

LETTER FROM CEO

Valued Shareholders, It is my honor to address you with my second letter as the Chief Executive Officer of Shinhan Financial Group.

First and foremost, I extend my heartfelt gratitude for the remarkable interest and support you showed at the 23rd Annual General Shareholders' Meeting on March 26, 2024.

This event marked the welcomed addition of Song Seongjoo and Choi Young-Gwon to our board of directors.

Following this, at a subsequent provisional board meeting, Yoon Jaewon, our esteemed former Audit Committee Chair, had the honor of becoming the second woman to ever chair the board in Shinhan Financial Group's history. This meeting also culminated in the strategic appointment of chairs and members to various subcommittees, thereby completing the board's composition.

Looking ahead to 2024, Shinhan Financial Group is set to energetically pursue 'Excellence, Shinhan,' in collaboration with our renewed board of directors. We are committed to maintaining open lines of communication and sharing progress updates with our valued shareholders at every available opportunity. At this significant moment, I am prompted to compose this letter to not only reflect on the year 2023 but also share our perspective and strategic focal points for the year ahead.

Board of Directors

Independence	Name	Sub-committees	Main Work Experience
Chair of the Board	Yoon Jaewon	<ul style="list-style-type: none"> - CEO Recommendation Committee (Chair) - Audit Committee (Member) - Subsidiaries' CEO Recommendation Committee (Member) 	<ul style="list-style-type: none"> (2023-present) Non-executive Member of the Accounting Standards Board of the Korea Accounting Institute (2017-present) Vice President of the Korean Tax Association (2004-present) Professor, College of Business Administration, Hogik University
Executive	Jin Okdong	<ul style="list-style-type: none"> - Subsidiaries' CEO Recommendation Committee (Chair) - ESG Strategy Committee (Member) 	<ul style="list-style-type: none"> (2023-present) CEO, Shinhan Financial Group (2019-2022) CEO, Shinhan Bank (2017-2018) Deputy President, Shinhan Financial Group (2015-2016) CEO, Shinhan Bank Japan (SBJ)
Independent	Kwak Su Keun	<ul style="list-style-type: none"> - Audit Committee (Chair) - Remuneration Committee (Member) - Subsidiaries' CEO Recommendation Committee (Member) 	<ul style="list-style-type: none"> (2019-present) Chair of Corporate Governance Advisory Board, Korea Listed Companies Association (2019-present) Chairman, POSCO Corporate Citizenship Advisory Committee (2018-present) Honorary Professor of Accounting, Seoul National University Business School

Independent	Kim Jo Seol	<ul style="list-style-type: none"> - ESG Strategy Committee (Member) - Remuneration Committee (Member) - Independent Director and Audit Committee Member Recommendation Committee (Member) 	<p>(2023-present) Standing Director and Vice President, Northeast Asian Society</p> <p>(2020-present) Professor, Osaka University of Commerce Department of Economics</p>
Independent	Bae Hoon	<ul style="list-style-type: none"> - Audit Committee (Member) - Subsidiaries' CEO Recommendation Committee (Member) - CEO Recommendation Committee (Member) 	<p>(2003-present) Representative Attorney, Orbis Legal Profession Corporation</p> <p>(2002-2006) Co-representative lawyer, LAZAK (Lawyers Association of Zainichi Korea)</p>
Independent	Song Seongjoo	<ul style="list-style-type: none"> - Risk Management Committee (Chair) - Independent Director and Audit Committee Member Recommendation Committee (Member) 	<p>(2022-present) Director of the Korea Risk Management Society</p> <p>(2008-present) Professor, Statistics, Korea University</p>
Independent	Lee Yong Guk	<ul style="list-style-type: none"> - ESG Strategy Committee (Chair) - Risk Management Committee (Member) - Subsidiaries' CEO Recommendation Committee (Member) 	<p>(2020-present) Adjunct Professor, Seoul National University</p> <p>(1992-present) Partner Attorney at New York/Hong Kong Office, Representative and Senior Counsel at Seoul Office, Senior Counsel, Cleary Gottlieb Steen & Hamilton LLP</p>
Independent	Jin Hyun-duk	<ul style="list-style-type: none"> - CEO Recommendation Committee (Member) - Independent Director and Audit Committee Member Recommendation Committee (Member) 	<p>(2017-present) Councilor, The Korea Educational Foundation</p> <p>(1986-present) CEO, PHOEDRA Co., Ltd.</p>
Independent	Choi Young-Gwon	<ul style="list-style-type: none"> - Remuneration Committee (Chair) - Risk Management Committee (Member) - CEO Recommendation Committee (Member) 	<p>(2023-present) Adjunct Professor, Graduate School of Business Administration, Sogang University</p> <p>(2019-2023) CEO, Woori Asset Management</p> <p>(2014-2017) CIO, Government Employees Pension Service</p>
Independent	Choi Jae Boong	<ul style="list-style-type: none"> - Independent Director and Audit Committee Member Recommendation Committee (Chair) - ESG Strategy Committee (Member) - CEO Recommendation Committee (Member) 	<p>(2023-present) Vice President and Head of Industry-Academia Cooperation Center, Sungkyunkwan University Natural Sciences Campus</p> <p>(2019-present) Member, Presidential Advisory Council on Science & Technology</p> <p>(2009-present) Professor, School of Mechanical Engineering, Sungkyunkwan University</p>
Non-executive	Jung Sang Hyuk	<ul style="list-style-type: none"> - ESG Strategy Committee (Member) 	<p>(2023-present) CEO, Shinhan Bank</p> <p>(2023-2023) Head of Capital Markets, Shinhan Bank</p> <p>(2020-2022) Head of Business Management Planning, Shinhan Bank</p>

