319
Others	1,889,352	3,677,820
	<u>₩294,874,256</u>	<u>326,416,868</u>

21. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Securities sold:		
Stocks	₩ 298,008	387,857
Bonds	825,942	503,920
Others	40,747	5,352
	<u>1,164,697</u>	<u>897,129</u>
Gold/silver deposits	467,760	539,565
	<u>₩1,632,457</u>	<u>1,436,694</u>

22. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>	<u>Reason for designation</u>
Equity-linked securities sold	₩6,880,811	6,556,288	Combined instrument
Securities sold with embedded derivatives	2,528,645	1,899,436	
	<u>₩9,409,456</u>	<u>8,455,724</u>	

(*) The Group designated the financial liabilities at the initial recognition(or subsequently) in accordance with paragraph 6.7.1 of IFRS 9 as financial liabilities at fair value through profit or loss.

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22. Financial liabilities designated at fair value through profit or loss (continued)

Maximum credit risk exposure of the financial liabilities designated at fair value through profit or loss amounts to ₩8,455,724 million as of December 31, 2020. Decrease in values of the liability due to credit risk changes is ₩9,689 million for the year ended December 31, 2020 and the accumulated changes in values are ₩(-)7,133 million as of December 31, 2020.

23. Borrowings

Borrowings as of December 31, 2019 and 2020 are as follows:

	2019		2020	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Borrowings denominated in Korean won:				
Borrowings from Bank of Korea	0.50~0.75	₩ 2,429,346	0.25	₩ 5,351,110
Others	0.00~6.00	14,202,096	0.00~6.20	16,375,272
		<u>16,631,442</u>		<u>21,726,382</u>
Borrowings denominated in foreign currencies:				
Overdraft due from banks	0.00	86,791	0.00	71,309
Borrowings from banks	0.11~7.50	6,576,849	0.00~8.00	5,423,571
Others	1.94~13.65	1,748,031	0.00~12.45	1,538,021
		<u>8,411,671</u>		<u>7,032,901</u>
Call money	0.00~ 5.25	712,247	0.35~ 0.55	1,760,042
Bill of sale	0.80~ 1.60	19,070	0.00~ 1.10	10,706
Bonds sold under repurchase agreements:	0.95~ 5.40	9,089,736	0.00~ 5.15	11,065,584
Deferred origination costs		(1,010)		(1,551)
		<u>₩34,863,156</u>		<u>₩41,594,064</u>

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24. Debt securities issued

Debt securities issued as of December 31, 2019 and 2020 are as follows:

	2019		2020	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Debt securities issued in Korean won:				
Debt securities issued	0.71~8.00	₩60,501,093	0.67~8.00	₩ 59,816,756
Subordinated debt securities issued	2.20~4.60	4,370,145	2.20~4.60	4,370,125
Gain on fair value hedges	—	(87,692)	—	(63,652)
Discount on debt securities issued	—	(66,334)	—	(39,309)
		<u>64,717,212</u>		<u>64,083,920</u>
Debt securities issued in foreign currencies:				
Debt securities issued	0.01~7.59	6,750,085	0.25~7.59	7,182,619
Subordinated debt securities issued	3.34~5.10	3,797,536	3.34~5.10	3,598,624
Loss on fair value hedges	—	141,264	—	309,880
Discount on debt securities issued	—	(42,733)	—	(40,649)
		<u>10,646,152</u>		<u>11,050,474</u>
		<u>₩75,363,364</u>		<u>₩ 75,134,394</u>

25. Defined benefit assets

(a) Defined benefit obligations and plan assets

The Group has operated a defined benefit plan and calculates defined benefit obligations based on the employee's pension compensation benefits and service period.

Defined benefit obligations and plan assets as of December 31, 2019 and 2020 are as follows:

	2019	2020
Present value of defined benefit obligations	₩ 2,063,102	2,182,464
Fair value of plan assets	<u>(1,943,644)</u>	<u>(2,138,324)</u>
Recognized liabilities for defined benefit obligations (*)	<u>₩ 119,458</u>	<u>44,140</u>

(*) The net defined benefit obligation of ₩119,458 million as of December 31, 2019 is the net defined benefit liability of ₩121,140 million less the net plan assets of ₩1,682 million. In addition, the net defined benefit obligation of ₩44,140 million as of December 31, 2020 is the net defined benefit liability of ₩62,514 million less the net plan assets of ₩18,374 million.

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25. Defined benefit assets (continued)

- (b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2019 and 2020 are as follows:

	2019		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩1,841,982	(1,714,634)	127,348
Included in profit or loss:			
Current service cost	172,490	—	172,490
Past service cost	(1,588)	—	(1,588)
Interest expense (income)	57,253	(54,336)	2,917
Settlement expense (income)	(29)	—	(29)
	<u>228,126</u>	<u>(54,336)</u>	<u>173,790</u>
Included in other comprehensive income:			
Remeasurement loss (gain):			
- Actuarial gains (losses) arising from :			
Demographic assumptions	(7,584)	—	(7,584)
Financial assumptions	53,475	—	53,475
Experience adjustment	8,001	—	8,001
- Return on plan assets excluding interest income	—	21,719	21,719
	<u>53,892</u>	<u>21,719</u>	<u>75,611</u>
Other:			
Benefits paid by the plan	(87,066)	80,063	(7,003)
Contributions paid into the plan	—	(252,858)	(252,858)
Settlement loss	216	—	216
Business combination (Note 47)	25,965	(23,598)	2,367
Effect of movements in exchange rates	(13)	—	(13)
	<u>(60,898)</u>	<u>(196,393)</u>	<u>(257,291)</u>
Ending balance	<u>₩2,063,102</u>	<u>(1,943,644)</u>	<u>119,458</u>

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25. Defined benefit assets (continued)

	2020		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩2,063,102	(1,943,644)	119,458
Included in profit or loss:			
Current service cost	179,390	—	179,390
Past service cost	9,069	—	9,069
Interest expense (income)	57,674	(55,466)	2,208
Settlement expense	(306)	—	(306)
	<u>245,827</u>	<u>(55,466)</u>	<u>190,361</u>
Included in other comprehensive income:			
Remeasurement loss (gain):			
- Actuarial gains (losses) arising from :			
Demographic assumptions	18	—	18
Financial assumptions	(44,424)	—	(44,424)
Experience adjustment	2,957	—	2,957
- Return on plan assets excluding interest income	—	20,027	20,027
	<u>(41,449)</u>	<u>20,027</u>	<u>(21,422)</u>
Other:			
Benefits paid by the plan	(83,614)	77,567	(6,047)
Contributions paid into the plan	(268)	(239,570)	(239,838)
Settlement gain or loss	(2,695)	4,053	1,358
Business combination (Note 47)	2,139	(1,291)	848
Effect of movements in exchange rates	(578)	—	(578)
	<u>(85,016)</u>	<u>(159,241)</u>	<u>(244,257)</u>
Ending balance	<u>₩2,182,464</u>	<u>(2,138,324)</u>	<u>44,140</u>

(*) Profit and loss related to defined benefit plans are included in the general administrative expense.

(c) The composition of plan assets as of December 31, 2019 and 2020 are as follows:

	2019	2020
Plan assets comprise:		
Equity securities	₩ 256,353	74,631
Debt securities	28,094	23,713
Due from banks	1,577,274	1,900,963
Others	81,923	139,017
	<u>₩1,943,644</u>	<u>2,138,324</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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25. Defined benefit assets (continued)

(d) Actuarial assumptions as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>	<u>Description</u>
Discount rate	2.71%~3.17%	2.68%~3.30%	AA0 corporate bond yields
Future salary increase rate	1.80%~4.00%	1.90%~4.00%	
	+ Upgrade rate	+ Upgrade rate	Average for 5 years
Weighted average maturity	8.2 years~ 16.2 years	7.6 years~ 15.4 years	

(e) Sensitivity analysis

As of December 31, 2019 and 2020, reasonably possible changes in one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<u>2019</u>	
	<u>Defined benefit obligation</u>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement)	₩(201,770)	233,057
Future salary increase rate (1%p movement)	231,967	(204,242)

	<u>2020</u>	
	<u>Defined benefit obligation</u>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement)	₩(207,093)	233,570
Future salary increase rate (1%p movement)	232,892	(210,305)

(f) The Group's estimated contribution is ₩ 188,055 million as of December 31, 2021

26. Provisions

(a) Provisions as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Asset retirement obligations	₩ 64,922	65,659
Expected loss related to litigation	8,789	12,468
Unused credit commitments	263,752	305,719
Financial guarantee contracts issued	100,430	83,851
Others	119,131	337,039
	<u>₩557,024</u>	<u>804,736</u>

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Notes to the Consolidated Financial Statements
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26. Provisions (continued)

(b) Changes in provision for unused credit commitments and financial guarantee contracts issued for the years ended December 31, 2019 and 2020 are as follows:.

	2019						Total
	Unused credit commitments			Financial guarantee contracts issued			
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning allowance	₩126,402	100,808	5,137	64,194	5,904	1,757	304,202
Transfer to 12 months expected credit loss	42,838	(42,728)	(110)	2,629	(2,629)	—	—
Transfer to life time expected credit loss	(9,286)	9,314	(28)	(1,245)	1,245	—	—
Transfer to impaired financial asset	(229)	(752)	981	(12)	—	12	—
Provided (reversed)	(28,611)	53,076	5,905	(4)	96	(943)	29,519
FX change	914	121	—	1,302	323	102	2,762
Others (*)	—	—	—	1,603	630	(117)	2,116
Ending balance	<u>₩132,028</u>	<u>119,839</u>	<u>11,885</u>	<u>68,467</u>	<u>5,569</u>	<u>811</u>	<u>338,599</u>
	2020						
	Unused credit commitments			Financial guarantee contracts issued			Total
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning allowance	₩132,028	119,839	11,885	68,467	5,569	811	338,599
Transfer to 12 months expected credit loss	63,818	(55,295)	(8,523)	2,059	(2,059)	—	—
Transfer to life time expected credit loss	(9,883)	11,365	(1,482)	(3,951)	3,951	—	—
Transfer to impaired financial asset	(244)	(875)	1,119	—	—	—	—
Provided (reversed)	(20,377)	65,455	(1,564)	8,258	1,845	(822)	52,795
FX change	(1,195)	(352)	—	(1,335)	(223)	(49)	(3,154)
Others (*)	—	—	—	(18,948)	(1,748)	70	(20,626)
Ending balance	<u>₩164,147</u>	<u>140,137</u>	<u>1,435</u>	<u>54,550</u>	<u>7,335</u>	<u>10</u>	<u>367,614</u>

(*) Others include effects of the provision from the new financial guarantee contracts measured at fair value, and the expired contracts, and the change of discount rate.

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26. Provisions (continued)

(c) Changes in provisions for the years ended December 31, 2019 and 2020 are as follows:

	2019				
	Asset retirement	Litigation	Guarantee	Other	Total
Beginning balance	₩49,183	25,554	43,470	86,007	204,214
Provision(reversal)	(1,280)	(981)	(19,329)	(5,753)	(27,343)
Provision used	(1,930)	(17,365)	—	(47,217)	(66,512)
Foreign exchange translation	—	—	1,420	382	1,802
Others (*)	4,476	—	22	3,784	8,282
Business combination	14,473	1,581	—	81,928	97,982
Ending balance	<u>₩64,922</u>	<u>8,789</u>	<u>25,583</u>	<u>119,131</u>	<u>218,425</u>
	2020				
	Asset retirement	Litigation	Guarantee	Other	Total
Beginning balance	₩64,922	8,789	25,583	119,131	218,425
Provision(reversal)	898	4,317	(2,709)	261,983	264,489
Provision used	(2,463)	(638)	—	(46,654)	(49,755)
Foreign exchange translation	(3)	—	(1,030)	570	(463)
Others (*)	2,305	—	112	1,814	4,231
Business combination (Note 47)	—	—	—	195	195
Ending balance	<u>₩65,659</u>	<u>12,468</u>	<u>21,956</u>	<u>337,039</u>	<u>437,122</u>

(*) Others include the effects of unwinding and changes in discount rate.

(d) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which is discounted to the present value using the appropriate discount rate at the end of the reporting period.

Disbursements of such costs are expected to incur at the end of lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past ten-year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(e) Allowance for guarantees and acceptances as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Outstanding guarantees and acceptances	₩ 9,319,885	10,249,827
Contingent guarantees and acceptances	3,669,697	3,433,953
ABS and ABCP purchase commitments	2,116,354	1,604,958
Endorsed bill	11,287	1,650
	<u>₩ 15,117,223</u>	<u>15,290,388</u>
Allowance for loss on guarantees and acceptances	₩ 100,430	83,851
Ratio	%0.66	0.55

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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27. Liability under insurance contracts

(a) Insurance liabilities as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Policy reserve	₩52,086,132	53,391,401
Policyholder's equity adjustment	77,285	68,829
	<u>₩52,163,417</u>	<u>53,460,230</u>

(b) Policy reserve as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Interest rate linked	₩30,058,020	29,977,303
Fixed interest rate	22,028,112	23,414,098
	<u>₩52,086,132</u>	<u>53,391,401</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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27. Liability under insurance contracts (continued)

(c) The details of policy reserves as of December 31, 2019 and 2020 are as follows:

	2019							
	Individual insurance				Group insurance			
	Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
Premium reserve	₩14,668,777	24,979,936	10,443,287	50,092,000	21,912	60	21,972	50,113,972
Guarantee reserve	29,400	249,845	744	279,989	—	—	—	279,989
Unearned premium reserve	2	945	—	947	291	—	291	1,238
Reserve for outstanding claims	212,641	1,084,472	233,259	1,530,372	16,858	—	16,858	1,547,230
Interest rate difference guarantee reserve	2,158	149	10	2,317	—	—	—	2,317
Mortality gains reserve	8,945	42,173	153	51,271	2	—	2	51,273
Interest gains reserve	24,486	267	17	24,770	—	—	—	24,770
Expense gains reserve	6,211	9,434	1	15,646	—	—	—	15,646
Long term duration dividend reserve	31,202	15,388	13	46,603	—	—	—	46,603
Reserve for policyholder's profit dividend	2,268	—	—	2,268	—	—	—	2,268
Reserve for losses on dividend insurance contract	826	—	—	826	—	—	—	826
	<u>₩14,986,916</u>	<u>26,382,609</u>	<u>10,677,484</u>	<u>52,047,009</u>	<u>39,063</u>	<u>60</u>	<u>39,123</u>	<u>52,086,132</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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27. Liability under insurance contracts (continued)

	2020									
	Individual insurance					Group insurance				
	Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total		
Premium reserve	₩14,597,735	26,634,537	9,981,880	51,214,152	18,430	62	18,492	51,232,644		
Guarantee reserve	28,168	267,154	762	296,084	—	—	—	296,084		
Unearned premium reserve	1	1,640	—	1,641	13	—	13	1,654		
Reserve for outstanding claims	240,324	1,111,052	363,688	1,715,064	15,384	—	15,384	1,730,448		
Interest rate difference guarantee reserve	1,937	141	9	2,087	—	—	—	2,087		
Mortality gains reserve	7,865	37,553	124	45,542	1	—	1	45,543		
Interest gains reserve	23,651	256	14	23,921	—	—	—	23,921		
Expense gains reserve	6,606	8,336	—	14,942	—	—	—	14,942		
Long term duration dividend reserve	28,737	13,775	12	42,524	—	—	—	42,524		
Reserve for policyholder's profit dividend	1,080	—	—	1,080	—	—	—	1,080		
Reserve for losses on dividend insurance contract	474	—	—	474	—	—	—	474		
	₩14,936,578	28,074,444	10,346,489	53,357,511	33,828	62	33,890	53,391,401		

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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27. Liability under insurance contracts (continued)

(d) Changes in policy reserves

Changes in policy reserves for the year ended December 31, 2020 are as follows:

	2020		
	Insurance contracts with fixed-interest	Insurance contracts with variable-interest	Total
Beginning balance	₩22,028,112	30,058,020	52,086,132
Reserve (*)	1,385,986	(80,717)	1,305,269
Ending balance	<u>₩23,414,098</u>	<u>29,977,303</u>	<u>53,391,401</u>

(*) This is the amount of provision for insurance contract liabilities less changes in reinsurance assets.

(e) Changes in policy reserves by insurance risk classification

Changes in insurance contract liabilities by insurance risk classification for the year ended December 31, 2020 are as follows:

	2020							
	Individual insurance				Group insurance			
	Pure endowment	Death	Endowment	Sub-total	Pure protection	Savings	Sub-total	Total
Beginning balance	₩14,986,916	26,382,609	10,677,484	52,047,009	39,063	60	39,123	52,086,132
Reserve (reversal) (*)	(50,338)	1,691,835	(330,995)	1,310,502	(5,235)	2	(5,233)	1,305,269
Ending balance	<u>₩14,936,578</u>	<u>28,074,444</u>	<u>10,346,489</u>	<u>53,357,511</u>	<u>33,828</u>	<u>62</u>	<u>33,890</u>	<u>53,391,401</u>

(*) This is the amount of provision for insurance contract liabilities less changes in reinsurance assets.

(f) Reinsurance credit risk as of December 31, 2019 and 2020 are as follows:

	2019		2020	
	Reinsurance assets	Reinsurance account receivable	Reinsurance assets	Reinsurance account receivable
AAA	₩11,477	18,192	10,611	47,690
AA- to AA+	34,498	46,302	29,294	23,348
A- to A+	2,287	4,113	2,375	4,018
	<u>₩48,262</u>	<u>68,607</u>	<u>42,280</u>	<u>75,056</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

27. Liability under insurance contracts (continued)

(g) Income or expenses on insurance for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Insurance income:			
Premium income	₩4,348,745	7,386,854	7,037,308
Reinsurance income	15,222	146,564	152,892
Separate account income	34,771	36,007	57,553
	<u>4,398,738</u>	<u>7,569,425</u>	<u>7,247,753</u>
Insurance expenses:			
Claims paid	2,549,147	5,436,069	5,564,875
Reinsurance premium expenses	18,482	165,979	167,215
Provision for policy reserves (*)	1,694,716	1,724,816	1,311,252
Separate account expenses	34,770	36,007	57,553
Discount charge	669	657	1,087
Acquisition costs	454,479	805,508	802,942
Collection expenses	16,046	19,049	18,835
Deferred acquisition costs	(283,665)	(495,534)	(486,972)
Amortization of deferred acquisition costs	385,793	373,800	414,898
	<u>4,870,437</u>	<u>8,066,351</u>	<u>7,851,685</u>
Net loss on insurance	<u>₩ (471,699)</u>	<u>(496,926)</u>	<u>(603,932)</u>

(*) Interest expenses on savings insurance contracts are included. (Accumulated ₩ 964,816 million as of December 31, 2018, accumulated ₩ 1,907,954 million as of December 31, 2019 and accumulated ₩ 1,866,609 million as of December 31, 2020)

(h) Maturity of premium reserve as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>						
	Less than or equal to 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Interest rate linked	₩ 845,304	2,079,125	2,118,652	941,413	2,236,313	20,732,909	28,953,716
Fixed interest rate	213,892	329,647	1,032,366	572,153	2,058,859	16,953,339	21,160,256
Ending balance	<u>₩1,059,196</u>	<u>2,408,772</u>	<u>3,151,018</u>	<u>1,513,566</u>	<u>4,295,172</u>	<u>37,686,248</u>	<u>50,113,972</u>
	<u>2020</u>						
	Less than or equal to 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Interest rate linked	₩ 929,268	1,944,710	1,819,554	820,964	2,056,906	19,729,536	27,300,938
Fixed interest rate	164,890	418,574	983,635	594,667	2,090,669	19,679,271	23,931,706
Ending balance	<u>₩1,094,158</u>	<u>2,363,284</u>	<u>2,803,189</u>	<u>1,415,631</u>	<u>4,147,575</u>	<u>39,408,807</u>	<u>51,232,644</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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27. Liability under insurance contracts (continued)

(i) Liability adequacy test, LAT – Shinhan Life Insurance Co., Ltd.

i) Scope

Liability adequacy tests are performed on the premium reserve, unearned premium reserve and guarantee reserve for the contracts held at December 31, 2019 and 2020. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act.

ii) Output overview

In the debt appraisal system, the insurance premium surplus method is applied to calculate premium deficits.

Premium deficiency refers to deficiency when the amount of accumulated reserve is insufficient due to a decrease in the interest rate after the sale of the product or an increase in the risk rate compared with the expected basic rate at the time of product development.

The insurance premium standard inspection method is a method of calculating the reserve amount based on the present value of total income reflecting the interest rate, the risk rate, the business ratio, the cancellation rate, etc. and the present value of the total expenditure, that is, interest rate(discount rate), business ratio, risk rate, and cancellation rate calculated based on the Group's own experience, which reflects company-specific characteristics, and does not reflect subjective factors such as management's willingness to improve management.

iii) The main assumptions and basis for calculation

The main assumptions and basis for calculation used to calculate the current estimation of future cash flows in the liability adequacy test as of December 31, 2019 and 2020 are as follows:

The criteria for liability adequacy test of insurance contracts have been changed for the year ended December 31, 2020. Therefore, the Group applied the change in accounting policies as it has judged that the changed in the criteria for liability adequacy test of insurance contracts would provide more reliable and relevant information about the current estimates of future cash flows. This change in accounting policy has no effect on the consolidated financial statements, but comparative notes have been adjusted.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

27. Liability under insurance contracts (continued)

	Assumptions			Measurement basis
	January 1, 2019	December 31, 2019	December 31, 2020	
Discount rate	2.10% ~ 7.45%	1.04% ~ 5.79%	1.30% ~ 12.01%	The scenario adding liquidity premium to risk-free rate, which is suggested from Financial Supervisory Service
Mortality rate	2.58% ~ 247.65%	11.36% ~ 497.99%	10.38% ~ 585.90%	Ratio by claims paid per premium paid on risk premium based on experience-based rate by products, collateral of last 5 years.
Operating expense rate	Acquisition cost - The first time : 90.00% ~ 982.70% - From the second time : 0.00% ~ 193.50% Maintenance expense (each case): 207 won ~ 3,531 won Collection expenses (on gross premium): 0.04% ~ 1.10%	Acquisition cost - The first time : 90.00% ~ 1,022.75% - From the second time : 0.00% ~ 193.50% Maintenance expense (each case): 1,229 won ~ 3,332 won Collection expenses (on gross premium): 0.05% ~ 1.27%	Acquisition cost - The first time : 90.00% ~ 1,022.75% - From the second time : 0.00% ~ 193.50% Maintenance expense (each case): 1,559 won ~ 4,675 won Collection expenses (on gross premium): 0.06% ~ 1.28%	Business rate on insurance premium or expenses per contract based on experience-based rate of last 1 year
Surrender ratio	0.95% ~ 48.35%	0.76% ~ 33.03%	0.53% ~ 29.83%	Surrender ratio by elapsed period, classes of sales channel, product of last 5 years

iv) The result of liability adequacy test as of January 1, 2019, December 31, 2019 and 2020 are as follows:

	January 1, 2019		
	Provisions for test	LAT base	Premium surplus (loss)
Participating – Fixed interest	₩ 589,618	1,382,718	(793,100)
Non- Participating – Fixed interest	6,009,771	2,850,853	3,158,918
Participating – Variable interest	859,858	962,368	(102,510)
Non- Participating – Variable interest	14,008,270	12,532,933	1,475,337
Variable type	143,230	(122,055)	265,285
	<u>₩ 21,610,747</u>	<u>17,606,817</u>	<u>4,003,930</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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27. Liability under insurance contracts (continued)

	December 31, 2019		
	Provisions for test	LAT base	Premium surplus (loss)
Participating – Fixed interest	₩ 595,317	1,307,717	(712,400)
Non- Participating – Fixed interest	6,608,221	3,168,333	3,439,888
Participating – Variable interest	900,378	1,039,624	(139,246)
Non- Participating – Variable interest	14,481,697	13,045,229	1,436,468
Variable type	155,751	33,678	122,073
	<u>₩22,741,364</u>	<u>18,594,581</u>	<u>4,146,783</u>
	December 31, 2020		
	Provisions for test	LAT base	Premium surplus (loss)
Participating – Fixed interest	₩ 598,793	1,301,878	(703,085)
Non- Participating – Fixed interest	7,230,482	3,543,525	3,686,957
Participating – Variable interest	915,382	1,013,181	(97,799)
Non- Participating – Variable interest	14,456,394	12,882,865	1,573,529
Variable type	165,259	36,127	129,132
	<u>₩23,366,310</u>	<u>18,777,576</u>	<u>4,588,734</u>

(j) Liability adequacy test, LAT – Orange Life Insurance Co., Ltd.

i) Scope

Liability adequacy tests are performed on the premium reserve, unearned premium reserve and guarantee reserve for the contracts held at December 31, 2019 and 2020. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act.

ii) Output overview

In the debt appraisal system, the insurance premium surplus method is applied to calculate premium deficits.

Premium deficiency refers to deficiency when the amount of accumulated reserve is insufficient due to a decrease in the interest rate after the sale of the product or an increase in the risk rate compared with the expected basic rate at the time of product development.

The insurance premium standard inspection method is a method of calculating the reserve amount based on the present value of total income reflecting the interest rate, the risk rate, the business ratio, the cancellation rate, etc. and the present value of the total expenditure, that is, (discount rate), business ratio, risk rate, and cancellation rate calculated based on the Group's own experience, which reflects company-specific characteristics, and does not reflect subjective factors such as management's willingness to improve management.

iii) The main assumptions and basis for calculation

The main assumptions and basis for calculation used to calculate the current estimation of future cash flows in the liability adequacy test as of December 31, 2019 and 2020 are as follows:

The criteria for liability adequacy test of insurance contracts have been changed for the year ended December 31, 2020. Therefore, the Group applied the change in accounting policies as it has judged that the

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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27. Liability under insurance contracts (continued)

changed in the criteria for liability adequacy test of insurance contracts would provide more reliable and relevant information about the current estimates of future cash flows. This change in accounting policy has no effect on the consolidated financial statements, but comparative notes have been adjusted.

	Assumptions			Measurement basis
	January 1, 2019	December 31, 2019	December 31, 2020	
Discount rate	1.95% ~ 8.57%	1.26% ~ 10.60%	0.79% ~ 10.54%	The scenario adding liquidity premium to risk-free rate, which is suggested from Financial Supervisory Service
Mortality rate	20.00% ~ 210.00%	20.00% ~ 255.00%	15.00% ~ 255.00%	Ratio by claims paid per premium paid on risk premium based on experience-based rate by products, collateral of last 5 years.
Operating expense rate	Acquisition cost (each case): 9,000 won ~ 959,000 won - Proportional to annualized premium: 0.64% ~ 7.05% Maintenance expense (each case): 2,000 won ~ 34,500 won - Proportional to premium income: 0.48% ~ 0.60% - Proportional to surrender value: 0.12%	Acquisition cost (each case): 5,500 won ~ 1,227,000 won - Proportional to annualized premium: 0.00% ~ 12.55% Maintenance expense (each case): 50 won ~ 32,500 won - Proportional to premium income: 0.42% ~ 3.45% - Proportional to surrender value: 0.12%	Acquisition cost (each case): 0 won ~ 1,547,000 won - Proportional to annualized premium: 0.00% ~ 15.99% Maintenance expense (each case): 0 won ~ 36,000 won - Proportional to premium income: 0.12% ~ 0.85% - Proportional to surrender value: 0.12%	Based on the recent one-year experience statistics, the Company reflects the company's future business cost policy to calculate the unit business cost by cost driver by division (new contract cost / maintenance cost) and sales channel. However, temporary expenses incurred unusually is excluded.
Surrender ratio	0.00% ~ 50.00%	0.00% ~ 50.00%	0.00% ~ 61.00%	Based on experience statistics for the last five years or more, annual premiums are calculated based on product group, payment method, channel, and elapsed period. Payment status (full payment and pension initiation) and tax benefits are included.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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27. Liability under insurance contracts (continued)

iv) The result of liability adequacy test as of January 1, 2019, December 31, 2019 and 2020 are as follows:

	January 1, 2019		
	<u>Provisions for test</u>	<u>LAT base</u>	<u>Premium surplus (loss)</u>
Participating:			
Fixed interest	₩ 688,330	644,225	44,105
Variable interest	1,097,211	1,472,060	(374,849)
	<u>1,785,541</u>	<u>2,116,285</u>	<u>(330,744)</u>
Non- Participating:			
Fixed interest	8,603,714	5,070,060	3,533,654
Variable interest	9,380,809	8,806,781	574,028
Performance allocation type	(98,279)	(1,744,683)	1,646,404
	<u>17,886,244</u>	<u>12,132,158</u>	<u>5,754,086</u>
	<u>₩19,671,785</u>	<u>14,248,443</u>	<u>5,423,342</u>
	December 31, 2019		
	<u>Provisions for test</u>	<u>LAT base</u>	<u>Premium surplus (loss)</u>
Participating:			
Fixed interest	₩ 716,607	697,291	19,316
Variable interest	1,134,245	1,620,247	(486,002)
	<u>1,850,852</u>	<u>2,317,538</u>	<u>(466,686)</u>
Non- Participating:			
Fixed interest	9,296,542	5,150,200	4,146,342
Variable interest	9,236,730	8,924,855	311,875
Performance allocation type	(54,457)	(1,692,928)	1,638,471
	<u>18,478,815</u>	<u>12,382,127</u>	<u>6,096,688</u>
	<u>₩20,329,667</u>	<u>14,699,665</u>	<u>5,630,002</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

27. Liability under insurance contracts (continued)

	December 31, 2020		
	Provisions for test	LAT base	Premium surplus (loss)
Participating:			
Fixed interest	₩ 745,614	694,536	51,078
Variable interest	1,174,807	1,649,073	(474,266)
	<u>1,920,421</u>	<u>2,343,609</u>	<u>(423,188)</u>
Non- Participating:			
Fixed interest	10,061,004	4,810,110	5,250,894
Variable interest	9,190,507	8,743,848	446,659
Performance allocation type	(15,032)	(1,589,500)	1,574,468
	<u>19,236,479</u>	<u>11,964,458</u>	<u>7,272,021</u>
	<u>₩21,156,900</u>	<u>14,308,067</u>	<u>6,848,833</u>

28. Other liabilities

Other liabilities as of December 31, 2019 and 2020 are as follows:

	2019	2020
Lease liabilities (*)	₩ 1,104,259	594,161
Accounts payable	11,894,764	14,568,962
Accrued expenses	3,502,538	3,054,247
Dividend payable	31,599	32,508
Advance received	173,850	164,885
Unearned income	294,710	317,283
Withholding value-added tax and other taxes	720,053	692,719
Securities deposit received	1,903,119	2,198,722
Foreign exchange settlement pending	243,532	259,138
Domestic exchange settlement pending	1,452,955	5,745,338
Payable from trust account	5,350,285	5,086,459
Due to agencies	744,660	790,486
Deposits for subscription	60,500	148,506
Separate account liabilities	8,700,695	10,120,258
Sundry liabilities	1,968,823	1,617,449
Others	151,056	185,027
Present value discount	(59,840)	(49,935)
	<u>₩38,237,558</u>	<u>45,526,213</u>

(*) As of December 31, 2020, the Group accounts the lease liabilities as other liabilities. For the year ended December 31, 2020, the amount of variable lease payments that are not included in the measurement of lease liabilities is ₩ 114 million, cash outflows from leases are ₩ 788,532 million, and interest expense on lease liabilities is ₩ 14,504 million.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(In millions of won)

29. Equity

(a) Equity as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Capital stock:		
Common stock (*1)	₩ 2,370,998	2,608,176
Preferred stock	361,465	361,465
	<u>2,732,463</u>	<u>2,969,641</u>
Hybrid bond	1,731,235	2,179,934
Capital surplus:		
Share premium	10,155,150	11,352,924
Others	410,203	882,015
	<u>10,565,353</u>	<u>12,234,939</u>
Capital adjustments	(1,116,770)	(687,935)
Accumulated other comprehensive income, net of tax:		
Gain on financial assets at fair value through other comprehensive income	306,470	226,811
Gain(Loss) on financial assets at fair value through profit or loss (Overlay approach)	71,621	161,919
Equity in other comprehensive income of associates	8,177	4,849
Foreign currency translation adjustments for foreign operations	(217,465)	(377,061)
Net loss from cash flow hedges	(33,711)	(48,171)
Other comprehensive income of separate account	14,539	18,423
Actuarial losses	(401,532)	(385,780)
Changes in own credit risk on financial liabilities designated under fair value option	(8,255)	(5,171)
	<u>(260,156)</u>	<u>(404,181)</u>
Retained earnings (*2)(*3)(*4)	25,525,821	27,777,169
Non-controlling interest (*5)(*6)	2,752,435	2,287,291
	<u>₩41,930,381</u>	<u>46,356,858</u>

(*1) For the year ended December 31, 2020, it increased due to common stock and third-party allocation paid-in capital increase issued when the Group acquired residual shares of Orange Life Insurance Co., Ltd and Neoplux Co, Ltd. The cost deducted from the issuing capital is ₩13,300 million. Affinity Equity Partners and Baring Private Equity Asia who have participated in third-party allocation-based capital increase have a right to practically appoint one director, respectively.

(*2) As of December 31, 2019 and 2020, profits reserved by the Group as of Article 53 of the Financial Holding Companies Act amounted to ₩2,191,677 million and ₩2,304,595 million, respectively.

(*3) As of December 31, 2019 and 2020, the regulatory reserves for loan losses the Group appropriated in retained earnings are ₩8,728 million and ₩11,988 million, respectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

29. Equity (continued)

- (*4) As of December 31, 2020, profit dividends within retained earnings of subsidiaries of the Group subject to a restricted dividend in accordance with laws, etc. are amounted to ₩6,824,002 million.
- (*5) The non-controlling interest of ₩1,330,337 million decreased due to taking over for Orange Life Insurance Co.,Ltd. for the year ended December 31, 2020.
- (*6) As of December 31, 2019 and 2020, the total amounts of hybrid bonds that Shinhan Bank, Jeju Bank and Shinhan Capital have recognized as non-controlling interests are ₩1,147,635 million and ₩2,035,762 million, respectively. And, for the years ended December 31, 2019 and 2020, the amounts of dividends paid for the hybrid bonds by Shinhan Bank, Jeju Bank, and Shinhan Capital, ₩36,729 million and ₩54,619 million, respectively, are allocated to profit attributed to non-controlling interest.

(b) Capital stock

Capital stock of the Group as of December 31, 2019 and 2020 are as follows:

Number of authorized shares	1,000,000,000
Par value per share in won	₩ 5,000
Number of issued common stocks as of December 31, 2019	474,199,587
Number of issued common stocks as of December 31, 2020	516,599,554
Number of issued preferred stocks as of December 31, 2019 and 2020	17,482,000

The details of changes in the number of common shares outstanding as of December 31, 2020 are as follows:

	<u>2020</u>
Beginning balance	460,317,525
Increase	60,626,827
Decrease	(5,049,594)
Ending balance	515,894,758

(c) The details of preferred stock are as follows:

	<u>The number of shares</u>	<u>Contracted dividend rate</u>	<u>Conversion request period(*)</u>
Convertible preferred stock	17,482,000	4.0% per year based on issue price (non-cumulative participating)	2020.05.01~2023.04.30

- (*) Preferred stocks that have not been converted for 4 years from the issuance date and until the expiration date of the period of existence are automatically converted to common stocks at the expiration date of the period of existence.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(In millions of won)

29. Equity (continued)

(d) Hybrid bonds

Hybrid bonds classified as other equity instruments as of December 31, 2019 and 2020 are as follows:

Issue date	Currency	Maturity date	Interest rate (%)	2019	2020
June 25, 2015	KRW	June 25, 2045	4.38	₩ 199,455	199,455
September 15, 2017	"	—	3.77	134,683	134,683
September 15, 2017	"	—	4.25	89,783	89,783
April 13, 2018	"	—	4.08	134,678	134,678
April 13, 2018	"	—	4.56	14,955	14,955
August 29, 2018	"	—	4.15	398,679	398,679
June 28, 2019	"	—	3.27	199,476	199,476
September 17, 2020	"	—	3.12	—	448,699
August 13, 2018	USD	—	5.88	559,526	559,526
				<u>₩1,731,235</u>	<u>2,179,934</u>

(*) For the year ended December 31, 2020, the deduction for capital related to hybrid bonds issued is ₩1,302 million.

The hybrid bonds above can be repaid early after 5 or 10 years from the date of issuance, and the controlling company has an unconditional right to extend the maturity under the same condition. In addition, if no dividend is to be paid for common stocks, the agreed interest is also not paid.

(e) Capital adjustments

Changes in capital adjustments for the years ended December 31, 2019 and 2020 are as follows:

	2019	2020
Beginning balance	₩ (552,895)	(1,116,770)
Acquisition of treasury stocks	(444,077)	(150,467)
Disposal and Retirement of treasury stocks	—	601,809
The Acquisition commitment amount for subsidiaries' remaining shares	(125,830)	(22,019)
Other transactions with owners	6,032	(488)
Ending balance	<u>₩(1,116,770)</u>	<u>(687,935)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(In millions of won)

29. Equity (continued)

(f) Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the years ended December 31, 2019 and 2020 are as follows:

	2019										
	Items that are or may be reclassified to profit or loss					Items that will never be reclassified to profit or loss					
	Gain (loss) on financial asset at fair value through other comprehensive income	Gain (loss) on valuation of financial asset measured at FVTPL (overlay approach)	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net gain (loss) from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Equity in other comprehensive income of associates	Gain (loss) on financial asset at fair value through other comprehensive income	Gain (loss) on financial Liabilities measured at FVTPL attributable to changes in credit risk	Total
Beginning balance	₩ 51,300	(79,057)	4,891	(321,853)	(17,751)	4,112	(346,682)	(8)	54,258	170	(753,220)
Change due to fair value	491,953	225,706	3,353	—	—	14,382	—	(11)	19,935	(11,621)	743,697
Reclassification:											
Change due to impairment or disposal	(23,281)	—	—	—	—	—	—	—	—	—	(23,281)
Effect of hedge accounting	—	—	—	—	(75,020)	—	—	—	—	—	(75,020)
Hedging	(731)	—	—	(49,361)	50,083	—	—	—	—	—	(9)
Effects from changes in foreign exchange rate	—	—	—	147,899	—	—	—	—	293	—	148,192
Remeasurements of the defined benefit plans	—	—	—	—	—	—	(75,595)	—	—	—	(75,595)
Deferred income taxes	(115,856)	(62,739)	(51)	7,233	6,348	(3,955)	20,951	3	(7,204)	3,196	(152,074)
Transfer to other account	—	—	—	—	—	—	—	—	5,860	—	5,860
Non-controlling interests	(67,457)	(12,289)	—	(1,383)	2,629	—	(206)	—	—	—	(78,706)
Ending balance	₩ 233,328	71,621	8,193	(217,465)	(33,711)	14,539	(401,532)	(16)	73,142	(8,255)	(260,156)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(In millions of won)

29. Equity (continued)

	2020										
	Items that are or may be reclassified to profit or loss					Items that will never be reclassified to profit or loss					
	Gain (loss) on financial asset at fair value through other comprehensive income	Gain (loss) on valuation of financial asset measured at FVTPL (overlay approach)	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net gain (loss) from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Equity in other comprehensive income of associates	Gain (loss) on financial asset at fair value through other comprehensive income	Gain (loss) on financial Liabilities measured at FVTPL attributable to changes in credit risk	Total
Beginning balance	₩ 233,328	71,621	8,193	(217,465)	(33,711)	14,539	(401,532)	(16)	73,142	(8,255)	(260,156)
Change due to fair value	(3,601)	125,298	(1,080)	—	—	5,358	—	(15)	(19,133)	(9,689)	97,138
Reclassification:											
Change due to impairment or disposal	(105,274)	—	—	5,858	—	—	—	—	—	13,942	(85,474)
Effect of hedge accounting	—	—	—	—	144,750	—	—	—	—	—	144,750
Hedging	(4,395)	—	—	45,083	(164,708)	—	—	—	—	—	(124,020)
Effects from changes in foreign exchange rate	—	74	(355)	(219,306)	—	—	—	—	721	—	(218,866)
Remeasurements of the defined benefit plans	—	—	—	—	—	—	21,422	—	—	—	21,422
Deferred income taxes	26,486	(35,074)	(1,883)	7,000	5,498	(1,474)	(5,610)	5	(2,573)	(1,169)	(8,794)
Transfer to other account	—	—	—	—	—	—	—	—	27,825	—	27,825
Non-controlling interests	285	—	—	1,769	—	—	(60)	—	—	—	1,994
Ending balance	₩ 146,829	161,919	4,875	(377,061)	(48,171)	18,423	(385,780)	(26)	79,982	(5,171)	(404,181)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(In millions of won)

29. Equity (continued)

(g) Appropriation of retained earnings

The appropriation of retained earnings for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
	March 26, 2020	March 25, 2021
Date of appropriation:		
Unappropriated retained earnings:		
Balance at beginning of year	₩ 5,184,339	5,251,413
Retirement of treasury stock	—	(150,325)
Dividend to hybrid bonds	(61,993)	(85,327)
Net income	<u>1,129,173</u>	<u>1,274,443</u>
	6,251,519	6,290,204
Appropriation of retained earnings:		
Legal reserve	(112,917)	(127,444)
Dividends		
Dividends on common stocks paid	(851,587)	(773,839)
Dividends on preferred stocks paid	(32,342)	(29,999)
Regulatory reserve for loan losses	<u>(3,260)</u>	<u>(3,564)</u>
	<u>(1,000,106)</u>	<u>(934,846)</u>
Unappropriated retained earnings to be carried over to subsequent year	<u>₩ 5,251,413</u>	<u>5,355,358</u>

(*) These statements of appropriation of retained earnings are based on the separate financial statements of Shinhan Finance Group.

(h) Regulatory reserve for loan losses

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by IFRS and that as required by the Regulations at the account of regulatory reserve for loan losses in retained earnings.

i) Changes in regulatory reserve for loan losses including non-controlling interests as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Beginning balance	₩2,844,690	3,161,170
Business combination	25,608	—
Planned regulatory reversal of loan losses	<u>290,872</u>	<u>168,729</u>
Ending balance	<u>₩3,161,170</u>	<u>3,329,899</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

29. Equity (continued)

ii) Profit attributable to equity holders of Shinhan Financial Group and earnings per share after factoring in regulatory reserve for loan losses for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Profit attributable to equity holders of Shinhan Financial Group	₩3,403,497	3,414,595
Provision for regulatory reserve for loan losses (*1)	<u>(292,728)</u>	<u>(177,620)</u>
Profit attributable to equity holders of Shinhan Financial Group adjusted for regulatory reserve	<u>₩3,110,769</u>	<u>3,236,975</u>
Basic and diluted earnings per share adjusted for regulatory reserve in won (*2)	6,387	6,299

(*1) The increase in reserve for credit losses, ₩25,608 million, due to the business combination with Orange Life insurance and Asia Trust for the year ended December 31, 2019 is excluded.

(*2) Dividends for hybrid bonds are deducted.

(i) Treasury stock

The acquisitions of treasury stock for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>		<u>2020 (*)</u>	
	<u>The number of share</u>	<u>Carrying value</u>	<u>The number of share</u>	<u>Carrying value</u>
Beginning balance	3,648,659	₩155,923	13,882,062	₩ 600,000
Acquisition	10,233,403	444,077	5,049,594	150,467
Disposal	—	—	13,191,202	(572,252)
Retirement	—	—	5,035,658	(150,000)
Ending balance	<u>13,882,062</u>	<u>₩600,000</u>	<u>704,796</u>	<u>₩ 28,215</u>

(*) Changes in equity shares due to the exchange of shares with Orange Life Insurance Co., Ltd. and Neoplux Co, Ltd. are included in the acquisition and disposal for treasury stock. Shares of Shinhan Financial Group Co., Ltd. is owned by Orange Life Insurance Co., Ltd. and Neoplux Co, Ltd. are included in its own shares.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

30. Dividends

- (a) Details of dividends recognized as distributions to stockholders for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020 (*1)</u>
Common Stock:		
Total number of shares issued and outstanding	474,199,587	516,599,554
Par value per share in won	5,000	5,000
Dividend per share in won	1,850	1,500
Dividends (*2)	₩ 851,587	773,839
Dividend rate per share (%)	37.0	30.0
Preferred Stock:		
Total number of shares issued and outstanding	17,482,000	17,482,000
Par value per share in won	5,000	5,000
Dividend per share in won	1,850	1,716
Dividends	₩ 32,342	29,999
Dividend rate per share (%)	37.0	34.3

(*1) Dividends were decided on March 25, 2021. The amount of dividends was not recognized as a distribution to the owner during the period.

(*2) Dividends on own shares held by the Group are excluded.

- (b) Dividends for hybrid bond is calculated as follows for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Amount of hybrid bond	₩ 1,738,150	2,188,150
Interest rate (%)	3.27 ~ 5.88	3.12 ~ 5.88
Dividends	₩ 61,993	85,327

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

31. Net interest income

Net interest income for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Interest income:			
Cash and deposits at amortized cost	₩ 155,075	210,415	128,023
Deposits at FVTPL	33,845	31,506	13,888
Securities at FVTPL	623,651	740,378	742,958
Securities at FVOCI	759,301	1,077,995	957,817
Securities at amortized cost	730,382	1,061,262	1,076,849
Loans at amortized cost	11,158,558	12,435,302	11,697,775
Loans at FVTPL	23,110	56,961	73,991
Others	88,534	93,543	82,695
	<u>13,572,456</u>	<u>15,707,362</u>	<u>14,773,996</u>
Interest expense:			
Deposits	(3,091,659)	(3,644,632)	(2,842,625)
Borrowings	(468,068)	(551,416)	(426,607)
Debt securities issued	(1,336,840)	(1,666,257)	(1,554,544)
Others	(95,800)	(107,093)	(67,520)
	<u>(4,992,367)</u>	<u>(5,969,398)</u>	<u>(4,891,296)</u>
Net interest income	<u>₩ 8,580,089</u>	<u>9,737,964</u>	<u>9,882,700</u>

32. Net fees and commission income

Net fees and commission income for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Fees and commission income:			
Credit placement fees	₩ 62,766	66,666	94,836
Commission received as electronic charge receipt	146,309	151,584	143,449
Brokerage fees	412,165	353,382	546,236
Commission received as agency	120,508	140,484	145,162
Investment banking fees	91,273	151,031	161,439
Commission received in foreign exchange activities	214,395	244,325	239,467
Asset management fees	235,275	307,167	255,043
Credit card fees	1,360,322	1,234,239	1,170,078
Operating lease fees (*)	82,141	142,025	245,173
Others	570,102	766,110	813,591
	<u>3,295,256</u>	<u>3,557,013</u>	<u>3,814,474</u>
Fees and commission expense:			
Credit-related fee	(36,817)	(42,023)	(46,456)
Credit card fees	(944,533)	(915,521)	(849,256)
Others	(374,909)	(458,950)	(535,829)
	<u>(1,356,259)</u>	<u>(1,416,494)</u>	<u>(1,431,541)</u>
Net fees and commission income	<u>₩ 1,938,997</u>	<u>2,140,519</u>	<u>2,382,933</u>

(*) Among operating lease fees recognized during the current and prior periods, there is no variable lease fee income which does not vary by index or rate.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

33. Dividend income

Dividend income for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Securities at FVTPL	₩70,955	65,572	76,453
Securities at FVOCI	16,871	16,586	21,503
	<u>₩87,826</u>	<u>82,158</u>	<u>97,956</u>

34. Net gain (loss) on financial instruments measured at fair value through profit or loss

Net gain (loss) on financial instruments measured at fair value through profit or loss for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net gain (loss) on deposits measured at FVTPL			
Gain (loss) on valuation	₩ (61,848)	87,374	1,267
Gain on sale	—	13,400	28,461
	<u>(61,848)</u>	<u>100,774</u>	<u>29,728</u>
Net gain (loss) on loans measured at FVTPL			
Gain (loss) on valuation	916	(248,032)	(204,702)
Gain on sale	9,133	10,395	17,516
	<u>10,049</u>	<u>(237,637)</u>	<u>(187,186)</u>
Net gain (loss) on securities measured at FVTPL			
Debt securities			
Gain on valuation	111,029	137,181	41,208
Gain on sale	78,718	125,431	72,338
Other gains	223,731	297,024	331,837
	<u>413,478</u>	<u>559,636</u>	<u>445,383</u>
Equity securities			
Gain on valuation	286,801	141,246	134,922
Gain (loss) on sale	(275,356)	183,969	283,265
	<u>11,445</u>	<u>325,215</u>	<u>418,187</u>
Other			
Gain on valuation	19,086	28,803	22,690
	<u>444,009</u>	<u>913,654</u>	<u>886,260</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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34. Net gain (loss) on financial instruments measured at fair value through profit or loss (continued)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net gain (loss) on financial liabilities measured at FVTPL			
Debt securities			
Loss on valuation	(115,667)	(16,810)	(48,261)
Gain (loss) on disposal	268,932	(35,710)	82,724
	<u>153,265</u>	<u>(52,520)</u>	<u>34,463</u>
Other			
Loss on valuation	(14,892)	(91,025)	(83,316)
Gain on disposal	1,394	4,169	8,313
	<u>(13,498)</u>	<u>(86,856)</u>	<u>(75,003)</u>
	<u>139,767</u>	<u>(139,376)</u>	<u>(40,540)</u>
Derivatives:			
Gain (loss) on valuation	(291,879)	388,880	245,681
Gain on transaction	179,928	359,187	(661,113)
	<u>(111,951)</u>	<u>748,067</u>	<u>(415,432)</u>
	<u>₩ 420,026</u>	<u>1,385,482</u>	<u>272,830</u>

35. Net gain (loss) on financial instruments designated at fair value through profit or loss

Net gain (loss) on financial instruments designated at fair value through profit or loss for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Financial assets designated at fair value through profit or loss:			
Equity securities:			
Loss on sale	₩ (4,737)	—	—
Financial liabilities designated at fair value through profit or loss:			
Borrowings:			
Gain (loss) on valuation	382,667	(33,871)	241,066
Loss on sale and redemption	(404,573)	(812,175)	(42,827)
	<u>₩ (26,643)</u>	<u>(846,046)</u>	<u>198,239</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

36. Provision for allowance for credit loss

Provision for allowance for credit loss on financial assets for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Loans at amortized cost	₩(910,898)	(1,290,695)
Other financial assets at amortized cost	(33,945)	(33,785)
Securities at fair value through other comprehensive income	(5,787)	(3,829)
Unused credit line and financial guarantee	(29,519)	(52,795)
Securities at amortized cost	(543)	(1,075)
	<u>₩(980,692)</u>	<u>(1,382,179)</u>

37. General and administrative expenses

General and administrative expenses for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Employee benefits:			
Salaries	₩2,736,604	2,918,065	3,034,543
Severance benefits:			
Defined contribution	23,745	35,972	36,660
Defined benefit	133,749	168,732	184,753
Termination benefits	115,275	122,732	94,723
	<u>3,009,373</u>	<u>3,245,501</u>	<u>3,350,679</u>
Entertainment	30,442	36,931	34,963
Depreciation	171,771	479,657	475,506
Amortization	73,575	99,208	129,976
Taxes and utility bills	176,133	197,691	197,996
Advertising	287,688	265,739	204,308
Research	13,928	17,742	20,271
Others	978,665	792,205	798,774
	<u>₩4,741,575</u>	<u>5,134,674</u>	<u>5,212,473</u>

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38. Share-based payments

(a) Stock options granted as of December 31, 2020 are as follows:

	<u>6th grant (*)</u>	<u>7th grant (*)</u>
Type	Cash payment	Cash payment
Grant date	March 20, 2007	March 19, 2008
Exercise price in Korean won	₩54,560	₩49,053
Number of shares granted	1,301,050	808,700
Options' expiry dates	August 19, 2020	May 17, 2021 / September 17, 2021
Changes in number of shares granted:		
Beginning balance	58,764	36,162
Exercised and cancelled	58,764	—
Ending balance	<u>—</u>	<u>36,162</u>
		₩14 (Expiration of contractual exercise period : May 17, 2021)
Fair value per share in Korean won	—	₩49 (Expiration of contractual exercise period : Sep 17, 2021)

(*) All of stock options have vested as of December 31, 2020, and the weighted average exercise price for 36,162 stock options outstanding as of December 31, 2020 is ₩49,053.

(b) Performance shares granted as of December 31, 2020 are as follows:

	<u>Expired</u>	<u>Not expired</u>
Type	Cash-settled share-based payment	
Performance conditions (*1)	Relative stock price linked (20.0%), management index (80.0%)	
Exercising period	4 years from the commencement date of the year to which the grant date belongs (5 years in the case of deferred payment)	
Estimated number of shares vested at December 31, 2020	468,013	1,601,729
Fair value per share in Korean won (*2)	₩40,580, ₩44,222, ₩33,122 for the expiration of exercising period from 2018 to 2020	₩32,050

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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38. Share-based payments (continued)

- (*1) Starting with the shares provided from 2020, Shinhan Financial Group and Shinhan Bank will apply relative stock price linked (20.0%), management index (60.0%), and prudential index (20.0%).
- (*2) Based on performance-based stock compensation, the reference stock price (the arithmetic average of the weighted average share price of transaction volume for the past two month, the previous one month, and the past one week) of four years (In the case of deferred quantity for after five years) after the commencement of the grant year is paid in cash, and the fair value of the reference stock to be paid in the future is assessed as the closing price of the settlement.

(c) Share-based compensation costs for the years ended December 31, 2018, 2019 and 2020 are as follows:

	2018		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
4th	₩ —	(14)	(14)
5th	—	(19)	(19)
6th	(23)	(139)	(162)
7th	(59)	(86)	(145)
Performance share	1,154	9,768	10,922
	<u>₩1,072</u>	<u>9,510</u>	<u>10,582</u>
	2019		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
5th	₩ —	9	9
6th	(3)	(15)	(18)
7th	(5)	(6)	(11)
Performance share	4,678	32,646	37,324
	<u>₩4,670</u>	<u>32,634</u>	<u>37,304</u>
	2020		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
6th	₩ (1)	(4)	(5)
7th	(18)	(26)	(44)
Performance share	(257)	(3,902)	(4,159)
	<u>₩(276)</u>	<u>(3,932)</u>	<u>(4,208)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

38. Share-based payments (continued)

(d) Accrued expenses and the intrinsic value as of December 31, 2019 and 2020 are as follows:

	2019		
	Accrued expenses (*)		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
6th	₩ 1	4	5
7th	19	27	46
Performance share	10,003	81,352	91,355
	<u>₩10,023</u>	<u>81,383</u>	<u>91,406</u>

(*) The intrinsic value of share-based payments is ₩91,355 million as of December 31, 2019. For calculating, the quoted market price ₩43,350 per share is used for stock options and the fair value is considered as intrinsic value for performance shares, respectively.

	2020		
	Accrued expenses (*)		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
7th	₩ 1	1	2
Performance share	7,201	60,241	67,442
	<u>₩7,202</u>	<u>60,242</u>	<u>67,444</u>

(*) The intrinsic value of share-based payments is ₩ 67,442 million as of December 31, 2020. For the calculation, the quoted market price ₩ 32,050 per share is used for stock options and the fair value is considered as intrinsic value for performance shares, respectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

39. Net other operating expense

Other operating income and other operating expense for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Other operating income			
Gain on disposal of assets:			
Loans at amortized cost	₩ 40,624	18,298	21,348
Others:			
Gain on hedged items	418,390	564,438	536,768
Reversal of allowance for guarantees and acceptances	2,834	19,329	2,709
Gain on other trust accounts	—	27	—
Reversal of other allowance	5,033	11,194	850
Others	131,345	97,777	164,999
	<u>557,602</u>	<u>692,765</u>	<u>705,326</u>
	<u>598,226</u>	<u>711,063</u>	<u>726,674</u>
Other operating expense			
Loss on disposal of assets:			
Loans at amortized cost	(14,271)	(27,291)	(18,675)
Others:			
Loss on hedged items	(406,872)	(596,533)	(605,808)
Fund contribution	(283,331)	(311,336)	(367,993)
Provision for other debt allowances	(13,036)	(6,939)	(16,862)
Depreciation of operating lease assets	(56,570)	(98,288)	(163,006)
Others	(653,501)	(857,918)	(924,796)
	<u>(1,413,310)</u>	<u>(1,871,014)</u>	<u>(2,078,465)</u>
	<u>(1,427,581)</u>	<u>(1,898,305)</u>	<u>(2,097,140)</u>
Net other operating expenses	<u>₩ (829,355)</u>	<u>(1,187,242)</u>	<u>(1,370,466)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

40. Net other non-operating income

Other non-operating income and other non-operating expense for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Other non-operating income			
Gain on disposal of assets:			
Property and equipment (*)	₩ 12,611	1,452	64,427
Investment property (*)	4,783	12,640	20,701
Assets held for sale	—	—	1,147
Lease assets	1,153	1,681	2,712
Right-of-use assets	—	1,112	3,415
Others	—	407	24
	<u>18,547</u>	<u>17,292</u>	<u>92,426</u>
Gain on disposal of Investments in associates	17,427	3,461	11,325
Others:			
Rental income on investment property	32,488	43,777	23,890
Reversal of impairment losses on intangible asset	62	438	119
Gain from assets contributed	77	86	4
Others	49,276	82,879	66,268
	<u>81,903</u>	<u>127,180</u>	<u>90,281</u>
	<u>117,877</u>	<u>147,933</u>	<u>194,032</u>
Other non-operating expense			
Loss on disposal of assets:			
Property and equipment (*)	(3,082)	(870)	(5,884)
Investment property	(2,958)	—	—
Lease assets	(3,964)	(3,221)	(5,538)
Right-of-use assets	—	(306)	(1,195)
Others	(3)	—	(64)
	<u>(10,007)</u>	<u>(4,397)</u>	<u>(12,681)</u>
Loss on disposal of investments in associates	(11,546)	(3,974)	(5,754)
Impairment loss on investments in associates	(5,849)	—	(9,407)
	<u>(17,395)</u>	<u>(3,974)</u>	<u>(15,161)</u>
Others:			
Donations	(88,650)	(94,937)	(86,608)
Depreciation of investment properties	(16,917)	(17,565)	(20,165)
Impairment loss on intangible assets	(771)	(152,081)	(41,429)
Write-off of intangible assets	(1,537)	(9,221)	(474)
Expenses on collection of special bonds	(6,048)	(7,322)	(7,978)
Others	(26,844)	(46,465)	(344,934)
	<u>(140,767)</u>	<u>(327,591)</u>	<u>(501,588)</u>
	<u>(168,169)</u>	<u>(335,962)</u>	<u>(529,430)</u>
Net other non-operating income (loss)	<u>₩ (50,292)</u>	<u>(188,029)</u>	<u>(335,398)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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40. Net other non-operating income (continued)

- (*) Gain and loss on disposal of sale-and-leaseback are included in gain and loss on disposal of property, plant, and equipment and gain on disposal of investment property, respectively. Gain on disposal of sale-and-leaseback for the year ended December 31, 2020 is ₩ 9,761 million.

41. Income tax expense

- (a) Income tax expense for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Current income tax expense	₩ 896,755	1,115,724	1,131,254
Temporary differences	383,190	296,244	131,862
Income tax recognized in other comprehensive income	<u>(11,600)</u>	<u>(142,844)</u>	<u>(7,321)</u>
Income tax expenses	<u>₩1,268,345</u>	<u>1,269,124</u>	<u>1,255,795</u>

- (b) Income tax expense calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Profit before income taxes	₩4,466,610	4,911,508	4,753,871
Income taxes at statutory tax rates	1,222,840	1,345,187	1,301,836
Adjustments:			
Non-taxable income	(9,561)	8,500	(4,932)
Non-deductible expense	12,854	18,461	14,529
Tax credit	(23,317)	(2,289)	(88)
Other	<u>65,529</u>	<u>(100,735)</u>	<u>(55,550)</u>
Income tax expense	<u>₩1,268,345</u>	<u>1,269,124</u>	<u>1,255,795</u>
Effective tax rate	% 28.40	25.84	26.42

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

41. Income tax expense (continued)

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2019 and 2020 are as follows:

	2019				
	Beginning Balance	Business combination	Profit or loss	Other comprehensive income(loss)	Ending Balance (*)
Unearned income	₩(255,336)	(62,077)	(14,266)	—	(331,679)
Account receivable	(24,139)	—	(2,185)	—	(26,324)
Financial assets at fair value through profit or loss	48,277	9,284	(20,972)	(56,654)	(20,065)
Securities at fair value through other comprehensive income	177,358	(554,017)	425,491	(130,344)	(81,512)
Investment in associates	24,743	—	(5,937)	(48)	18,758
Valuation and depreciation of property and equipment	(161,996)	—	10,950	—	(151,046)
Derivative asset (liability)	111,751	(1,132)	(97,147)	7,533	21,005
Deposits	28,036	—	2,605	—	30,641
Accrued expenses	132,689	15,298	(2,493)	—	145,494
Defined benefit obligation	447,658	4,805	33,321	20,348	506,132
Plan assets	(446,323)	(4,610)	(57,165)	958	(507,140)
Other provisions	194,475	2,283	16,297	—	213,055
Allowance for acceptances and guarantees	29,157	42,234	8,623	—	80,014
Allowance related to asset revaluation	(49,713)	—	—	—	(49,713)
Allowance for expensing depreciation	(465)	—	64	—	(401)
Deemed dividend	—	—	—	—	—
Accrued contributions	21,711	—	15,107	—	36,818
Financial instruments designated at fair value through profit of loss	(87,408)	—	130,225	—	42,817
Allowances	48,784	—	(10,716)	—	38,068
Fictitious dividend	1,325	—	16	—	1,341
Liability under insurance contracts	22,593	—	1,554	—	24,147
Deficit carried over	—	—	—	—	—
Others	(225,676)	204,351	(537,808)	15,363	(543,770)
	<u>37,501</u>	<u>(343,581)</u>	<u>(104,436)</u>	<u>(142,844)</u>	<u>(553,360)</u>
Expired unused tax losses:					
Extinguishment of deposit and insurance liabilities	367,444	—	(47,433)	—	320,011
	<u>₩ 404,945</u>	<u>(343,581)</u>	<u>(151,869)</u>	<u>(142,844)</u>	<u>(233,349)</u>

(*) Deferred tax assets from overseas subsidiaries are increased by ₩1,530 million due to foreign exchange rate movements.

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(In millions of won)

41. Income tax expense (continued)

	2020				
	Beginning Balance	Business combination	Profit or loss	Other comprehensive income(loss)	Ending Balance (*)
Unearned income	₩(331,679)	—	3,401	—	(328,278)
Account receivable	(26,324)	—	(2,754)	—	(29,078)
Financial assets measured at fair value	(101,577)	1,750	(28,950)	(13,308)	(142,085)
Investment in associates and etc	18,758	—	144,390	(1,878)	161,270
Valuation and depreciation of property and equipment	(151,046)	7	253	—	(150,786)
Derivative asset (liability)	21,005	—	(80,357)	3,762	(55,590)
Deposits	30,641	—	(3,009)	—	27,632
Accrued expenses	145,494	441	(5,071)	—	140,864
Defined benefit obligation	506,132	209	39,072	(6,759)	538,654
Plan assets	(507,140)	—	(47,934)	1,167	(553,907)
Other provisions	213,055	—	99,223	—	312,278
Allowance for acceptances and guarantees	80,014	—	8,036	—	88,050
Allowance related to asset revaluation	(49,713)	—	—	—	(49,713)
Allowance for expensing depreciation	(401)	—	64	—	(337)
Deemed dividend	—	—	—	—	—
Accrued contributions	36,818	—	(20,200)	—	16,618
Financial instruments designated at fair value through profit of loss	42,817	—	(71,043)	—	(28,226)
Allowances	38,068	—	185,583	—	223,651
Fictitious dividend	1,341	—	14,950	—	16,291
Liability under insurance contracts	24,147	—	(22,408)	—	1,739
Deficit carried over	—	—	311	—	311
Others	(543,770)	451	(304,112)	9,695	(837,736)
	<u>(553,360)</u>	<u>2,858</u>	<u>(90,555)</u>	<u>(7,321)</u>	<u>(648,378)</u>
Expired unused tax losses:					
Extinguishment of deposit and insurance liabilities	320,011	—	(35,944)	—	284,067
	<u>₩(233,349)</u>	<u>2,858</u>	<u>(126,499)</u>	<u>(7,321)</u>	<u>(364,311)</u>

(*) Deferred tax assets from overseas subsidiaries are increased by ₩1,960 million due to foreign exchange rate movements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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41. Income tax expense (continued)

(d) Deferred tax assets and liabilities that are directly charged or credited to equity for the years ended December 31, 2019 and 2020 are as follows:

	January 1, 2019		Changes		December 31, 2019	
	OCI	Tax effect	OCI	Tax effect	OCI	Tax effect
Gain (loss) on valuation of financial assets measured at FVOCI	₩ 11,713	(8,754)	427,657	(124,147)	439,370	(132,901)
Gain (loss) on financial liabilities measured at FVTPL attributable to changes in credit risk	235	(65)	(11,621)	3,196	(11,386)	3,131
Foreign currency translation adjustments for foreign operations	(306,766)	(15,087)	98,418	5,970	(208,348)	(9,117)
Gain (loss) on cash flow hedge	(24,485)	6,733	(23,492)	7,533	(47,977)	14,266
Equity in other comprehensive income of associates	4,957	(74)	3,343	(48)	8,300	(122)
The accumulated other comprehensive income in separate account (*)	5,672	(1,560)	14,382	(3,955)	20,054	(5,515)
Remeasurements of the defined benefit liability	(477,382)	130,700	(76,156)	21,306	(553,538)	152,006
Gain (loss) on valuation of financial asset measured at FVTPL (Overlay approach)	(108,655)	29,597	207,333	(56,654)	98,678	(27,057)
	<u>₩(894,711)</u>	<u>141,490</u>	<u>639,864</u>	<u>(146,799)</u>	<u>(254,847)</u>	<u>(5,309)</u>
	January 1, 2020		Changes		December 31, 2020	
	OCI	Tax effect	OCI	Tax effect	OCI	Tax effect
Gain (loss) on valuation of financial assets measured at FVOCI	₩ 439,370	(132,901)	(103,570)	23,912	335,800	(108,989)
Gain (loss) on financial liabilities measured at FVTPL attributable to changes in credit risk	(11,386)	3,131	4,253	(1,170)	(7,133)	1,961
Foreign currency translation adjustments for foreign operations	(208,348)	(9,117)	(166,596)	7,000	(374,944)	(2,117)
Gain (loss) on cash flow hedge	(47,977)	14,266	(19,958)	5,498	(67,935)	19,764
Equity in other comprehensive income of associates	8,300	(122)	(1,450)	(1,878)	6,850	(2,000)
The accumulated other comprehensive income in separate account (*)	20,054	(5,515)	5,358	(1,473)	25,412	(6,988)
Remeasurements of the defined benefit liability	(553,538)	152,006	21,362	(5,610)	(532,176)	146,396
Gain (loss) on valuation of financial asset measured at FVTPL (Overlay approach)	98,678	(27,057)	125,371	(35,073)	224,049	(62,130)
	<u>₩(254,847)</u>	<u>(5,309)</u>	<u>(135,230)</u>	<u>(8,794)</u>	<u>(390,077)</u>	<u>(14,103)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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41. Income tax expense (continued)

(*) Deferred tax effects, which are originated from the accumulated other comprehensive income in separate account, are included in the other liabilities of principle and interest guaranteed separate account's financial statement.

(e) There is no the amount of deductible temporary differences, unused tax losses, and unused tax credits that are not recognized as deferred tax assets as of December 31, 2019 and 2020.

(f) The amount of temporary difference regarding investment in subsidiaries that are not recognized as deferred tax liabilities as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Investment in associates	₩(766,888)	(897,110)

(g) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Deferred tax assets	₩ 518,337	440,430
Deferred tax liabilities	(751,686)	(804,741)

42. Earnings per share

(a) Basic and diluted earnings per share for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Profit attributable to equity holders of Shinhan Financial Group	₩ 3,156,722	3,403,497	3,414,595
Less:			
Dividends to hybrid bond	(40,357)	(61,993)	(85,327)
Net profit available for common stock	<u>₩ 3,116,365</u>	<u>3,341,504</u>	<u>3,329,268</u>
Weighted average number of common shares outstanding (*1)	473,649,076	477,346,731	500,343,324
Basic and diluted earnings per share in won	₩ 6,579	7,000	6,654

(*1) The number of basic ordinary shares outstanding is 516,599,554 shares and the above weighted-average stocks are calculated by reflecting treasury stocks issued and 17,482,000 shares of convertible preferred shares issued on May 1, 2019.

(*2) Treasury stock has retired on June 1, 2020.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

42. Earnings per share (continued)

(b) The calculation details of the weighted average number of ordinary shares are as follows:

	2020	
	<u>Number of shares</u>	<u>Number of days</u>
Number of common shares issued	516,599,554	178,880,869,852
Shares of convertible preferred stock	17,482,000	6,398,412,000
Shares of treasury stock	(704,796)	(2,153,625,403)
Average number of ordinary shares	533,376,758	183,125,656,449
Days		366 days
Weighted average number of ordinary shares		500,343,324

43. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Guarantees:		
Outstanding guarantees	₩ 9,319,885	10,249,827
Contingent guarantees	3,669,697	3,433,953
	<u>12,989,582</u>	<u>13,683,780</u>
Commitments to extend credit:		
Loan commitments in won	74,393,722	80,598,639
Loan commitments in foreign currency	22,542,776	19,319,903
ABS and ABCP commitments	2,116,354	1,604,958
Others	81,387,165	87,718,227
	<u>180,440,017</u>	<u>189,241,727</u>
Endorsed bills:		
Secured endorsed bills	11,287	1,650
Unsecured endorsed bills	6,737,097	7,324,559
	<u>6,748,384</u>	<u>7,326,209</u>
Loans sold with repurchase agreement	2,099	—
	<u>₩200,180,082</u>	<u>210,251,716</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

43. Commitments and contingencies (continued)

(b) Pending litigations

The Group's pending lawsuits as a defendant as of December 31, 2020 are as follows:

Case	Number of claim	Claim amount	Description	Status
Claim for the payment to execute the assignment order	1	₩ 7,099	For the deposits at the Group owned by one of the debtor, the plaintiff has received a provisional seizure order, bond seizure and an assignment order that assigned the Bank as a third party debtor. Accordingly, the plaintiff filed a claim against the Bank for the debt payment to execute the assignment order.	In progress for the first order.
Deposit return	1	5,575	Hanwha Savings Bank, a party to the lender of Meat Loan, filed a lawsuit against all creditors to confirm deposit accounts for the sale of frozen meat. As a result, the lawsuit has been commissioned by HYUN, the legal firm, proceed a Matron's private lawsuit related the Group.	In progress for the first order.
Gampo Ramada a settlement claim suit	1	5,658	The plaintiff has requested the intermediate loan of the repayment of loans until now because the Group planned for a three months extension of the maturity of the intermediate loan and have made a commitment to repay the principal and interest of the unpaid intermediate payment loan to the plaintiff after three months.	The Group lost the first and second order (2021.01.14) and the third order is ongoing.
Others	530	301,460	It includes various cases, such as compensation for loss claim.	
	<u>533</u>	<u>₩319,792</u>		

As of the December 31, 2020, the Group has recorded ₩12,468 million and ₩3,453 million, respectively, as other provisions and insurance contract liabilities (reserve for claims) for litigations, etc., The outcome of the lawsuits is not expected to have a material impact on the consolidated financial statements, but additional losses may result from future litigation.

- (c) The Group entered into an agreement between shareholders with Asia Trust Co., Ltd. (60% of its total shares) to acquire remaining stake. In accordance with the agreement, the Group has the right to purchase shares held by the shareholders of Asia Trust Co., Ltd. In response, the shareholders of Asia Trust Co., Ltd. have the right to demand to purchase the shares to the Group.
- (d) In relation to Asia Trust Co., Ltd., ("Asia Trust") a subsidiary of the Group, a number of complaints have arisen due to misuse of the seals discarded by employees prior to the Group's acquisition of Asia

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

43. Commitments and contingencies (continued)

Trust. Some of them filed a lawsuit against the Group (claim amount of ₩49.6 billion) during the current year, and a special inspection is conducted by the Financial Supervisory Service in February 2019. The Group did not reflect these financial effects in the consolidated financial statements as of December 31, 2020 because the Group could not reliably measure the likelihood of loss and extent of loss.

- (e) Regarding the currency option contracts, the Group has received the dispute arbitration request from the Financial Dispute Arbitration Committee on December 19, 2019; the Group will proceed with Board of Directors' decision. The Group's management anticipates that the result of the adjustment will not have a significant impact on the Group's financial position.
- (f) As a Prime Brokerage Service operator, the Group entered into a total return swap agreement (TRS, derivatives that exchange profits and losses from underlying assets such as stocks, bonds and funds) with a fund operated by Lime Asset Management ("Lime Fund"). Through TRS with the Group, the Lime Fund invested approximately \$200 million in IIG Global Trade Finance Fund, IIG Trade Finance Fund, and IIG Trade Finance Fund-FX Hedged ("IIG Fund") from May 2017 to September 2017.

The Group invested the IIG Fund in LAM Enhanced Finance III L.P. ("LAM III Fund") in kind and acquired the LAM III Fund's beneficiary certificates in accordance with the management instructions of Lime Asset Management in 2019. The recoverable value of the LAM III Fund beneficiary certificates is affected by the recoverable value of the IIG Fund invested in kind. Meanwhile, IIG Fund received cancellation of registration and asset freeze from the US Securities and Exchange Commission in November 2019. The Financial Supervisory Service (FSS) announced in its interim inspection of Lime Fund in February 2020 that the Group is charged of being involved in poor concealment and fraud of Lime Fund while operating TRSs with Lime Fund, and a related prosecution investigation has been under way since then.

The Financial Supervisory Service has notified advance notice that is a result of the inspection on the Lime Trade Financial Fund and Lime CI Fund to the Group. In addition, regarding the Lime Trade Financial Fund, the Financial Supervisory Service Sanctions Review Committee and the Financial Services Commission Securities Futures Commission reviewed and voted on the sanctions of former executives and institutions. It will be finalized by the Financial Services Commission in the future, and the Lime CI Fund is currently undergoing a Financial Supervisory Service Sanctions Review Committee.

The prosecution arrested and indicted the former director of Prime Brokerage Services on fraud charges. On September 25, the former director of Prime Brokerage Service was convicted in the first trial for fraud for violation of the Capital Market and Financial Investment Services Act. The former director of Prime Brokerage Services submitted an appeal on October 5, 2020.

The prosecution indicted the Group and the former director of Prime Brokerage Services on January 22, 2021 for violating 'Financial Investment Services and Capital Markets Act'. It is expected that the criminal trial will determine whether the Group is legally responsible or not. The Group has determined the present obligation that the Group may liable for the charge of involvement in the fraud is not significant.

Meanwhile, as of December 31, 2020, there is an international dispute over some beneficiary certificates acquired under the management order of Lime Asset Management.

Considering the board's voluntary compensation decision and the results of the Financial Supervisory Service's dispute settlement committee, the Group conducted the compensation and liquidity supply for some of the Lime Fund sales. Supervision authorities are currently conducting inspections on Lime Asset

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

43. Commitments and contingencies (continued)

Management, and depending on the inspection results, procedures for dispute settlement and damage relief measures for incomplete sales may be carried out.

- (g) The Group sold approximately ₩390.7 billion of German Heritage DLS trust products from May 2017 to December 2018. As of December 31, 2020, the repayment of ₩379.9 billion has been delayed. Accordingly, the supervisory authorities are conducting an inspection on the incomplete sale of trust products. The Financial Supervisory Service has notified advance notice that is a result of the inspection to the Group. In addition, the Financial Supervisory Service Sanctions Review Committee and the Financial Services Commission Securities Futures Commission reviewed and voted on the sanctions of staffs and institutions. However, it will be finalized by the Financial Services Commission in the future.
- (h) The Group has sold Gen2 related trust instruments from May 2014 to November 2019. As of December 31, 2020, approximately ₩287.1 billion, expired amount, of ₩420.0 billion, outstanding balance, is suspended from redemption and delayed in repayment.

44. Statement of cash flows

- (a) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash and due from banks at amortized cost	₩17,363,450	28,435,818	33,420,549
Adjustments:			
Due from financial institutions with a maturity over three months from date of acquisition	(3,008,188)	(3,349,719)	(2,488,156)
Restricted due from banks	<u>(6,175,506)</u>	<u>(16,506,925)</u>	<u>(21,969,411)</u>
	<u>₩ 8,179,756</u>	<u>8,579,174</u>	<u>8,962,982</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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44. Statement of cash flows (continued)

(b) Significant non-cash activities for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Debt-equity swap	₩28,759	224,093	58,528
Transfers from construction-in-progress to property and equipment	6,319	76,004	56,575
Transfers between property and equipment and investment property	28,199	104,573	4,064
Transfers between assets held for sale and property and equipment	80	455	31,633
Transfers between investment property and assets held for sale	—	15,795	910
Accounts payable for purchase of intangible assets, etc.	1,047	472,798	137,476
Transaction for right-of-use assets	—	1,376,764	281,785
Exchange of shares related to acquisition of subsidiaries	—	—	629,449
Exchange of shares related to disposal of treasury stocks	—	—	287,669

(c) Changes in assets and liabilities arising from financing activities for the years ended December 31, 2019 and 2020 are as follows:

	<u>2019</u>			
	<u>Net derivative financial instruments</u>	<u>Borrowings</u>	<u>Debentures</u>	<u>Lease liabilities</u>
Beginning balance	₩(77,102)	29,818,542	63,227,699	536,842
Changes from cash flows	21,958	5,017,269	11,201,673	(269,362)
Changes from non-cash flows				
Amortization of discount on borrowings and debentures	—	58,320	352,524	11,291
Changes in foreign currency exchange rate	—	173,623	282,534	—
Others	60,966	(204,598)	298,934	792,901
Business combination	—	—	—	32,587
Ending balance	<u>₩ 5,822</u>	<u>34,863,156</u>	<u>75,363,364</u>	<u>1,104,259</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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44. Statement of cash flows (continued)

	2020			
	Net derivative financial instruments	Borrowings	Debentures	Lease liabilities
Beginning balance	₩ 5,822	34,863,156	75,363,364	1,104,259
Changes from cash flows	(43,676)	7,465,106	(28,372)	(781,867)
Changes from non-cash flows				
Amortization of discount on borrowings and debentures	—	22,836	437,627	14,504
Changes in foreign currency	—	271,179	(417,151)	—
Others	126,638	(1,037,213)	(221,074)	256,426
Business combination(Note47)	—	9,000	—	839
Ending balance	<u>₩ 88,784</u>	<u>41,594,064</u>	<u>75,134,394</u>	<u>594,161</u>

45. Related parties

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. In accordance with IAS 24, the Group defines the retirement benefit plans of the associates, key management and their families, the consolidation group and related parties as the scope of related parties. The amount of profit and loss, bond and debt balance between the Group and the related parties are disclosed. For details of the subsidiaries, refer to 'Note 15'.

(a) Balances with the related parties as of December 31, 2019 and 2020 are as follows:

<u>Related party</u>	<u>Account</u>	<u>2019</u>	<u>2020</u>
Investments in associates:			
BNP Paribas Cardif Life Insurance	Other assets	₩ 92	76
”	Credit card loans	173	81
”	Deposits	402	13,941
Partners 4th Growth Investment Fund	Deposits	1,443	2,802
BNP Paribas Cardif General Insurance	Credit card loans	26	21
”	Other assets	401	—
”	Deposits	17	41
Shinhan Praxis K-Growth Global Private Equity Fund	Other assets	91	—
Dream High Fund III	Deposits	5	4
Credian Healthcare Private Equity Fund II	Deposits	4	2
Midas Dong-A Snowball Venture Fund 2	Deposits	233	1,739
Eum Private Equity Fund No.3	Deposits	353	20
Incorporated association Finance Saving Information Center	Deposits	6	7
GX Shinhan interest 1 st Private Equity Fund	Unearned revenue	248	—
Nomura investment property trust No.19	Loans	11,973	11,976
”	Other assets	42	44

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

45. Related parties (continued)

<u>Related party</u>	<u>Account</u>	<u>2019</u>	<u>2020</u>
Investments in associates (continued):			
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	Other assets	₩ 678	1,160
Shinhan-Stonebridge Petro Private Equity Fund (*)	Other assets	810	—
Korea Finance Security	Deposits	362	568
SHINHAN-CORE TREND GLOBAL FUND 1	Unearned revenue	9	16
Hermes Private Investment Equity Fund	Deposits	275	352
Multimedia Tech Co.Ltd	Deposits	3	—
Korea Credit Bureau	Deposits	80	2,088
Goduck Gangil1 PFV Co., Ltd	Loans	24,000	24,000
”	ACL	(78)	(71)
SBC PFV Co., Ltd	Deposits	5,142	8,011
GMG Development Co., Ltd (*)	Deposits	300	—
Sprott Global Renewable Private Equity Fund I	Deposits	342	258
IMM Global Private Equity Fund	Loans	800	800
”	ACL	(3)	(2)
”	Deposits	7,598	10,820
Goduck Gangil10 PFV Co., Ltd	Loans	—	9,400
”	ACL	—	(19)
”	Deposits	—	2,718
Shinhan Global Healthcare Fund 2	Deposits	—	1
One Shinhan Global Fund 1	Unearned revenue	—	122
IGIS PRIVATE REAL ESTATE TRUST NO.331	Loans	—	9,919
”	Accrued income	—	121
”	Unearned revenue	—	22
COSPEC BIM tech	Loans	—	151
”	ACL	—	(95)
”	Deposits	—	1
IMM Special Situation 1-2 PRIVATE EQUITY FUND	Deposits	—	117
EDNCENTRAL Co.,Ltd.	Loans	—	19,450
”	Accrued income	—	9
”	Unearned revenue	—	578
KoFC-Neoplux R&D-Biz Creation 2013-1 Investment	Account receivables	—	2,823
Future-Creation Neoplux Venture Capital Fund	Account receivables	—	4,137
Neoplux Market-Frontier Secondary Fund	Account receivables	—	1,630
Gyeonggi-Neoplux Superman Fund	Account receivables	—	186
Shinhan-Neoplux Energy Newbiz Fund	Account receivables	—	25

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

45. Related parties (continued)

<u>Related party</u>	<u>Account</u>	<u>2019</u>	<u>2020</u>
Investments in associates (continued):			
SHINHAN-NEO Core Industrial Technology Fund	Account receivables	₩ —	3
KTC-NP Growth Champ 2011-2 Private Equity Fund	Account receivables	—	4,528
Neoplux No.3 Private Equity Fund	Account receivables	—	748
NV Station Private Equity Fund	Deposits	—	100
Pacific Sunny Professional Investors Private Placement Real Estate Investment Company No.45	Unearned revenue	—	76
IGIS Private Real Estate Investment Trust 286	Other loans	—	436
Genesis North America Power Company No.1 PEF	Other loans	—	2,171
Key management personnel and their immediate relatives:			
	Loans	4,426	5,144
	Assets	43,431	98,852
	Liabilities	₩16,822	44,404

(*) Excluded from the associates due to disposal and liquidation for the year ended December 31, 2020

(b) Transactions with the related parties for the years ended December 31, 2018, 2019 and 2020 are as follows:

<u>Related party</u>	<u>Account</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Investments in associates				
BNP Paribas Cardif Life Insurance	Fees and commission income	₩3,716	4,230	3,390
”	Reversal of credit losses	4	3	—
”	Other expense	—	(1)	(5)
”	General and administrative expenses	(17)	(9)	(4)
Shinhan Praxis K-Growth Global Private Equity Fund	Fees and commission income	685	448	361
BNP Paribas Cardif General Insurance	Fees and commission income	9	11	10
”	Provision for credit losses	(2)	—	—
”	Other operating income	—	468	333
Midas Dong-A Snowball Venture Fund (*1)	Fees and commission income	47	119	—
”	Interest expense	(2)	(1)	—
SP New Technology Business investment Fund I	Fees and commission income	317	—	—

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(In millions of won)

45. Related parties (continued)

<u>Related party</u>	<u>Account</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Investments in associates				
IBKS-Shinhan Creative Economy New Technology Fund	Fees and commission income	₩ 13	—	—
IBKS-Shinhan Creative Economy New Technology Fund 2 (*1)	Fees and commission income	16	8	—
SM New Technology Business Investment Fund I	Fees and commission income	55	14	—
JAEYOUNG SOLUTEC CO., LTD.	Interest income	523	—	—
”	Fees and commission income	2	—	—
”	Other operating income	3	—	—
”	Reversal of credit losses	—	—	—
”	Interest expense	(2)	—	—
”	Provision for credit losses	(1)	—	—
Partners 4th Growth Investment Fund	Interest expense	(19)	(7)	(4)
Shinhan-Albatross Technology Investment Fund	Fees and commission income	216	216	54
SHBNPP Private Korea Equity Long-Short Professional Feeder (*2)	Fees and commission income	975	363	—
KDBC Midas Dong-A Snowball Venture Fund No.2	Interest expense	(2)	—	(2)
STI-New Growth Engines Investment	Fees and commission income	16	—	—
Shinhan Fintech New Technology Fund No.1 (*1)	Fees and commission income	153	38	—
Shinhan Global Healthcare Fund 1	Fees and commission income	785	360	—
Taihan Industrial System Co., Ltd.	Fees and commission income	1	—	—
Shinhan capital-Cape FN Fund No.1 (*1)	Fees and commission income	82	101	—
SHC-K2 Global Material Fund	Fees and commission income	20	19	19
Synergy-Shinhan Mezzanine New Technology Investment Fund	Fees and commission income	127	94	50
Shinhan-Midas Dong-A Secondary Venture Fund	Fees and commission income	71	187	63
GX Shinhan interest 1st Private Equity Fund (*3)	Fees and commission income	412	545	454
Shinhan-Nvestor Liquidity Solution Fund	Fees and commission income	214	361	361

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(In millions of won)

45. Related parties (continued)

<u>Related party</u>	<u>Account</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Investments in associates				
SHC ULMUS Fund No.1 (*3)	Fees and commission income	₩ 51	76	39
Shinhan-PS Investment Fund No.1	Fees and commission income	12	20	20
Nomura investment property trust No.19	Interest income	312	519	525
”	Other operating income	—	7	3
”	Provision for credit loss	(34)	—	—
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	Fees and commission income	236	2,694	2,501
Shinhan-Stonebridge Petro Private Equity Fund	Fees and commission income	1,920	1,762	—
KOREA FINANCE SECURITY	Fees and commission income	—	10	10
”	Interest expense	—	—	(1)
ShinHan-Soo Young Entrepreneur Investment Fund	Fees and commission income	—	275	206
Shinhan-Rhinos 1 Fund	Fees and commission income	—	64	64
SHINHAN-CORE TREND GLOBAL FUND1	Fees and commission income	—	45	100
Kiwoom-Shinhan Innovation Fund I	Fees and commission income	—	67	240
One Shinhan Global Fund1	Fees and commission income	—	151	399
Open-Shinhan Portfolio Investment Association No. 1	Fees and commission income	—	59	59
FuturePlay-Shinhan TechInnovation Fund 1	Fees and commission income	—	7	218
WON JIN HOME PLAN CO.,LTD	Interest income	—	186	—
Korea Credit Bureau	Fees and commission income	—	13	13
”	Interest expense	—	(5)	(12)
Goduck Gangil1 PFV Co., Ltd	Interest income	—	328	915
”	Fees and commission income	—	1,120	—
”	Provision for credit loss	—	(78)	7
SBC PFV Co., Ltd	Fees and commission income	—	—	732
”	Interest expense	—	(3)	(5)
IMM Global Private Equity Fund	Interest income	—	28	25
”	Interest expense	—	(25)	(13)
”	Provision for credit loss	—	(3)	—
Goduck Gangil10 PFV Co., Ltd	Interest income	—	—	299
”	Fees and commission income	—	—	793
”	Interest expense	—	—	(4)
”	Provision for credit loss	—	—	(19)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

45. Related parties (continued)

Related party	Account	2018	2019	2020
Investments in associates				
IGIS PRIVATE REAL ESTATE TRUST NO.331	Interest income	₩ —	—	731
”	Other operating expense	—	—	(67)
”	Fees and commission income	—	—	478
COSPEC BIM tech	Provision for credit loss	—	—	(95)
Korea Omega Project Fund I	Fees and commission income	—	—	131
New Green Shinhan Mezzanine Fund	Fees and commission income	—	—	42
Sparklabs-Shinhan Opportunity Fund 1	Fees and commission income	—	—	174
EDNCENTRAL Co.,Ltd.	Interest income	—	—	649
”	Fees and commission income	—	—	578
”	Other operating expense	—	—	(121)
Shinhan Western T&D Consignment Management Real Estate Investment Co., Ltd (*3)	Fees and commission income	—	—	300
Kakao-Shinhan 1st TNYT Fund	Fees and commission income	—	—	165
KoFC-Neoplux R&D-Biz Creation 2013-1 Investment	Interest income	—	—	9
”	Fees and commission income	—	—	44
Future-Creation Neoplux Venture Capital Fund	Interest income	—	—	14
”	Fees and commission income	—	—	116
Neoplux Market-Frontier Secondary Fund	Fees and commission income	—	—	416
Gyeonggi-Neoplux Superman Fund	Fees and commission income	—	—	149
Shinhan-Neoplux Energy Newbiz Fund	Fees and commission income	—	—	308
NewWave 6th Fund	Fees and commission income	—	—	303
SHINHAN-NEO Core Industrial Technology Fund	Fees and commission income	—	—	3
KTC-NP Growth Champ 2011-2 Private Equity Fund	Interest income	—	—	5
”	Fees and commission income	—	—	86
Neoplux No.3 Private Equity Fund	Fees and commission income	—	—	748
Pacific Sunny Professional Investors Private Placement Real Estate Investment Company No.45	Fees and commission income	—	—	1,412

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

45. Related parties (continued)

<u>Related party</u>	<u>Account</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Investments in associates				
CREDIAN T&F 2020				
CORPORATE FINANCIAL				
STABILITY PRIVATE				
EQUITY FUND (*3)	Interest expense	₩ —	—	(1)
Key management personnel and their immediate relatives				
Interest income		101	161	126
		<u>₩11,015</u>	<u>15,045</u>	<u>18,897</u>

(*1) Excluded from the associates due to disposal and liquidation for the year ended December 31, 2019

(*2) As the Group does not have significant influence to this entity, this has been removed from the related parties for the year ended December 31, 2019.

(*3) Excluded from the associates due to disposal and liquidation for the year ended December 31, 2020.

(c) Key management personnel compensation

Key management personnel compensation for the years ended December 31, 2018, 2019 and 2020 are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Short-term employee benefits	₩22,502	21,237	23,468
Severance benefits	419	731	651
Share-based payment transactions (*)	4,944	12,343	2,628
	<u>₩27,865</u>	<u>34,311</u>	<u>26,747</u>

(*) The expenses of share-based payment transactions are the remuneration expenses during the vesting period.

(d) The guarantees provided between the related parties as of December 31, 2019 and 2020 are as follows:

<u>Guarantor</u>	<u>Guaranteed Parties</u>	<u>Amount of guarantees</u>		<u>Account</u>
		<u>2019</u>	<u>2020</u>	
Shinhan Bank	BNP Paribas Cardif Life Insurance	₩10,000	10,000	Unused credit line

(*) Among the associates, the amount of the securities purchase agreement for structured entities is ₩ 135,459 million as of December 31, 2020.

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45. Related parties (continued)

(e) Details of collaterals provided by the related parties as of December 31, 2019 and 2020 are as follows:

<u>Provided to</u>	<u>Provided by</u>	<u>Pledged assets</u>	<u>2019</u>	<u>2020</u>
Shinhan Bank	BNP Paribas Cardif Life Insurance	Government bonds	₩12,000	12,000
	Hyungje art printing	Properties	120	120
	Goduck Gangil1 PFV Co., Ltd	Guarantee insurance policy	28,800	28,800
	Goduck Gangil10 PFV Co., Ltd	Guarantee insurance policy	—	13,000
			<u>₩40,920</u>	<u>53,920</u>

(f) Details of significant loan transactions with related parties as of December 31, 2019 and 2020 are as follows:

<u>Classification</u>	<u>Company</u>	<u>2019</u>				<u>Ending</u>
		<u>Beginning</u>	<u>Loan</u>	<u>Recover</u>	<u>Others (*)</u>	
Investments in associates	Nomura investment property trust No.19	₩11,966	—	—	7	11,973
	Goduck Gangil1 PFV Co., Ltd	—	24,000	—	—	24,000
	IMM Global Private Equity Fund	—	800	—	—	800
	Total	<u>₩11,966</u>	<u>24,800</u>	<u>—</u>	<u>7</u>	<u>36,773</u>

(*) The effect on changes in allowance for credit loss is included.

<u>Classification</u>	<u>Company</u>	<u>2020</u>				<u>Ending</u>
		<u>Beginning</u>	<u>Loan</u>	<u>Recover</u>	<u>Others (*)</u>	
Investments in associates	Nomura investment property trust No.19	₩11,973	—	—	—	11,973
	IGIS PRIVATE REAL ESTATE TRUST NO.331	—	10,000	—	(312)	9,688
	EDNCENTRAL Co.,Ltd.	—	20,000	—	(619)	19,381
	Goduck Gangil1 PFV Co., Ltd	24,000	—	—	—	24,000
	Goduck Gangil10 PFV Co., Ltd	—	28,200	(18,800)	—	9,400
	IMM Global Private Equity Fund	800	—	—	—	800
	COSPEC BIM tech(*2)	—	—	—	151	151
	Total	<u>₩36,773</u>	<u>58,200</u>	<u>(18,800)</u>	<u>(780)</u>	<u>75,393</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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45. Related parties (continued)

(*1) The effect on changes in allowance for credit loss is included.

(*2) For the year ended December 31, 2020, it is incorporated as a related party, and has marked the balance as of December 31, 2020.

46. Interests in unconsolidated structured entities

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

The Group involved in assets-backed securitization, structured financing, beneficiary certificates (primarily investment funds) and other structured entities and characteristics of these structured entities are as follows:

	<u>Description</u>
Assets-backed securitization	<p>Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or committing to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement.</p> <p>The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.</p>
Structured financing	<p>Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (mergers and acquisitions), BTL (build-transfer-lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.</p>
Investment fund	<p>Investment fund means an investment trust, a PEF (private equity fund) or a partnership which invests in a group of assets such as stocks or bonds by issuing a type of beneficiary certificates to raise funds from the general public, and distributes its income and capital gains to their investors. The Group manages assets by investing in shares of investment fund or playing a role of an operator or a GP (general partner) of investment fund, on behalf of other investors.</p>

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46. Interests in unconsolidated structured entities (continued)

The size of unconsolidated structured entities as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>	<u>2020</u>
Total assets:		
Asset-backed securitization	₩208,441,947	253,958,036
Structured financing	195,374,046	257,475,395
Investment fund	215,371,530	203,863,889
	<u>₩619,187,523</u>	<u>715,297,320</u>

(b) Nature of risks

i) The carrying amounts of the assets and liabilities relating to its interests in unconsolidated structured entities as of December 31, 2019 and 2020 are as follows:

	<u>2019</u>			
	<u>Assets-backed securitization</u>	<u>Structured financing</u>	<u>Investment fund</u>	<u>Total</u>
Assets:				
Loans measured at fair value through profit or loss	₩ 10,646	69,727	—	80,373
Loan at amortized cost	785,134	10,207,866	664,024	11,657,024
Securities at fair value through profit or loss	3,705,565	70,407	9,378,374	13,154,346
Derivate assets	21,494	1,027	—	22,521
Securities at fair value through other comprehensive income	2,144,846	188,429	—	2,333,275
Securities at amortized cost	4,894,942	—	—	4,894,942
Other assets	3,244	14,776	58,948	76,968
	<u>₩11,565,871</u>	<u>10,552,232</u>	<u>10,101,346</u>	<u>32,219,449</u>
Liabilities:				
Other liabilities	₩ 682	10,457	—	11,139

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46. Interests in unconsolidated structured entities (continued)

	2020			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets:				
Loans measured at fair value through profit or loss	₩ 10,007	396,006	—	406,013
Loan at amortized cost	882,708	11,631,322	80,166	12,594,196
Securities at fair value through profit or loss	4,703,527	200,966	9,403,611	14,308,104
Derivate assets	10,353	1,050	—	11,403
Securities at fair value through other comprehensive income	2,105,239	122,664	—	2,227,903
Securities at amortized cost	6,294,228	—	—	6,294,228
Other assets	2,019	59,980	4,936	66,935
	<u>₩14,008,081</u>	<u>12,411,988</u>	<u>9,488,713</u>	<u>35,908,782</u>
Liabilities:				
Derivate liabilities	₩ 582	—	—	582
Other liabilities	2,610	21,421	—	24,031
	<u>₩ 3,192</u>	<u>21,421</u>	<u>—</u>	<u>24,613</u>

ii) Exposure to risk relating to its interests in unconsolidated structured entities as of December 31, 2019 and 2020 are as follows:

	2019			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩11,565,871	10,552,232	10,101,346	32,219,449
ABS and ABCP commitments	1,208,707	2,300	868,498	2,079,505
Loan commitments	845,904	855,520	—	1,701,424
Guarantees	139,522	4,000	—	143,522
Others	—	118,969	—	118,969
	<u>₩13,760,004</u>	<u>11,533,021</u>	<u>10,969,844</u>	<u>36,262,869</u>
	2020			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩14,008,081	12,411,988	9,488,713	35,908,782
ABS and ABCP commitments	932,113	2,300	1,923,035	2,857,448
Loan commitments	618,030	707,860	—	1,325,890
Guarantees	87,293	—	—	87,293
Others	—	123,210	5,887	129,097
	<u>₩15,645,517</u>	<u>13,245,358</u>	<u>11,417,635</u>	<u>40,308,510</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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47. Business combination

(a) Neoplux Co., Ltd.

i) General information

As of September 29, 2020, the Group gained control of Neoplux Co., Ltd. as a subsidiary by acquiring a 96.77% (97.08% stake of voting rights) stake and reporting to the Financial Services Commission about the transfer of subsidiary. As of December 30, 2020, the Group acquired the remaining shares, and Neoplux Co., Ltd. became a wholly owned subsidiary of the Group. The main reason for business combination is to promote investment financing and secure new business opportunities in the investment banking sector.

ii) Identifiable net assets

Fair values of assets acquired and liabilities assumed as of acquisition date are as follows:

	<u>Amount (*1)</u>
Assets:	
Cash and due from banks at amortized cost	₩ 179
Investment assets in the long-term	463
Venture capital investment assets	38,800
Private equity investment company investment assets	12,230
Property and equipment	835
Intangible assets (*2)	1,254
Other assets (*3)	18,911
	<u>72,672</u>
Liabilities:	
Borrowings	9,000
Other liabilities	4,804
	<u>13,804</u>
Fair value of the identifiable net assets	<u>₩58,868</u>

(*1) The accounting for the acquisition of Neoplux Co., Ltd. is tentatively determined using the identifiable assets and liabilities recognized by Neoplux Co., Ltd. at the time of business combination. For the year ended December 31, 2020, the acquisition has not completed the identification of intangible assets for allocation and the fair value assessment of identifiable assets and liabilities. The goodwill may vary depending on the results of the fair value assessment of the identifiable assets and liabilities for the allocation of the consideration.

(*2) The contract balance recognized as a business combination includes ₩ 793 million. The contract balance that Neoplux Co., Ltd. has is considered an important asset that can generate additional revenue in the future. Therefore, it is assessed at fair value through the Multi-period Excess Earning Method.

(*3) During the business combination, the Group has acquired receivables that are fair value of ₩ 15,803 million, and the total contract amount is ₩ 15,803 million. There is no contractual cash flow that is not expected to be recovered from the receivables.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

47. Business combination (continued)

iii) Goodwill

Goodwill recognized as a result of business combination is as follows:

	<u>Amount</u>
Consideration paid in cash	₩ 71,128
Fair value of identifiable net assets	(58,868)
Non-controlling interests (*)	<u>1,718</u>
Goodwill	<u>₩ 13,978</u>

(*) For the year ended December 31, 2020, the non-controlling interests for Neoplux Co., Ltd. are measured at proportionate shares of non-controlling interests in the acquiree's identifiable net assets for Neoplux Co.,Ltd. At the business combination, the goodwill is generated because the transfer price includes the premium of corporate control paid to acquire Neoplux Co.,Ltd. The transfer price for the business combination includes expected synergies, future market growth, and the amount related to human resources. These benefits are not recognized separately from goodwill because it does not meet the recognition requirements for identifiable intangible assets.

iv) Cost related to business combination

The Group incurred a cost of ₩ 2,207 million, including legal fees and due diligence fees, in connection with the business combination and recognized the fee as the fee expense in the consolidated statement of comprehensive income of the Group.

v) Net cash outflows due to business combination

Net cash outflows due to business combination for the year ended December 31, 2020 are as follows:

	<u>Amount</u>
Consideration transferred in cash	₩71,128
Acquired cash and cash equivalents (*)	<u>(174)</u>
	<u>₩70,954</u>

(*) The amount of cash and cash equivalents acquired is the amount of cash and amortized cost measurement deposits minus the amount of restricted deposits.

vi) If Has Neoplux Co., Ltd. consolidated as of January 1, 2020, the consolidated operating income and profit for the period of the Group, which would have been included in the consolidated statement of comprehensive loss, are ₩ 1,938 million and ₩ 863 million, respectively.

48. Uncertainty due to changes in domestic and global economic conditions

The rapid spread of the COVID-19 is negatively affecting the global economy. The Group uses forward-looking information to estimate expected credit losses in accordance with IFRS No.1109 'Financial Instruments' and there have been significant changes in forward-looking information due to the spread of the COVID-19 for the year ended December 31, 2020. Accordingly, the default rate forecast for the year

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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48. Uncertainty due to changes in domestic and global economic conditions (continued)

ended December 31, 2020 is re-estimated using changed forward-looking information on economic growth rate, consumer price index, KOSPI, which are major variables to compute the default rate. The Group will continue to monitor the impact of the COVID-19 on the economy.

Risk exposures by major consolidated subsidiaries due to COVID-19 are as follows:

(a) Shinhan Bank

	2020							
	Airlift passenger	Lodging	Oil/petroleum refinery	Art-related	Movie theater	Clothing manufacturing	Travel	Total
Loans at amortized cost	₩120,854	3,445,269	685,336	244,036	95,240	1,763,741	112,647	6,467,123
Securities at fair value through profit or loss	—	—	3,088	—	—	3,060	—	6,148
Securities at fair value through other comprehensive income	52,878	2,611	224,894	—	6,539	9,797	—	296,719
Off-balance accounts	404,767	289,948	3,058,516	9,630	111,266	938,705	60,171	4,873,003
	<u>₩578,499</u>	<u>3,737,828</u>	<u>3,971,834</u>	<u>253,666</u>	<u>213,045</u>	<u>2,715,303</u>	<u>172,818</u>	<u>11,642,993</u>

(b) Shinhan Card Co., Ltd.

	2020			
	Retails			
	Credit sales	Short term card loan	Long term card loan	Total
Loans at amortized cost	₩357,589	142,252	283,150	782,991
Off-balance accounts		702,124		702,124

(c) Jeju Bank

	2020							
	Lodging	Manufacturing	Retail	Construction Industry	Leisure related service industry	Transportation Business	Etc	Total
Loans at amortized cost	₩599,875	30,095	517,843	85,640	57,677	29,679	92,373	1,413,182
Off-balance accounts	20,658	563	18,691	7,100	1,053	2,103	3,082	53,250
	<u>₩620,533</u>	<u>30,658</u>	<u>536,534</u>	<u>92,740</u>	<u>58,730</u>	<u>31,782</u>	<u>95,455</u>	<u>1,466,432</u>

As of December 31, 2020, the exposure of the borrowers who applied for moratorium of interest payments and moratorium of repayment in installments by Shinhan Bank is as follows:

	Exposure
Moratorium of interest payments	₩ 242,794
Moratorium of repayment in installments	1,067,502
Moratorium of interest payments and moratorium of repayment in installments	80,581
	<u>₩1,390,877</u>

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49. Transition effects arising from changes in accounting policies

Upon adoption of IFRS 16 ‘Leases’, the Group recognized lease liabilities in relation to leases that had previously been classified as operating leases in accordance with IAS 17. These liabilities were measured at the present value of the future lease payments at the lessee’s incremental borrowing rate on January 1, 2019. The lessee’s incremental borrowing rates applied to the lease liabilities are between 2.06% and 8.96% on January 1, 2019. The difference between the amount of operating lease agreements disclosed as of December 31, 2018 discounted at the Group’s incremental borrowing rate and the lease liabilities recognized at the date of initial application is as follows:

	<u>Amount</u>
Operating lease agreement commitment disclosed as of December 31, 2018	₩610,080
Amount discounted using the Group’s incremental borrowing rate	591,725
Less:	
Low-value leases recognized as current expenses through the straight-line method	(3,454)
Value-added Tax	<u>(51,429)</u>
Lease liabilities recognized at the beginning of 2019	<u>₩536,842</u>

Right-of-use assets were measured by adjusting the amount of prepaid or unpaid lease payments in relation to leases recognized in the consolidated statement of financial position at the same amount as the lease liability. As a result, property, plant and equipment increased by ₩573,823 million at the beginning of 2019, and prepaid expense, unearned revenue and accrued expenses decreased by ₩42,196 million, ₩5,197 million and ₩17 million, respectively.

The Group has changed its accounting policies as applying IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*. With respect to classification, measurement and impairment of financial instruments, the financial statements as of and for the year ended December 31, 2017 have not been restated in accordance with the clause waiving the requirement to restate comparative financial statements.

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*, relating to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Additionally, IFRS 9 have made amendments to other standards relating to financial instruments such as IFRS 7, *Financial Instruments: Disclosures*.

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49. Transition effects arising from changes in accounting policies (continued)

(i) Changes in equity due to application of IFRS 9 and 15

Changes in equity as of January 1, 2018 due to the initial application date of IFRS 9 and 15 are as follows:

	<u>Amounts</u>
Retained earnings at January 1, 2018 before changes	₩20,791,680
Adjustments of retained earnings due to the application of IFRS 9 :	
Reclassification from financial assets at amortized cost to financial assets measured at fair value through profit or loss	(74,061)
Reclassification from available-for-sale financial assets to financial assets measured at fair value through profit or loss	178,518
Reclassification from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income (*1)	204,457
Increase in loss allowance for financial assets measured at amortized cost	(573,088)
Increase in loss allowance for loan commitments and financial guarantee contracts	(55,274)
Increase in loss allowance for debt instruments measured at fair value through other comprehensive income	(18,976)
Effect of overlay approach application	34,102
Others (*2)	(40,063)
	<u>(344,385)</u>
Adjustments of retained earnings due to the application of IFRS 15 (*3)	(2,895)
Tax effects (*4)	95,426
Retained earnings at January 1, 2018 after changes	<u>₩20,539,826</u>

(*1) With the application of IFRS 9, the effect of retained earnings of the recognized impairment from equity securities has reclassified to other comprehensive income.

(*2) Include translation of foreign currencies, etc.

(*3) The Group has divided the trust fees into trust sales fees and trust managing fees and recognition of trust managing fees are deferred.

(*4) Tax effects due to the application of IFRS 9 are separately shown.

	<u>Amounts</u>
Accumulated other comprehensive loss at January 1, 2018 before changes	₩(529,734)
Adjustments of accumulated other comprehensive income due to the application of IFRS 9:	
Reclassification from available-for-sale financial assets to financial assets measured at fair value through profit or loss	(178,518)
Reclassification from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income (*1)	(204,457)
Increase in loss allowance for debt instruments measured at fair value through other comprehensive income	18,976
Effect of overlay approach application	(34,102)
Others (*2)	11,039
	<u>(387,062)</u>
Tax effects (*3)	110,051
Accumulated other comprehensive loss at January 1, 2018 after changes	<u>₩(806,745)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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49. Transition effects arising from changes in accounting policies (continued)

(*1) The effect on retained earnings arising from the recognition of impairment losses related to equity securities in the prior periods was transferred to other comprehensive income upon the application of IFRS 9.

(*2) Other adjustments include foreign currency translation and changes in non-controlling interests, resulting from the adoption of IFRS 9.

(*3) Tax effects due to the application of IFRS 9 are separately shown.

(ii) Reclassification of financial instruments upon adoption of IFRS 9

Details of reclassification of financial instruments as of January 1, 2018, the initial application date of IFRS 9, are as follows:

IAS 39		IFRS 9	Carrying value under IAS 39 (*1)	Carrying value under IFRS 9 (*1)	Difference
Financial assets:					
Due from banks	Loans and receivables	Financial assets measured at FVTPL (*2)	₩ 902,124	833,942	(68,182)
	Loans and receivables	Amortized cost	19,988,001	19,988,001	—
Loan receivables	Loans and receivables	Financial assets measured at FVTPL (*2)	750,342	778,985	28,643
	Loans and receivables	Amortized cost	277,126,029	277,126,029	—
Other financial assets	Loans and receivables	Amortized cost	12,090,983	12,090,983	—
Trading assets (debt securities)	Financial assets at FVTPL	Financial assets measured at FVTPL	23,640,646	23,640,646	—
Trading assets (equity securities)	Financial assets at FVTPL	Financial assets measured at FVTPL	4,634,353	4,634,353	—
Trading assets (deposit in gold and silver)	Financial assets at FVTPL	Financial assets measured at FVTPL	189,297	189,297	—
Financial assets designated as at FVTPL (debt securities)	Financial assets at FVTPL	Financial assets measured at FVTPL (*3)	2,030,522	2,030,522	—
	Financial assets at FVTPL	Financial assets designated as at FVTPL	80,288	80,288	—
Financial assets designated as at FVTPL (equity securities)	Financial assets at FVTPL	Financial assets measured at FVTPL (*3)	1,162,553	1,162,553	—
	Financial assets at FVTPL	Financial assets designated as at FVTPL	71,803	71,803	—
Financial assets designated as at FVTPL (other securities – compound financial instruments)	Financial assets at FVTPL	Financial assets measured at FVTPL (*3)	233,892	233,892	—
Derivatives	Financial assets at FVTPL	Financial assets measured at FVTPL (*3)	3,400,178	3,348,803	(51,375)
AFS financial assets (debt securities)	AFS financial assets	Financial assets measured at FVTPL (*2)	528,745	533,452	4,707
	AFS financial assets	Financial assets measured at FVOCI	36,657,807	36,657,807	—
AFS financial assets (equity securities)	AFS financial assets	Financial assets measured at FVTPL (*2)	4,339,979	4,350,969	10,990
	AFS financial assets	Financial assets measured at FVOCI	590,405	590,405	—

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49. Transition effects arising from changes in accounting policies (continued)

<u>IAS 39</u>		<u>IFRS 9</u>	<u>Carrying value under IAS 39 (*1)</u>	<u>Carrying value under IFRS 9 (*1)</u>	<u>Difference</u>
HTM financial assets (debt securities)	HTM financial assets	Financial assets measured at FVTPL (*2)	₩ 565,813	529,906	(35,907)
	HTM financial assets	Amortized cost	24,424,867	24,424,867	—
			<u>₩413,408,627</u>	<u>413,297,503</u>	<u>(111,124)</u>
Financial Liabilities:					
Deposits	Financial liability measured at amortized cost	Financial liabilities measured at amortized cost	₩249,419,224	249,419,224	—
Trading liabilities	Financial liabilities at FVTPL	Financial liabilities measured at FVTPL	1,848,490	1,848,490	—
Financial liabilities designated as at FVTPL	Financial liabilities at FVTPL	Financial liabilities designated as at FVTPL	8,260,636	8,260,636	—
	Financial liabilities at FVTPL	Financial liabilities measured at FVTPL (*3)	36,973	36,973	—
Derivatives	Financial liabilities at FVTPL	Financial liabilities measured at FVTPL (*3)	3,487,661	3,483,642	(4,019)
Borrowings	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	27,586,610	27,586,313	(297)
Debt securities issued	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	51,340,821	51,340,821	—
Others	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	20,124,451	20,124,432	(19)
			<u>₩362,104,866</u>	<u>362,100,531</u>	<u>(4,335)</u>

(*1) Gross carrying amounts that are before netting allowance for loan losses or credit loss allowance.

(*2) Under IFRS 9, these financial instruments were categorized as financial assets or liabilities – FVTPL, as 1) the instruments are not held within a business model whose objective is achieved by both collecting contractual cash flows and selling them, or 2) the contractual terms of them does not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(*3) For hybrid contracts including embedded derivatives, the host contract and the derivatives are separated in accordance with IFRS 9.

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49. Transition effects arising from changes in accounting policies (continued)

(iii) Impairment of financial assets upon adoption of IFRS 9

Changes of credit loss allowance as of January 1, 2018, the initial application date of IFRS 9, are as follows:

Classification based on IAS 39	Classification based on IFRS 9	Loss allowance based on IAS 39	Loss allowance based on IFRS 9
Loans and receivables			
Due from banks	Financial assets at amortized cost	₩ 14,054	15,062
Loan receivables	Financial assets at amortized cost	2,307,275	2,871,986
	Financial assets measured at FVTPL	3,329	—
Other financial assets	Financial assets at amortized cost	49,679	51,818
AFS financial assets			
Debt securities	Financial assets measured at FVOCI	—	18,976
HTM financial assets			
Debt securities	Financial assets at amortized cost	—	8,559
		<u>₩2,374,337</u>	<u>2,966,401</u>
Financial guarantee	Financial guarantee	₩ 36,506	37,289
Unused credit line and other credit commitment	Unused credit line and other credit commitment	168,006	222,498
		<u>₩ 204,512</u>	<u>259,787</u>

(iv) The reclassification applying business model

For the financial assets as of January 1, 2018, the date of the initial application of IFRS 9, the management of the Group has assessed business model of those, and classified those applying the IFRS.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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49. Transition effects arising from changes in accounting policies (continued)

The effect of reclassification is as follows:

1) Gross carrying amounts

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings	Changes in other comprehensive income
Financial assets :						
Due from banks						
Carrying value under IAS 39 as of January 1, 2018	₩ 20,890,125	—	—	20,890,125	—	—
Reclassification to financial assets measured at FVTPL	—	(902,124)	—	(902,124)	—	—
	<u>20,890,125</u>	<u>(902,124)</u>	<u>—</u>	<u>19,988,001</u>	<u>—</u>	<u>—</u>
Loans						
Carrying value under IAS 39 as of January 1, 2018	277,876,371	—	—	277,876,371	—	—
Reclassification to financial assets measured at FVTPL	—	(750,342)	—	(750,342)	—	—
	<u>277,876,371</u>	<u>(750,342)</u>	<u>—</u>	<u>277,126,029</u>	<u>—</u>	<u>—</u>
Other financial assets						
Carrying value under IAS 39 as of January 1, 2018	12,090,983	—	—	12,090,983	—	—
Trading assets(debt instruments) (*1)						
Carrying value under IAS 39 as of January 1, 2018	23,640,646	—	—	23,640,646	—	—
Reclassification to financial assets measured at FVTPL	—	(23,640,646)	—	(23,640,646)	—	—
	<u>23,640,646</u>	<u>(23,640,646)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Trading assets(equity instruments)						
Carrying value under IAS 39 as of January 1, 2018	4,634,353	—	—	4,634,353	—	—
Reclassification to financial assets measured at FVTPL	—	(4,634,353)	—	(4,634,353)	—	—
	<u>4,634,353</u>	<u>(4,634,353)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Trading assets(gold deposit) (*1)						
Carrying value under IAS 39 as of January 1, 2018	189,297	—	—	189,297	—	—
Reclassification to financial assets measured at FVTPL	—	(189,297)	—	(189,297)	—	—
	<u>189,297</u>	<u>(189,297)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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49. Transition effects arising from changes in accounting policies (continued)

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings	Changes in other comprehensive income
Derivatives (*1)						
Carrying value under IAS 39 as of January 1, 2018	₩ 3,400,178	—	—	3,400,178	—	—
Reclassification to financial assets measured at FVTPL	—	(51,375)	—	(51,375)	—	—
	<u>3,400,178</u>	<u>(51,375)</u>	<u>—</u>	<u>3,348,803</u>	<u>—</u>	<u>—</u>
Financial assets designated at FVTPL (*1)						
Carrying value under IAS 39 as of January 1, 2018	3,579,057	—	—	3,579,057	—	—
Reclassification to financial assets measured at FVTPL	—	(3,426,966)	—	(3,426,966)	—	—
Reclassification to financial assets designated at FVTPL	—	(152,091)	—	(152,091)	—	—
	<u>3,579,057</u>	<u>(3,579,057)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
AFS (debt securities)						
Carrying value under IAS 39 as of January 1, 2018	37,186,552	—	—	37,186,552	—	—
Reclassification to financial assets measured at FVTPL	—	(528,745)	—	(528,745)	—	—
Reclassification to financial assets measured at FVOCI	—	(36,657,807)	—	(36,657,807)	—	—
	<u>37,186,552</u>	<u>(37,186,552)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
AFS (equity securities)						
Carrying value under IAS 39 as of January 1, 2018	4,930,385	—	—	4,930,385	—	—
Reclassification to financial assets measured at FVTPL	—	(4,339,979)	—	(4,339,979)	—	—
Reclassification to financial assets measured at FVOCI	—	(590,406)	—	(590,406)	—	—
	<u>4,930,385</u>	<u>(4,930,385)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
HTM (debt securities)						
Carrying value under IAS 39 as of January 1, 2018	24,990,680	—	—	24,990,680	—	—
Reclassification to financial assets measured at FVTPL	—	(565,813)	—	(565,813)	—	—

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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49. Transition effects arising from changes in accounting policies (continued)

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings	Changes in other comprehensive income
Reclassification to financial assets measured at amortized cost	₩ —	(24,424,867)	—	(24,424,867)	—	—
	24,990,680	(24,990,680)	—	—	—	—
Financial assets as measured at FVTPL						
Carrying value under IAS 39 as of January 1, 2018	—	—	—	—	—	—
Transfer from due from banks	—	902,124	(68,182)	833,942	—	(68,182)
Transfer from loans and other receivables	—	750,342	30,027	780,369	30,027	—
Transfer from trading assets	—	28,464,296	—	28,464,296	—	—
Transfer from financial assets designated at FVTPL	—	3,426,967	—	3,426,967	—	—
Transfer from AFS	—	4,868,724	7,708	4,876,432	108,532	(108,532)
Transfer from HTM	—	565,813	(35,907)	529,906	—	(35,907)
Transfer from derivative assets	—	51,375	(42,195)	9,180	—	—
	—	—	(2,575)	(2,575)	—	—
	—	39,029,641	(111,124)	38,918,517	138,559	(212,620)
Financial assets designated at FVTPL(IFRS 9)						
Carrying value under IAS 39 as of January 1, 2018	—	—	—	—	—	—
Transfer from financial assets designated at FVTPL(IAS 39)	—	152,091	—	152,091	—	—
	—	152,091	—	152,091	—	—
Financial assets measured at FVOCI (*2)						
Carrying value under IAS 39 as of January 1, 2018	—	—	—	—	—	—
Transfer from AFS	—	37,248,212	—	37,248,212	204,457	(204,457)
	—	37,248,212	—	37,248,212	204,457	(204,457)
Financial assets measured at amortized cost (*2)						
Carrying value under IAS 39 as of January 1, 2018	—	—	—	—	—	—
Transfer from HTM	—	24,424,867	—	24,424,867	—	—
	—	24,424,867	—	24,424,867	—	—
	₩413,408,627	—	(111,124)	413,297,503	343,016	(417,077)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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49. Transition effects arising from changes in accounting policies (continued)

Financial liabilities :	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings	Changes in other comprehensive income
Deposits						
Carrying value under IAS 39 as of January 1, 2018	₩249,419,224	—	—	249,419,224	—	—
	<u>249,419,224</u>	<u>—</u>	<u>—</u>	<u>249,419,224</u>	<u>—</u>	<u>—</u>
Trading liabilities (*1)						
Carrying value under IAS 39 as of January 1, 2018	1,848,490	—	—	1,848,490	—	—
Reclassification to financial liabilities measured at FVTPL	—	(1,848,490)	—	(1,848,490)	—	—
	<u>1,848,490</u>	<u>(1,848,490)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Financial liabilities designated at FVTPL						
Carrying value under IAS 39 as of January 1, 2018	8,297,609	—	—	8,297,609	—	—
Reclassification to financial liabilities designated at FVTPL	—	(8,260,636)	—	(8,260,636)	—	—
Reclassification to financial liabilities measured at FVTPL	—	(36,973)	—	(36,973)	—	—
	<u>8,297,609</u>	<u>(8,297,609)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Financial liabilities measured at FVTPL						
Carrying value under IAS 39 as of January 1, 2018	—	—	—	—	—	—
Transfer from trading liabilities	—	1,848,490	—	1,848,490	—	—
Transfer from financial liabilities designated at FVTPL	—	36,973	—	36,973	—	—
	<u>—</u>	<u>1,885,463</u>	<u>—</u>	<u>1,885,463</u>	<u>—</u>	<u>—</u>
Financial liabilities designated at FVTPL						
Carrying value under IAS 39 as of January 1, 2018	—	—	—	—	—	—
Transfer from financial liabilities designated at FVTPL	—	8,260,636	—	8,260,636	—	—
	<u>—</u>	<u>8,260,636</u>	<u>—</u>	<u>8,260,636</u>	<u>—</u>	<u>—</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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49. Transition effects arising from changes in accounting policies (continued)

Financial liabilities :	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings	Changes in other comprehensive income
Derivative liabilities						
Carrying value under IAS 39 as of January 1, 2018	₩ 3,487,661	—	—	3,487,661	—	—
Other	—	—	(4,019)	(4,019)	—	—
	<u>3,487,661</u>	<u>—</u>	<u>(4,019)</u>	<u>3,483,642</u>	<u>—</u>	<u>—</u>
Borrowings						
Carrying value under IAS 39 as of January 1, 2018	27,586,610	—	—	27,586,610	—	—
Other	—	—	(297)	(297)	—	—
	<u>27,586,610</u>	<u>—</u>	<u>(297)</u>	<u>27,586,313</u>	<u>—</u>	<u>—</u>
Debt securities issued						
Carrying value under IAS 39 as of January 1, 2018	51,340,821	—	—	51,340,821	—	—
Other financial liabilities						
Carrying value under IAS 39 as of January 1, 2018	20,124,451	—	—	20,124,451	—	—
Other	—	—	(19)	(19)	—	—
	<u>20,124,451</u>	<u>—</u>	<u>(19)</u>	<u>20,124,432</u>	<u>—</u>	<u>—</u>
	<u>₩362,104,866</u>	<u>—</u>	<u>(4,335)</u>	<u>362,100,531</u>	<u>—</u>	<u>—</u>

(*1) With respect to financial assets and financial liabilities reclassified from the category of fair value through profit or loss, effective interest rates calculated on the initial application date of IFRS 9 and interest income or expense recognized shall be disclosed. Such reclassification has not occurred as a result of the IFRS 9 adoption.

(*2) With respect to financial assets and financial liabilities reclassified to financial instruments measured at amortized cost, and financial assets measured at fair value through profit or loss reclassified to the category of fair value through other comprehensive income, the gain or loss on fair value measurement that would otherwise have been recognized in profit or loss or other comprehensive income in the reporting period, and the fair value of the financial assets or financial liabilities, shall be disclosed. Such reclassification has not occurred as a result of the IFRS 9 adoption.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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49. Transition effects arising from changes in accounting policies (continued)

2) Credit loss allowance

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings	Changes in other comprehensive income
Credit loss allowance for						
Due from banks	₩ 14,054	—	1,008	15,062	(1,008)	—
Loans	2,310,604	(3,328)	564,710	2,871,986	(561,382)	—
Financial asset measured at FVOCI (Debt securities)	—	—	18,976	18,976	(18,976)	18,976
Financial asset measured at amortized cost (Debt securities)	—	—	8,559	8,559	(8,559)	—
Other assets	49,679	—	2,139	51,818	(2,139)	—
Financial guarantee	36,506	—	783	37,289	(783)	—
Unused credit line and other credit commitment	168,006	—	54,492	222,498	(54,492)	—
	<u>₩2,578,849</u>	<u>(3,328)</u>	<u>650,667</u>	<u>3,226,188</u>	<u>(647,339)</u>	<u>18,976</u>

(v) Hedge accounting

IFRS 9 maintains the mechanics of hedge accounting (i.e. fair value hedge, cash flow hedge, hedge of a net investment in a foreign operation) as defined in IAS 39, whereas a principle-based hedge accounting requirements that focuses on an entity's risk replaced complex and rule-based hedge accounting requirements in IAS 39. Additionally, qualifying hedged items and qualifying hedging instruments have been expanded and hedge accounting requirements have been eased by eliminating a subsequent hedge effectiveness assessment and a quantitative test (80~125%). Hedge accounting can be applied to certain transactions that fail to qualify for hedge accounting requirements under IAS 39 when applying IFRS 9, and thus alleviates profit or loss volatility.

(vi) Financial impact with IFRS 15

As of December 31, 2018, the effect of applying IFRS 15 is as follows in the statement of comprehensive income of the Group as of December 31, 2018 (excluding trust fees reflected by the conversion effect). The effect on the terminated cash flow statement is not significant.

The effect on the consolidated statement of financial position as of December 31, 2018 is as follows.

	Disclosed amount	Adjustments	Amount before implementation of IFRS 15
Liabilities:			
Provisions:			
Credit card	₩ —	(24,700)	24,700
Other liabilities:			
Accounts payable	9,748,168	(41,758)	9,789,926
Unearned revenues	236,827	(209,241)	446,068
Others	2,496,169	275,698	2,220,471

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

49. Transition effects arising from changes in accounting policies (continued)

The effect on the consolidated statement of comprehensive income is as follows.

	<u>Disclosed amount</u>	<u>Adjustments</u>	<u>Amount before implementation of IFRS 15</u>
Net fee and commission income (*1)(*2):			
Fee and commission income:			
Credit card	₩1,360,322	(1,135,515)	2,495,837
Fee and commission incomes			
Credit card payment	(944,533)	1,135,515	(2,080,048)

(*1) Before adopting IFRS 15, the Group defers and recognizes the amount allocated to the credit card points as unearned revenue and revenue is recognized only when the points are redeemed and the Group has fulfilled its obligation to provide the benefits. In addition, a provision for onerous contracts is recognized when the expected benefits to be derived by the Group from customer loyalty program are lower than the unavoidable cost of meeting its obligations under the programmes. However under IFRS 15, the amount allocated to the credit card points is regarded as consideration payable to the customers and recognized as a reduction of fee and commission income, estimated as fair value of the monetary benefits taking into account the expected redemption rate.

(*2) The Group has changed the recognition of card holder service fee paid to a customer recognized as fee and commission expense before adopting IFRS 15, to reduction of fee and commission income under IFRS 15.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

50. Condensed Shinhan Financial Group (Parent Company only) Financial Statements

STATEMENTS OF FINANCIAL POSITION

	<u>2019</u>	<u>2020</u>
Assets		
Deposits		
Banking subsidiaries	₩ 167	3
Other	—	—
Receivables from subsidiaries:		
Non-banking subsidiaries	2,219,698	3,218,455
Investment (at equity) in subsidiaries:		
Banking subsidiaries	13,797,222	13,797,222
Non-banking subsidiaries	15,183,053	16,157,962
Financial assets at FVTPL	443,377	1,810,867
Derivative assets	24,352	39,392
Property, equipment and intangible assets, net	11,106	10,360
Other assets		
Banking subsidiaries	408,436	260,342
Non-banking subsidiaries	171,321	173,473
Other	2,590	15,838
Total assets	<u>₩32,261,322</u>	<u>35,483,914</u>
Liabilities and equity		
Debt securities issued	₩ 9,147,640	9,920,059
Derivative liabilities	17,687	22,133
Accrued expenses & other liabilities	630,569	484,625
Total liabilities	<u>9,795,896</u>	<u>10,426,817</u>
Equity	<u>22,465,426</u>	<u>25,057,097</u>
Total liabilities and equity	<u>₩32,261,322</u>	<u>35,483,914</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

50. Condensed Shinhan Financial Group (Parent Company only) Financial Statements (continued)

CONDENSED STATEMENTS OF INCOME

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Income			
Dividends from banking subsidiaries	₩ 541,524	892,310	892,420
Dividends from non-banking subsidiaries	866,150	428,634	495,110
Interest income from banking subsidiaries	268	263	194
Interest income from non-banking subsidiaries	31,224	38,968	68,914
Other income	74,215	125,324	268,784
Total income	<u>1,513,381</u>	<u>1,485,499</u>	<u>1,725,422</u>
Expenses			
Interest expense	(187,882)	(206,815)	(231,205)
Other expense	(89,145)	(147,589)	(216,708)
Total expenses	<u>(277,027)</u>	<u>(354,404)</u>	<u>(447,913)</u>
Profit before income tax expense	<u>1,236,354</u>	<u>1,131,095</u>	<u>1,277,509</u>
Income tax expense	1,471	1,922	3,066
Profit for the year	<u>₩1,234,883</u>	<u>1,129,173</u>	<u>1,274,443</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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50. Condensed Shinhan Financial Group (Parent Company only) Financial Statements (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash flows from operating activities			
Profit before income taxes	₩ 1,236,354	1,131,095	1,277,509
Non-cash items included in profit before tax	(1,251,379)	(1,164,022)	(1,313,967)
Changes in operating assets and liabilities	(1,671,189)	1,475,702	(1,272,738)
Net interest paid	(153,926)	(154,765)	(165,570)
Dividend received from subsidiaries	1,407,674	1,320,944	1,386,843
Income tax refunds(paid)	—	(194)	—
Net cash provided by (used in) operating activities	<u>(432,466)</u>	<u>2,608,760</u>	<u>(87,923)</u>
Cash flows from investing activities			
Net loan origination to non-banking subsidiaries	(412,630)	(575,936)	(1,073,657)
Acquisition of subsidiary	(42,273)	(2,977,196)	(73,335)
Other, net	(231,281)	(660)	(100,875)
Net cash used in investing activities	<u>(686,184)</u>	<u>(3,553,792)</u>	<u>(1,247,867)</u>
Cash flows from financing activities			
Issuance of common stocks	—	—	1,154,347
Issuance of convertible preferred shares	—	747,791	—
Issuance of hybrid bonds	1,107,838	199,476	448,699
Net changes in borrowings	120,000	(125,000)	—
Issuance of debt securities issued	2,396,138	3,194,764	2,240,581
Repayments of debt securities issued	(1,590,000)	(1,844,000)	(1,384,000)
Dividend paid	(714,705)	(830,772)	(968,847)
Acquisition of treasury stock	(151,993)	(444,077)	(150,448)
Disposition of and incineration cost of treasury stock	—	—	(3,033)
Redemption of lease liabilities	—	(1,614)	(1,673)
Net cash provided by (used in) financing activities	<u>1,167,278</u>	<u>896,568</u>	<u>1,335,626</u>
Net increase (decrease) in cash and cash equivalents	<u>48,628</u>	<u>(48,464)</u>	<u>(164)</u>
Cash and cash equivalents at beginning of year	<u>—</u>	<u>48,628</u>	<u>164</u>
Cash and cash equivalents at end of year	<u>₩ 48,628</u>	<u>164</u>	<u>—</u>

ARTICLES OF INCORPORATION

CHAPTER I
GENERAL PROVISIONS

Article 1 (Corporate Name)

The name of this company shall be “Chusik Hoesa Shinhan-Kumyoong-Jijoo-Hoesa” (the “Company”), which shall be “Shinhan Financial Group Co., Ltd.” in English.

Article 2 (Objective)

The objective of the Company shall be to engage in the following business activities:

- (1) To control or manage a financial company or a company having close relation with the financial business;
- (2) To provide financial support to its subsidiary, etc. (which expression shall include the subsidiary, sub-subsidiary, and the company under the control of sub-subsidiary; hereinafter the same shall apply);
- (3) To invest in the subsidiary or to raise funds for the financial support of its subsidiary, etc.;
- (4) To develop and sell joint products with its subsidiary, etc., and to provide the necessary resources for the business operation of its subsidiary, etc.;
- (5) To provide business support including computer, legal, accounting support, etc., entrusted by its subsidiary, etc.;

(6) To engage in the other business incidental or related to the foregoing.

Article 3 (Location of Head Office and Establishment of Branch, etc.)

- (1) The Company shall have its head office in Seoul.
- (2) The Company may establish branches, liaison offices, representative offices or subsidiaries within or outside Korea, by the resolution of the Board of Directors, when it deems necessary.

Article 4 (Method of Public Notices)

Public notices of the Company shall be published on its internet homepage (<http://www.shinhangroup.com>). Provided, however, that if technical difficulties or other issues disrupt publication of notices on the Company's internet homepage, notices will be published in Hankuk Kyongje Shinmun and Maeil Kyongje Shinmun, daily newspapers published in Seoul.

**CHAPTER II
SHARES OF STOCK**

Article 5 (Total Number of Authorized Shares)

The total number of shares to be issued by the Company shall be 1,000,000,000 shares.

Article 6 (Par Value per Share)

The par value per share to be issued by the Company shall be five thousand (5,000) Won.

Article 7 (Number of Shares Issued at the Time of Incorporation)

The total number of shares issued at the time of incorporation of the Company shall be 284,453,152 shares of common stock in registered form plus the number of common shares in registered form to be issued and delivered upon the exercise of warrant by the holders of the bonds with warrants issued by Shinhan Bank on December 2, 1998 during the period from July 15, 2001 to August 31, 2001.

Article 8 (Types of Shares)

- (1) The shares to be issued by the Company shall be common shares in registered form and preferred shares in registered form.
- (2) Registered preferred shares shall have preference over common shares in dividend distribution and liquidation of assets of the Company. The amount of distribution upon liquidation of the Company to preferred shares with liquidation preference shall be no greater than the sum of their initial issue price and accrued but unpaid dividend.

Article 9 (Number and Terms and Conditions of Preferred Shares)

- (1) Preferred shares to be issued by the Company shall be non-voting, and the number thereof shall not exceed one half (1/2) of the total number of issued and outstanding shares.
- (2) The dividends on non-voting preferred shares shall be determined by the Board of Directors at the time of issuance; provided that when issuing preferred shares whose dividend ratio may be adjusted, the following must be determined at the time of issuance: acknowledgement of the fact that the Board of Directors may adjust the preferred dividend ratio, the reasons for such adjustment, the base date for adjustment and the method of adjustment.
- (3) Preferred shares to be issued by the Company may be participating or non- participating, and accumulating or non-accumulating by the resolution of the Board of Directors.
- (4) If a resolution not to distribute dividends on preferred shares is adopted, then the preferred shares shall be deemed to have voting rights from the next General Meeting of Shareholders immediately following the general meeting at which such resolution not to distribute dividends on preferred shares is adopted to the end of the general meeting of the shareholders at which a resolution to distribute dividends on such preferred shares is adopted.

- (5) In case the Company issues new shares by rights offering or bonus issue, then the new shares issued with respect to the preferred shares shall be (i) common shares in the case of rights offering and (ii) the shares of the same type in the case of bonus issue.
- (6) Whether or not to specify the term of the preferred shares shall be determined by a resolution of the Board of Directors. If the Company intends to specify the term of the preferred shares, such term shall be determined by a resolution of the Board of Directors at the time of issuance thereof within the period of one (1) year or more but less than ten (10) years from the issuance date of the preferred shares, and the preferred shares shall be converted into the common shares upon the expiration of the above period; provided, however, that if the prescribed dividends on the preferred shares during the above period have not been paid, the above period shall be extended until such dividends on the preferred shares have been fully paid. <Amended on March 25, 2021>

Article 10 (Electronic Registration of Rights to be Indicated on Shares and Certificate of Warrants)

The Company shall effect the electronic registration of the rights to be indicated on shares and certificate of warrants in the electronic register of the electronic registry instead of issuing share certificates and certificate of warrants.

Article 11 (Convertible Stock)

- (1) The Company may issue stocks which can be converted into the common stock or preferred stock, by the resolution of the Board of Directors.
- (2) Issue price of new shares to be issued upon conversion shall be the issue price of share prior to such conversion, and the number of shares to be issued upon conversion shall be the same number as that of common shares or preferred shares prior to such conversion.

- (3) The conversion period shall be no less than 1 year and no more than 10 years from the date of issuance, and such conversion period shall be determined by the Board of Directors.
- (4) In case of issuing the shares that may be converted into common shares under Paragraph (1) above, the Company may issue such convertible shares with a condition attached that they shall be converted into common shares to be issued by the Company in cases of falling under any subparagraph of Article 23 (2), to the extent that the total sum of their aggregate issue price, and the issue price of convertible bonds under Article 20 (1), bonds with warrant under Article 21 (1) and convertible contingent capital securities under Article 23-2 (1) does not exceed KRW 2 trillion. In such case, Article 23-2 shall apply mutatis mutandis to the specific terms and conditions of the conversion and the allocation of shares. <Amended on March 25, 2021>
- (5) (Deleted) <Amended on March 25, 2021>

Article 12 (Redeemable Stock)

- (1) In case of issuance of preferred stock, the Company may, by the resolution of the Board of Directors, issue the redeemable one which can be redeemed with the profits at the discretion of the Company.
- (2) The redemption price of the redeemable shares shall be calculated by the sum of the issue price and the premium, and the premium amount shall be determined at the time of issuance by a resolution of the Board of Directors in consideration of the interest rate, market conditions and other circumstances related to such issuance.
- (3) The redemption period shall be determined by the Board of Directors as a period within the period from the date immediately following the end of the Ordinary General Meeting of Shareholders convened in respect of the fiscal year during which the shares are issued, to the end of one month following the end of the Ordinary General Meeting of Shareholders convened in respect of the fiscal year during which the 20th anniversary of the issue date falls; provided that, in respect of redeemable shares which must be redeemed by the Company at the end of the redemption period, the redemption period shall be extended in the event of any of the following until full resolution thereof:
 1. If the holders of the redeemable shares do not receive dividends entitled to them; or

2. If the redemption is not made within the redemption period due to insufficient profits of the Company.
- (4) The Company may redeem all of its redeemable shares in lump sum or any portion thereof. Provided that, in case of partial redemption, the Company may determine the shares to be redeemed, by means of lottery or proportional allotment. Any fractional shares resulting from the proportional allotment shall not be redeemed.
- (5) If the Company intends to redeem redeemable shares, the Company shall give notice to the shareholders and pledgees recorded in the shareholders' registry of such intention, the subject shares and the fact that the subject stock certificates must be submitted to the Company during the specified period, which shall be determined by the company to the extent not less than two weeks, and upon the expiry of such period, the subject shares shall be redeemed compulsorily ; provided that such notice may be substituted with a public notice.
- (6) The redeemable shares may, by the determination of the Board of Directors at the time of issuance, be issued as the convertible shares as set forth in Article 11.

Article 13 (Pre-emptive Rights)

- (1) The shareholders of the Company shall have pre-emptive rights to subscribe for new shares to be issued by the Company in proportion to their respective shareholdings.
- (2) Notwithstanding the provision of Paragraph (1) above, the Company may allocate new shares to persons other than existing shareholders of the Company, in the event of any of the following:

1. If the Company issues new shares by way of general public offering, to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company;
 2. If the Company preferentially allocates new shares to members of the Employee Stock Ownership Association in accordance with Article 165-7 of the Financial Investment Services and Capital Market Act.
 3. If the Company issues new shares for the issuance of depositary receipts (“DR”s), to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company;
 4. If the Company issues new shares upon the exercise of stock options in accordance with Article 340-2 and Article 542-3 of the Commercial Law;
 5. If the Company issues new shares to investment companies, private equity funds, special purpose companies pursuant to the Financial Investment Services and Capital Market Act; or
 6. If the Company issues new shares to foreign investors, foreign or domestic financial institutions, allied companies, etc. for the necessity of management, such as introduction of advanced technology, improvement of financial structure of or financial support to the Company or its subsidiary, strategic business alliance, etc., to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company.
- (3) When allotting newly-issued shares to those who are not shareholders in accordance with Paragraph (2), the matters set forth in Paragraphs (1), (2), (2) 2, (3) and (4) of Article 416 of the Commercial Act shall be publicly announced or notified to the shareholders no later than by 2 weeks prior to the payment deadline.
- (4) In the case in which new shares are issued pursuant to Paragraph (2), the type, number, issue price, etc. of shares to be issued shall be determined by the resolution of the Board of Directors.

- (5) In the case of abandonment or loss of the pre-emptive right to subscribe for new shares by any shareholder, the forfeited shares resulting from such abandonment or loss of the pre-emptive right shall be disposed by the resolution of the Board of Directors. If fractional shares result from the allocation of new shares, such shares shall also be disposed of by the resolution of the Board of Directors.

Article 14 (Stock Options)

- (1) The Company may grant stock options to its officers and employees pursuant to the provisions of the Commercial Code, by a special resolution of the General Meeting of Shareholders, to the extent not exceeding 20/100 of the total number of issued and outstanding shares of the Company. Notwithstanding the foregoing, the Company may, by the resolution of the Board of Directors, grant stock options in numbers equal to or less than 1/100 of the total number of outstanding shares, provided that such action shall be approved at the first Ordinary Shareholders Meeting to be held after the date of such grant.
- (2) The Company may impose conditions of specific goals and achievement for the exercise of stock options, and may postpone or cancel the exercise of stock options if such conditions are not satisfied.
- (3) The persons who are entitled to receive such stock options shall be officers and employees of the Company or its subsidiaries or sub-subsidiaries as prescribed in the relevant laws and ordinances including the Commercial Code, etc. who have contributed, or are capable of contributing, to the establishment, management or technical innovation of the Company, except for officers or employees in any of the following cases:
1. The largest shareholder of the Company and Specially Related Persons thereof (as defined in the Commercial Code and the Enforcement Decree of the Commercial Code; hereinafter the same shall apply), except for such persons who have been regarded as Specially Related Persons by becoming officers of the Company (including an officer who is the non-executive officer of the affiliate);

2. Major Shareholders of the Company (as defined in the Commercial Code; hereinafter the same shall apply), and Specially Related Persons thereof, except for such persons who have been regarded as Specially Related Persons by becoming officers of the Company (including an officer who is the non-executive officer of the affiliate); and
3. The persons who become the Major Shareholders of the Company by the exercise of stock option.
- (4) The shares to be issued upon the exercise of stock options (in case the Company pays the difference between the exercise price of stock options and the market price of such shares in cash or treasury shares, the shares which shall be the basis of the calculation of such differences) shall be common shares in registered form.
- (5) The total number of shares to be given to one (1) officer or employee pursuant to the stock option shall not exceed 1/100 of the total number of shares issued and outstanding.
- (6) The exercise price per share for the stock option shall be determined in accordance with the relevant laws, such as the Commercial Code, etc.
- (7) Stock options may be exercised within seven (7) years commencing from two (2) years after the date specified in Paragraph (1) above at which a resolution to grant such stock options was adopted.
- (8) Stock option is exercisable by a person who has served for the Company two (2) years or more from the date specified in Paragraph (1) above at which a resolution to grant such stock option was adopted. If the grantee's continuous service terminates by reason of the grantee's death, attainment of mandatory retirement age, or for reasons other than by the fault of the grantee within two (2) years from the said date of resolution, the option may be exercisable within the exercise period.
- (9) (Deleted) <Amended on March 25, 2021>
- (10) In the following instances, the Company may, by a resolution of the Board of Directors, cancel the stock options granted to an officer or an employee:

1. When the relevant officer or employee voluntarily resigns or is removed from his or her position at the Company after receiving the stock option;
2. When the relevant officer or employee inflicts material damages or losses on the Company due to the willful conduct or negligence of such person;
3. When the Company cannot respond to the exercise of stock options due to its bankruptcy, dissolution, etc.; or
4. When there occurs any other event for cancellation of the stock option pursuant to the stock option agreement.

Article 15 (Equal Dividends)

The Company shall equally pay the dividends with respect to the same classes of shares issued (including the case where such shares are converted) as of the record date for the payment of dividends, irrespective of the issuance date thereof. <Amended on March 25, 2021>

Article 16 (Transfer Agent)

- (1) The Company may designate a transfer agent for its shares.
- (2) The transfer agent, its office and its duties shall be determined by a resolution of the Board of Directors of the Company and shall be notified to the public.
- (3) The Company's registry of shareholders or a copy of it shall be kept at the office of the transfer agent. The transfer agent shall handle the electronic registration of shares, management of the registry of shareholders and other activities relating to shares.
- (4) The procedures for handling the business referred to in Paragraph 3 above shall comply with the relevant business regulations determined by the Transfer Agent. <Amended on March 25, 2021>

Article 17 (Preparation and Maintenance of Register of Shareholders)

If necessary, including the case where there is any change in the current status of the shareholders who own 5% or more equities in the Company (including the related parties), the Company may request the electronic registration institution to prepare the particulars of such shareholders. <Amended on March 25, 2021>

Article 18 (Record Date)

- (1) (Deleted) <Amended on March 25, 2021>
- (2) The shareholders registered in the shareholders' registry as of December 31 of each fiscal year shall be entitled to exercise the rights as shareholders at the Ordinary General Meeting of Shareholders convened for such fiscal year.
- (3) For the purpose of convening an Extraordinary General Meeting of Shareholders or if deemed otherwise necessary, the Company may, by a resolution of the Board of Directors, designate the shareholders whose names appear in the register of shareholders on a certain date set by a resolution of the Board of Directors as the shareholders who can exercise the rights as shareholders. In such case, the Company shall give at least two (2) weeks prior notice to the public thereof. <Amended on March 25, 2021>
- (4) Notwithstanding the provision of Paragraph (3), if otherwise set forth in the FHCA or other relevant laws, the Company may follow such different provisions.

**CHAPTER III
BONDS**

Article 19 (Issuance of Corporate Bonds)

- (1) The Company may issue corporate bonds upon the approval of the Board of Directors.
- (2) The Board of Directors may delegate to the Representative Director its authority to determine the bond type, amount and timing of the issuance, which shall occur within 1 year from the approval of such delegation.
- (3) Articles 16 shall apply to the issuance of corporate bonds.
- (4) (Deleted)

Article 19-2 (Electronic Registration of Rights to be Indicated on Bonds, etc.)

In lieu of issuing the bond certificate and the warrant certificates set forth in Chapter III, the Company shall electronically register the rights to be indicated on the bond certificates and the warrant certificates with the electronic register of an electronic registration institution; provided, however, that in case of the bonds, the Company may not electronically register the bonds other than the listed bonds, etc. which should be electronically registered in accordance with the applicable laws and regulations. <Amended on March 25, 2021>

Article 20 (Issuance of Convertible Bonds)

- (1) In any of the following cases, the Company may issue the convertible bonds to any person other than its shareholders by a resolution of the Board of Directors to the extent that the total sum of their issue price, and the issue price of convertible shares under Article 11 (4), bonds with warrant under Article 21 (1) and convertible contingent capital securities under Article 23-2 (1) does not exceed KRW 2 trillion. <Amended on March 25, 2021>
 1. If the convertible bonds are issued through general public offering;
 2. If the Company issues convertible bonds to the securities investment company that runs exclusively the banking business, as set forth in the FHCA;

3. If the Company issues convertible bonds to foreign investors, foreign or domestic financial institutions, allied companies, etc. for the necessity of management, such as introduction of advanced technology, improvement of financial structure of or financial support to the Company or its subsidiary, strategic business alliance, etc.; or
 4. If the Company issues convertible bonds in a foreign country.
- (2) The Board of Directors may determine that the convertible bonds referred to in Paragraph (1) may be issued on the condition that conversion rights will be attached to only a portion of the convertible bonds.
 - (3) The shares to be issued upon conversion shall be common shares. The conversion price, which shall be equal to or more than the face value of the shares, shall be determined by the Board of Directors at the time of issuance of convertible bonds.
 - (4) The conversion period shall commence on the date following three (3) months from the issue date of the convertible bonds and end on the date immediately preceding the redemption date thereof. However, the conversion period may be adjusted within the above period by a resolution of the Board of Directors.
 - (5) (Deleted) <Amended on March 25, 2021>

Article 21 (Issuance of Bonds with Warrant)

- (1) In any of the following cases, the Company may issue the bonds with warrant to any person other than its shareholders by a resolution of the Board of Directors to the extent that the total sum of their issue price and the issue price of convertible shares under Article 11 (4), convertible bonds under Article 20 (1) and the convertible contingent capital securities under Article 23-2 (1) does not exceed KRW 2 trillion. <Amended on March 25, 2021>
 1. If the bonds with warrants are issued through general public offering;
 2. If the Company issues bonds with warrants to the securities investment company that runs exclusively the banking business, as set forth in the FHCA;

3. If the Company issues bonds with warrants to foreign investors, foreign or domestic financial institutions, allied companies, etc. for the necessity of management, such as introduction of advanced technology, improvement of financial structure of or financial support to the Company or its subsidiary, strategic business alliance, etc.; or
 4. If the Company issues bonds with warrants in foreign country.
- (2) The amount of new shares which can be subscribed for by the holders of the bonds with warrants shall be determined by the Board of Directors to the extent that the maximum amount of such new shares shall not exceed the face value of the bonds with warrants.
 - (3) The shares to be issued upon exercise of warrants shall be common shares. The issue price, which shall be equal to or more than the face value of the shares, shall be determined by the Board of Directors at the time of issuance of bonds with warrants.
 - (4) The warrant exercise period shall commence on the date following three (3) months from the issue date of the relevant bonds and end on the date immediately preceding the redemption date thereof. However, the warrant period may be adjusted within the above period by a resolution of the Board of Directors.
 - (5) (Deleted) <Amended on March 25, 2021>

Article 22 (Issuance of Participating Bonds)

- (1) In any of the following cases, the Company may issue the participating bonds to any person other than its shareholders by a resolution of the Board of Directors to the extent that their aggregate issue price does not exceed KRW 1 trillion. <Amended on March 25, 2021>
 1. If the participating bonds are issued through general public offering;

2. If the Company issues participating bonds to foreign investors, foreign or domestic financial institutions, allied companies, etc. for the necessity of management, such as introduction of advanced technology, improvement of financial structure of or financial support to the Company or its subsidiary, strategic business alliance, etc.; or
 3. If the Company issues participating bonds in foreign country.
- (2) Matters regarding the dividend participation of bonds issued pursuant to Paragraph (1) shall be determined by the resolution of the Board of Directors at the time of issuance, based on the dividend on common stock.

Article 23 (Issuance of Write-down Contingent Capital Securities)

- (1) The Company may, by a resolution of the Board of Directors, issue the bonds with a condition attached that the obligation to repay the bonds and to pay the interests thereon shall be waived upon occurrence of any event determined in advance in accordance with objective and reasonable standards at the time of the issuance of such bonds (the “Write-down Contingent Capital Securities”) to the extent that their aggregate issue price does not exceed KRW 10 trillion. <Amended on March 25, 2021>
- (2) The obligation to repay the principal and pay the interest on the Write-down Contingent Capital Securities shall be waived upon the occurrence of the event described in any of the following sub-paragraphs (such waiver hereinafter referred to as “Debt Modification”):
 1. The Company is designated as an insolvent financial institution pursuant to the Act on Structural Improvement of Financial Industry ; or
 2. The Company receives a directive in the form of ‘management improvement order’ from the Financial Services Commission pursuant to the Supervisory Regulations on Financial Holding Companies.
- (3) The Board of Directors of the Company may, to the extent permitted by applicable law and at the time of the issuance, determine the scope of changes to be made to the terms and conditions of the Write-down Contingent Capital Securities as a result of the Debt Modification.

Article 23-2 (Issuance of Convertible Contingent Capital Securities)

- (1) The Company may, by a resolution of the Board of Directors, issue the bonds with a condition attached that they shall be converted into common shares of the Company upon occurrence of any event determined in advance in accordance with objective and reasonable standards at the time of the issuance of such bonds (the “Convertible Contingent Capital Securities”) to the extent that the total sum of their issue price and the issue price of convertible shares under Article 11 (4), convertible bonds under Article 20 (1) and bonds with warrant under Article 21 (1) does not exceed KRW 2 trillion. <Amended on March 25, 2021>
- (2) The Contingent Convertible Capital Securities shall be converted into registered common stock issued by the Company upon the occurrence of the event described in any of the sub-paragraphs of Article 23 (2) and the detailed matters shall be determined by resolution of the Board of Directors.
- (3) The terms and conditions for conversion not set forth in this Article such as the conversion price, etc. shall be as provided in the relevant laws, but the detailed matters with respect thereto shall be determined by resolution of the Board of Directors at the time of issuance of the Contingent Convertible Capital Securities.
- (4) The Company may grant pre-emptive rights in proportion to the number of shares owned by the shareholders to the extent not exceeding the aggregate face value under Paragraph (1) and in the case of abandonment or loss of the pre-emptive right by any shareholder or fractional shares resulting from the allocation, the method for disposal thereof shall be determined by the resolution of the Board of Directors as set forth in the relevant laws.
- (5) If the Company issues the Contingent Convertible Capital Securities to foreign investors, foreign or domestic financial institutions, institutional investors or partner companies, etc. for business reasons, such as introduction of advanced technology, improvement of financial structure or to provide financial support to the Company or its subsidiary, or strategic business alliance, etc., it may issue such securities to any person other than the shareholders of the Company to the extent not exceeding the aggregate face value under Paragraph (1).

(6) (Deleted) <Amended on March 25, 2021>

CHAPTER IV GENERAL MEETINGS OF SHAREHOLDERS

Article 24 (Convening of General Meetings of Shareholders)

- (1) General Meetings of Shareholders of the Company shall be of two types: (i) Ordinary and (ii) Extraordinary.
- (2) The Ordinary General Meeting of Shareholders shall be held within three (3) months after the end of each fiscal year and the Extraordinary General Meeting of Shareholders may be convened whenever deemed to be necessary.

Article 25 (Authority to Convene)

- (1) The Representative Director-Chairman of the Company shall convene the General Meeting of Shareholders in accordance with a resolution of the Board of Directors, unless otherwise prescribed by other laws and ordinances.
- (2) If the Representative Director-Chairman is unable to perform his/her duties, the General Meeting of Shareholders shall be convened by a Director designated by the Board of Directors.

Article 26 (Personal or Public Notices for Convening)

- (1) Written notice of the General Meeting of Shareholders of the Company shall state the date, time, place of the Meeting, the purposes for which the Meeting has been called, and other matters set forth in the relevant laws. The written notice shall be sent to all shareholders two (2) weeks prior to the date set for the Meeting.

- (2) The written notice of a General Meeting of Shareholders to be given to shareholders holding one-hundredth (1/100) or less of the total issued and outstanding voting shares may be substituted by giving public notice of the convening of the General Meeting of Shareholders in *Hankuk Kyongje Shinmun* and *Maeil Kyongje Shinmun* which are published in the city of Seoul, at least two (2) notices are made in the said publications or by using an electronic method defined by the Commercial Law and related regulations two (2) weeks prior to the date set for such Meeting.
- (3) Notwithstanding the provisions of Paragraphs (1) and (2), if otherwise set forth in the FHCA or other relevant laws, the Company may follow such different provisions.

Article 27 (Place of Meeting)

The General Meeting of Shareholders shall be held in the city where the head office is located, or any other places adjacent thereto as required.

Article 28 (Chairman of the General Meeting of Shareholders)

The Chairman of the General Meetings of Shareholders shall be the person entitled to convene the Meeting pursuant to Article 25.

Article 29 (Chairman's Authority to Maintain Order)

- (1) The Chairman may order persons who purposely speak or act in a manner to prevent or disrupt the deliberations of the General Meeting of Shareholders or disturb the public order of the General Meeting of Shareholders to stop or retract his/her remarks or to leave the place of meeting.
- (2) The Chairman may restrict the length and frequency of the speech of shareholders if it is necessary for the smooth deliberations of the General Meeting of Shareholders.

Article 30 (Voting Rights)

Each shareholder shall have one (1) vote for each share he/she owns.

Article 31 (Split Voting)

- (1) If any shareholder who holds two (2) or more votes wishes to split his/her votes, he/she shall notify the Company in written form of such intent and the reasons therefor no later than three (3) days before the date set for the General Meeting of Shareholders.
- (2) The Company may refuse to allow the shareholder to split his/her votes unless the shareholder acquired the shares in trust or otherwise holds the shares for and on behalf of some other person.

Article 32 (Voting by Proxy)

- (1) A shareholder may exercise his/her vote through a proxy.
- (2) In the case of Paragraph (1) above, the proxy holder shall file with the Company the documents evidencing the authority to act as a proxy before the General Meeting of Shareholders.

Article 33 (Method of Resolution)

Except as otherwise provided in the applicable laws and regulations or these Articles of Incorporation, all resolutions of the General Meeting of Shareholders shall be adopted by the affirmative vote of a majority of the shareholders present; provided that such votes shall, in any event, represent not less than one-fourth (1/4) of the total number of issued and outstanding shares.

Article 34 (Exercise of Voting Rights in Writing)

- (1) If the method of resolution in writing at the General Meeting of Shareholders is adopted by the resolution of the Board of Directors, the shareholders may exercise their voting rights without participating in the meeting.
- (2) In the case of Paragraph (1), the Company shall attach the documents and references necessary for exercise of voting rights to the convening notice.
- (3) If a shareholder intends to exercise his/her voting rights in writing, the shareholder shall fill in and submit to the Company the documents referred to in Paragraph (2) by the date preceding the date set for the General Meeting of Shareholders.

Article 35 (Minutes of the General Meetings of Shareholders)

The substance of the course of the proceedings of the General Meeting of Shareholders and the results thereof shall be recorded in the minutes and shall be preserved at the head office and branches of the Company, after being affixed with the names and seal impressions or signatures of the Chairman and the Directors present.

**CHAPTER V
OFFICERS AND BOARD OF DIRECTORS**

Article 36 (Officers)

- (1) The Company shall have not less than three (3) but not more than fifteen (15) Directors, of which the number of Outside Directors shall not be less than 3 persons and 50/100 of the total number of Directors.
- (2) In cases where the number of Outside Directors does not meet the quorum required for the establishment of the Board of Directors under paragraph (1) due to a cause such as resignation or death of any Outside Director, the Company shall appoint Outside Directors at the first General Meeting of Shareholders convened after the occurrence of such cause, to satisfy the requirements prescribed therein. (Newly established)

Article 37 (Election of Director)

- (1) Directors shall be elected at the General Meeting of Shareholders.

Article 38 (Term of Director)

- (1) The term of office of the Director shall be determined at the General Meeting of Shareholders to the extent not exceeding three years, and the Director may be re-appointed. Provided that, the term of office of the Outside Director shall be no more than two years (or, in the case of reappointment, no more than one year), and the Outside Director may not serve as an outside director of the Company for a total of more than six years, or as an outside director of the Company or any of its subsidiaries for a total of more than nine years.
- (2) The term of office under Paragraph (1) above shall be until the closure of the ordinary General Meeting of Shareholders convened in respect of such fiscal year.

Article 39 (Eligibility of Outside Director)

- (1) The Company shall appoint a person with expertise and general knowledge as an outside director considering the qualifications set forth in each of the following subparagraphs.
 1. Whether such person possesses sufficient work experience or expert knowledge in relevant areas of financial businesses of financial institutions, such as finance, economy, business administration, accounting, legal affairs, consumer protection or information technology, to the extent necessary to perform duties as an Outside Director;

2. Whether as an Outside Director such person is not bound to any special interests and is able to perform the relevant duties fairly in the interest of the entire shareholders' group and consumers of financial services;
 3. Whether such person has a sense of ethics and responsibility that is appropriate to perform duties as an Outside Director; and
 4. Whether such person is able to dedicate sufficient time and efforts in order to faithfully perform duties as an Outside Director.
- (2) An Outside Director may not be appointed as an outside director for other companies during his/her term as an Outside Director, except where such Outside Director concurrently serves as an outside director of a subsidiary, etc. of the Company.

Article 40 (By-election of Directors)

- (1) In the event of any interim vacancy in the office of the Director, a substitute Director shall be elected at the General Meeting of Shareholders; provided, however, that the foregoing shall not apply if the number of remaining Directors satisfies the requirement of Article 36 hereof and such vacancy does not cause any difficulties in the business operation of the Company.
- (2) If the number of Outside Directors does not satisfy the requirement referred to in Article 36 due to the death or resignation of Outside Directors or any other reason, the Outside Directors shall be elected to fill the vacancy at the first Ordinary General Meeting of Shareholders after such cause to satisfy the required number of Outside Directors.
- (3) The term of office of the Director appointed pursuant to Paragraphs (1) and (2) shall commence from the date of taking office.

Article 41 (Appointment of Representative Director)

The Company may, by resolution of the Board of Directors, appoint one Director as a Representative Director-Chairman.

Article 42 (Duties of Directors)

- (1) The Representative Director-Chairman shall represent the Company, perform the matters resolved by the Board of Directors and oversee the business operations of the Company as determined by the Board of Directors.
- (2) Directors shall assist the Representative Director, and divide and perform business operations as delegated to them by the Board of Directors.

Article 43 (Director's Obligations)

- (1) The Directors shall perform their respective duties faithfully for the benefits of the Company, in accordance with the laws and these Articles of Incorporation.
- (2) If any Director finds any facts which may cause substantial losses to the Company, such Director shall promptly report to the Audit Committee thereof.

Article 44 (Composition and Convening of the Meeting of Board of Directors)

- (1) The Board of Directors shall consist of Directors, and shall resolve important matters regarding the business affairs of the Company.
- (2) The Meeting of the Board of Directors shall be of two types: (i) Ordinary and (ii) Extraordinary. The Ordinary Meeting of the Board of Directors shall be held at least once per fiscal quarter and the Extraordinary Meeting of the Board of Directors may be convened whenever deemed to be necessary.
- (3) The Meeting of the Board of Directors shall be convened by the Chairman of the Board of Director by giving notice to each Director at least seven (7) days prior to the scheduled date of such Meeting. However, such period may be reduced upon occurrence of urgent events, and the said procedures may be omitted with the consent thereon of all Directors.

Article 45 (Chair of the Meeting of the Board of Directors)

- (1) The Chair of the Board of Directors shall be elected every year among the Outside Directors by a resolution of the Board of Directors.
- (2) Notwithstanding Paragraph (1), the Board of Directors may appoint a person who is not an Outside Director as the Chair of the Board of Directors, in which case, in addition to the Chair of the Board of Directors, a Senior Outside Director representing the Outside Directors shall be appointed by a resolution of the Board of Directors.

Article 46 (Resolutions of the Board of Directors)

- (1) The quorum for the Board of Directors shall be the presence of at least more than one half (1/2) of the Directors, and all resolutions of the Board of Directors shall require the affirmative votes of a majority of the Directors present at the meeting of the Board of Directors.
- (2) The Board meetings may be held by means of a telephone conference or other similar arrangement whereby all or part of the Directors may participate in the meeting and vote on matters at the same time. In such case, a Director participating in the meeting by such arrangement shall be considered present at the meeting.
- (3) Any Director who has a related interest in the matters to be resolved at the Meeting of the Board of Directors shall be abstained from voting at such Meeting.
- (4) The Board of Directors shall deliberate and decide on the following matters.
 1. Matters concerning the management objectives and evaluation of performance;
 2. Matters concerning the amendment of the Articles of Incorporation;
 3. Matters concerning the budget and settlement of accounts;
 4. Matters concerning important changes to the organization of the Company such as dissolution, business transfer, merger, etc;

5. Matters concerning the enactment, amendment and abolition of the risk management standards and internal control standards;
6. Matters concerning the establishment of governance policies such as a plan for succession of CEO, etc;
7. Matters concerning the supervision of conflicts of interest between the Company and major shareholders or executive officers; and
8. Other matters determined by the Board of Directors

Article 47 (Minutes of the Meeting of Board of Directors)

- (1) The proceedings of a Board meeting shall be recorded in the minutes.
- (2) The minutes for a Board meeting should record the agenda, proceedings, resolutions, the identity of dissenting directors (if any) and the reasons for such dissent and must be signed or affixed a seal by the Directors present at the meeting.

Article 48 (Committees)

- (1) The Company shall operate the following committee within the Board of Directors at all times:
 1. Committee for recommending candidates for CEO <Amended on March 25, 2021>
 2. (Deleted) <Amended on March 25, 2021>
 3. Audit Committee;
 4. Committee for recommending candidates for independent directors and members of audit committee <Amended on March 25, 2021>
 5. Risk Management Committee;
 6. Remuneration Committee;
 7. (Deleted) <Amended on March 25, 2021>
 8. Environmental, social and governance (ESG) strategy committee; and <Amended on March 25, 2021>
 9. Committee for managing subsidiary's business <Amended on March 25, 2021>
- (2) Details regarding composition, authority, operation, etc. of each Committee under the Board of Directors shall be determined by the resolution of the Board of Directors.

(3) Articles 44, 46 and 47 shall apply *mutatis mutandis* with respect to the committees.

Article 49 (Remuneration for Directors)

The maximum remuneration for the Directors shall be determined by a resolution of the General Meeting of Shareholders, and the specific payment method of the remuneration for the Directors shall be determined at the Board of Directors. <Amended on March 25, 2021>

Article 50 (Consultants)

By a resolution of the Board of Directors, the Company may retain several consultants, honorary directors and advisors.

**CHAPTER VI
AUDIT COMMITTEE**

Article 51 (Constitution of Audit Committee)

- (1) The Company shall have the Audit Committee, as prescribed by article 41 paragraph 1 of the Act on Corporate Governance of Financial Companies.
- (2) Candidates for the Audit Committee shall be recommended by the Audit Committee Member Recommendation Committee comprised entirely of Outside directors. The Audit Committee Member Recommendation Committee shall make resolution by an affirmative vote of at least two-thirds (2/3) of the members.
- (3) The Audit Committee shall consist of not less than three (3) but no more than five (5) directors, of whom at least two-thirds shall be Outside Directors.

- (4) At least one member shall be an expert in the area of accounting or finance, as defined by relevant laws and regulations.
- (5) The Audit Committee shall by its resolution elect one of its Outside Director members as its Chair.
- (6) In cases where the number of the Audit Committee members does not meet the quorum required for the establishment of the Audit Committee under this Article due to a cause such as resignation or death of any member, the Company shall take actions at the first General Meeting of Shareholders convened after the occurrence of such cause, to satisfy the requirements.

Article 52 (Duties of Audit Committee)

- (1) The Audit Committee shall examine the operation and accounting of the Company.
- (2) The Audit Committee may request the Board of Directors to convene the Extraordinary General Meeting of Shareholders by submitting documents stating the agenda and reasons for convening such meeting.
- (3) If determined necessary, the Audit Committee may request convocation of a meeting of the Board of Directors by submitting the purpose and agenda of such meeting in writing to the person with the authority to convene such meeting.
- (4) If the request was submitted as set forth above in Paragraph (3), but the person with the authority to convene the meeting fails to do so, the Audit Committee may convene the meeting itself.
- (5) The Audit Committee may request business reports from any subsidiary of the Company when it is necessary to perform its duties. In this case, if such subsidiary does not report to the Audit Committee immediately or the Audit Committee needs to verify the contents of the reports, it may investigate the status of business and the financial condition of the subsidiary.

- (6) The Audit Committee shall select the external auditor of the Company.
- (7) In addition to the matters referred to in Paragraphs (1) through (4), the Audit Committee shall dispose of the matters delegated by the Board of Directors.

Article 53 (Audit Committee's Record)

The Audit Committee shall record the substance and results of its audit in the Audit Committee's record, on which the name and seal of the Audit Committee member who has performed such audit shall be affixed or shall be signed by such Audit Committee member.

**CHAPTER VII
ACCOUNTING**

Article 54 (Fiscal Year)

The fiscal year of the Company shall begin on January 1 and end on December 31 of each year.

Article 55 (Preparation and Display of Financial Statements and Business Report)

- (1) The Representative Director-Chairman of the Company shall prepare the following documents to be submitted to the Ordinary General Meeting of Shareholders, together with supplementary data and business reports, and have such documents audited by the Audit Committee no later than six (6) weeks before the date of the Ordinary General Meeting of Shareholders:
 1. balance sheet;
 2. statements of profit and loss; and

3. other documents that reflect the Company's financial position and management performance according to the Enforcement Decree to the Commercial Act
- (2) If the Company is required to prepare consolidated financial statements under the Enforcement Decree to the Commercial Act, the documents set forth in each Subparagraph of Paragraph (1) shall include consolidated financial statements.
- (3) The Audit Committee shall submit an audit report to the Representative Director-President no later than one (1) week before the date of the Ordinary General Meeting of Shareholders.
- (4) The Representative Director-Chairman shall keep file copies of the documents described in Paragraph (1) and Audit Committee's audit report thereon, at the head office of the Company for five (5) years and certified copies of all such documents at the branches of the Company for three (3) years, beginning from one (1) week before the date of the Ordinary General Meeting of Shareholders.
- (5) Immediately upon obtaining approval for the documents mentioned in Paragraph (1) above from the General Meeting of Shareholders, the Representative Director- Chairman shall make a public notice of the balance sheet, income statement, consolidated balance sheet and income statement, and the opinion of an external auditor.

Article 56 (Appointment of External Auditor)

The Company shall appoint the external auditor selected by the Audit Committee and either report such fact to the Ordinary General Meeting of Shareholders to be held first after such appointment or notify the shareholders or make a public announcement thereof as prescribed in the Enforcement Decree of the Act on External Audit of Stock Companies, Etc.

Article 57 (Disposal of Profits)

The Company shall dispose of the unappropriated retained earnings as of the end of each fiscal year as follows:

1. earned surplus reserves;
2. other statutory reserves;
3. dividends;
4. temporary reserves; and
5. other appropriation of earned surplus.

Article 58 (Deleted)

Article 59 (Dividends)

- (1) Dividends may be distributed in cash or stock.
- (2) In the case where the dividends are to be distributed in stock and the Company has several classes of shares, the stock dividend distribution may be made in shares of different classes by a resolution of the General Meeting of Shareholders.
- (3) Dividends of Paragraph (1) above shall be paid to the shareholders registered in the Company's registry of shareholders or the registered pledgees as of the last day of each fiscal year.

Article 59-2 (Quarterly Dividends) <Amended on March 25, 2021>

- (1) The Company may pay quarterly dividends under Article 165-12 of the Financial Investment Services and Capital Markets Act to its shareholders, who are registered in the Company's final register of shareholders as of the end of March, June and September of each year. Quarterly dividends shall be paid in cash.
- (2) Quarterly dividends referred to in Paragraph (1) above shall be paid by a resolution of the Board of Directors; provided, however, that such resolution shall be made within 45 days from each record date referred to in Paragraph (1) above.

- (3) The maximum amount to be paid as quarterly dividends shall be calculated by deducting the following amounts from the net assets recorded in the year-end balance sheet of the immediately preceding fiscal year:
1. Paid-in capital of the Company as of the end of the immediately preceding fiscal year;
 2. The aggregate amount of the capital reserves and earned surplus reserves, which have been accumulated as of the end of the immediately preceding fiscal year;
 3. Unrealized profits as prescribed under the Enforcement Decree of the Commercial Code;
 4. The amount resolved to be distributed as dividends at the Ordinary General Meeting of Shareholders held in respect of the immediately preceding fiscal year;
 5. Voluntary reserves which have been accumulated for specific purposes in accordance with the relevant provisions of these AOI or by a resolution of the General Meetings of Shareholders as of the end of the immediately preceding fiscal year;
 6. Earned surplus reserves to be accumulated for the fiscal year concerned, pursuant to the distribution of the contemplated quarterly dividends; and
 7. The aggregate amount of quarterly dividends paid during the current fiscal year, if any.
- (4) (Deleted)
- (5) In the event of payment of quarterly dividends, the dividend rate for the preferred shares shall be the same as that for the common shares, unless otherwise determined by the Board of Directors at the time of the issuance of the preferred shares.

Article 60 (Expiration of Right to Payment of Dividends)

- (1) The right to demand payment of dividends shall extinguish by prescription if not exercised within five (5) years.
- (2) The dividends, of which the right has been extinguished under Paragraph (1) above, shall be kept by the Company.

Article 61 (Supplementary Provision)

Matters not specified in these Articles of Incorporation shall be determined by the resolution of the Board of Directors or the General Meeting of Shareholders, or in accordance with the Commercial Code or other laws.

ADDENDA

Article 1 (Effective Date)

These Articles of Incorporation shall become effective from the date of registration of incorporation.

Article 2 (Initial Fiscal Year after Incorporation)

Notwithstanding the provisions of Article 54, the initial fiscal year of the Company after incorporation shall be from the date of incorporation to December 31, 2001.

Article 3 (Initial Transfer Agent after Incorporation)

Notwithstanding the provisions of Article 16, Paragraph (2), the initial transfer agent of the Company after incorporation shall be Korea Securities Depository.

Article 4 (Appointment of Initial Representative Director, et al. after Incorporation)

Notwithstanding the provisions of Article 41, the initial Representative Director-Chairman and the initial Representative Director-Chairman of the Company after incorporation shall be one person appointed at the General Meetings of Shareholders of the Share Transferring Companies, at which the resolution to approve the share transfer is adopted.

Article 5 (Appointment of Initial Outside Director after Incorporation)

Notwithstanding the provisions of Article 36, Paragraph (2), the initial Outside Director of the Company after incorporation shall be appointed at the General Meetings of Shareholders of the Share Transferring Companies, at which the resolution to approve the share transfer is adopted, without recommendation of the Operation Committee.

Article 6 (Appointment of Initial Members of Audit Committee after Incorporation)

The initial members of Audit Committee shall be appointed at the General Meetings of Shareholders of the Share Transferring Companies, at which the resolution to approve the share transfer is adopted.

Article 7 (Remuneration of Directors in Initial Fiscal Year after Incorporation)

Notwithstanding the provisions of Article 49, the remuneration of Directors in initial fiscal year after incorporation shall be determined at the first meeting of the Board of Directors after incorporation, to the extent not exceeding 1 billion Won.

Article 8 (Share Transferring Companies)

In order to incorporate the Company, the following share transferring companies prepare these Articles of Incorporation and affix their respective names and seals hereon on August 10, 2001.

Shinhan Bank
120, Taepyongro 2ga, Jung-gu, Seoul
Representative Director, President In Ho Lee

Shinhan Securities Co., Ltd.
24-4, Yoido-dong, Youngdeungpo-gu, Seoul
Representative Director, President Yang Sang Yoo

Shinhan Capital Co., Ltd.
526-3, Kojan-dong, Ansan, Kyonggido
Representative Director, President Shin Jung Kang

Shinhan Investment Trust Management Co., Ltd.
24-4, Yoido-dong, Youngdeungpo-gu, Seoul
Representative Director, President Bo Gil Baek

ADDENDUM (1)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of March 20, 2002.

ADDENDUM (2)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of March 31, 2003.

ADDENDUM (3)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of March 25, 2004.

ADDENDUM (4)

Article 1 (Effective Date)

These Articles of Incorporation shall take effect as of March 21, 2006.

Article 2 (Application to Preferred Shares)

Articles 9-2, 12-2 and 12-3 shall take effect only with respect to the preferred shares issued after the effective date of this amendment.

ADDENDUM (5)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of March 19, 2008.

ADDENDUM (6)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of March 17, 2009.

ADDENDUM (7)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of March 24, 2010.

ADDENDUM (8)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of March 23, 2011.

ADDENDUM (9)

Article 1 (Effective Date)

These Articles shall take effect on April 15, 2012, except for Article 36, Article 47 Paragraph(1) Subparagraph 1 and Article 55 which shall take effect on March 29, 2012.

ADDENDUM (10)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of March 25, 2015.

ADDENDUM (11)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of August 1, 2016.

ADDENDUM (12)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of March 23, 2017.

ADDENDUM (13)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as of the date of the 18th Ordinary General Meeting of Shareholders. Provided, however, that the amendments to Articles 10, 16, 17, 19 and 19-2 shall become effective as of September 16, 2019, the date of enforcement of the Enforcement Decree of the Act on Electronic Registration of Stocks, Bonds, Etc.

ADDENDUM (14)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective as the date of the 19th Annual General Meeting of Shareholders.

ADDENDUM (15)

Article 1 (Effective Date)

These AOI shall be effective from the date on which the Ordinary General Meeting of Shareholders for the 20th fiscal year is held.
<Amended on March 25, 2021>

List of Subsidiaries of Shinhan Financial Group Co., Ltd.

Shinhan Bank Co., Ltd
 Shinhan Card Co., Ltd
 Shinhan Investment Corp.
 Shinhan Life Insurance Co., Ltd.
 Orange Life Insurance, Ltd.
 Shinhan Capital Co., Ltd.
 Shinhan Asset Management Co., Ltd.
 Jeju Bank
 Shinhan Savings Bank
 Shinhan DS
 Shinhan AITAS Co., Ltd.
 Shinhan Credit Information Co., Ltd.
 Shinhan Alternative Investment Management Inc.
 Asia Trust Co., Ltd.
 Shinhan REITs Asset Management Co., Ltd.
 Shinhan AI. Co., Ltd.
 Shinhan Venture Investment Co., Ltd.
 SHC Management Co., Ltd.
 Shinhan Bank America (incorporated in United States)
 Shinhan Bank Canada (incorporated in Canada)
 Shinhan Bank (China) Limited (incorporated in People's Republic China)
 Shinhan Bank Europe GmbH (incorporated in Germany)
 Shinhan Bank Japan (incorporated in Japan)
 Shinhan Bank Vietnam Ltd. (incorporated in Vietnam)
 Shinhan Bank Kazakhstan Limited (incorporated in Kazakhstan)
 Shinhan Bank (Cambodia) PLC. (incorporated in Cambodia)
 PT Bank Shinhan Indonesia (incorporated in Indonesia)
 Banco Shinhan de Mexico (incorporated in Mexico)
 SBJ DNX, Inc. (incorporated in Japan)
 LLP MFO Shinhan Finance (incorporated in Kazakhstan)
 PT Shinhan Indo Finance (incorporated in Indonesia)
 Shinhan Microfinance Co., Ltd. (incorporated in Myanmar)
 Shinhan Vietnam Finance Company Ltd. (incorporated in Vietnam)
 Shinhan Investment Corp. Asia Ltd (incorporated in Hong Kong)
 Shinhan Investment Corp. USA Inc. (incorporated in United States)
 Shinhan Securities Vietnam (incorporated in Vietnam)
 PT Shinhan Securities Indonesia (incorporated in Indonesia)
 PT Shinhan Asset Management Indonesia (incorporated in Indonesia)
 Shinhan Asset Management (Hong Kong) Limited (incorporated in Hong Kong)
 Shinhan DS Vietnam Co., Ltd. (incorporated in Vietnam)
 Shinhan Private Equity Fund 2nd
 KOFC Shinhan Frontier Champ 2010-4 PEF
 Neoplux 3rd PEF
 Shinhan Praxis K-Growth Global Private Equity Fund
 GX Shinhan Intervest 1st Private Equity Fund
 Shinhan SKS PEF

Other than as otherwise noted herein, all of our subsidiaries are incorporated in Korea.

CERTIFICATIONS

I, Cho Yong-byoung, certify that:

1. I have reviewed this annual report on Form 20-F of Shinhan Financial Group (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 28, 2021

By: /s/ Cho Yong-byoung
Name: Cho Yong-byoung
Title: Chairman and Chief Executive Officer

CERTIFICATIONS

I, Roh Yong-hoon, certify that:

1. I have reviewed this annual report on Form 20-F of Shinhan Financial Group (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 28, 2021

By: /s/ Roh Yong-hoon

Name: Roh Yong-hoon

Title: Chief Financial Officer

CHIEF EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report of Shinhan Financial Group (the “Company”) on Form 20-F for the fiscal year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Cho Yong-byoung, Chairman and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2021

By: /s/ Cho Yong-byoung
Name: Cho Yong-byoung
Title: Chairman and Chief Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report of Shinhan Financial Group (the “Company”) on Form 20-F for the fiscal year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Roh Yong-hoon, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2021

By: /s/ Roh Yong-hoon
Name: Roh Yong-hoon
Title: Chief Financial Officer

EXHIBIT 15.1

April 28, 2021
Securities and Exchange Commission
Division of Corporate Finance
100 F Street, N.E.
Washington, D.C. 20549-7561

Dear Sirs/Madams:

We were previously principal accountants for Shinhan Financial Group Co., Ltd. and, under the date of April 29, 2020, we reported on the consolidated financial statements of Shinhan Financial Group Co., Ltd. as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019 and the effectiveness of internal control over financial reporting as of December 31, 2019. On April 29, 2020, our appointment as independent auditor and independent registered public accounting firm expired upon the completion of the audit of the consolidated financial statements and the effectiveness of internal control over financial reporting. We have read the statements included under Item 16F of Form 20-F dated April 28, 2021 of Shinhan Financial Group Co., Ltd., and we agree with such statements, except that we are not in a position to agree or disagree with Shinhan Financial Group Co., Ltd.'s stated reason for changing principal accountants or with the statements contained in the fifth paragraph.

Yours sincerely,

/s/ KPMG Samjong Accounting Corp.