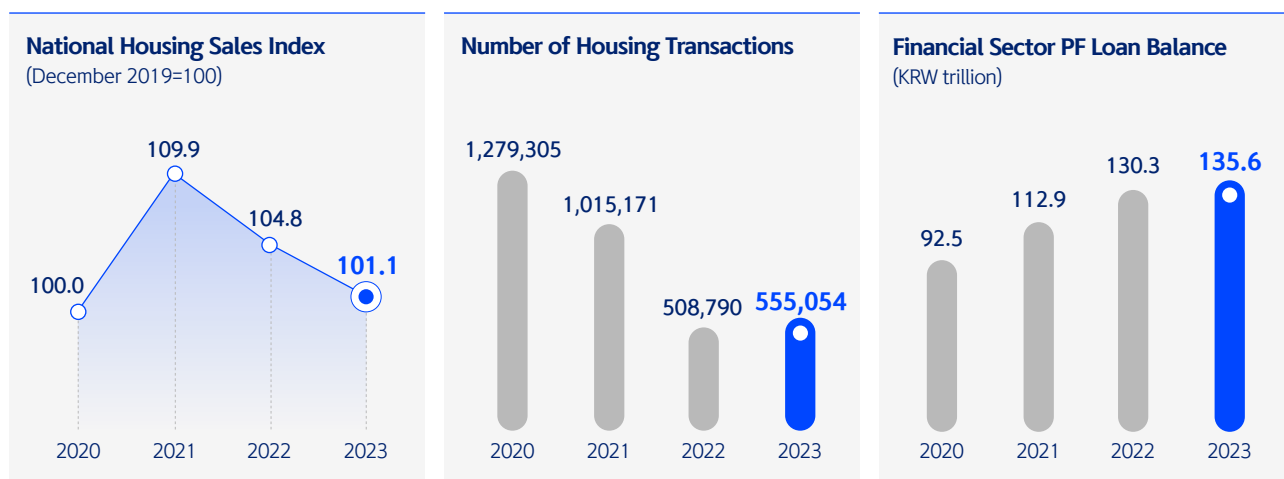
Looking Back on 2023

Looking back on the past year brings to mind several issues that we had to deal with over those twelve months. The steep interest rate hikes that commenced in 2022, coupled with the liquidity crisis in the corporate bond market later that year, unsettled numerous players in Korea's economy.

Hit hardest was the real estate market, a foundational element of Korea's domestic economy, causing reverberations across related sectors. It was during this time that concerns regarding the real estate project finance (PF) market began to intensify.

The contracting domestic economy only deepened the financial hardships faced by ordinary households and small business owners. With refinanced maturities drawing near for borrowers who had their loan repayments suspended during the pandemic, anxiety over these debts added to societal tension.

4-Year Trends of Real Estate Price and Transaction Volumes



*. Source: Korea Real Estate Board, Financial Supervisory Service reports

SOHO Loan Growth Rate by Industry

	2019. 12.	2020. 12.	2021. 12.	2022. 12.	2023. 12.
Total Loans in KRW	9.7%	16.3%	12.7%	5.2%	1.9%
Manufacturing	6.0%	8.9%	13.5%	5.4%	-1.5%
Construction	8.9%	27.6%	22.3%	4.4%	-0.4%
Real Estate	10.3%	11.2%	11.1%	5.9%	5.0%
Wholesale and Retail	7.9%	20.6%	12.8%	5.7%	-0.5%
Accommodation & Food Services	11.6%	22.9%	9.3%	0.3%	-2.3%
Others	11.5%	26.9%	17.6%	6.1%	2.1%

These socio-economic challenges spurred public calls for financial institutions to step forward and ease some of the financial difficulties faced by those in distress.

Indeed, these factors subtly impacted Shinhan's financial outcomes, leading to a modest decline in net income, which had been on a growth trajectory for ten consecutive years up until then. However, factoring in the proactive recognition of provisions for credit costs against uncertainties and efforts to support marginal borrowers to mitigate system risks and sustain our customer base, it is widely acknowledged that our core earning power remains robust. Of particular note, I would like to bring to your attention the quality and sustainability of our profits.

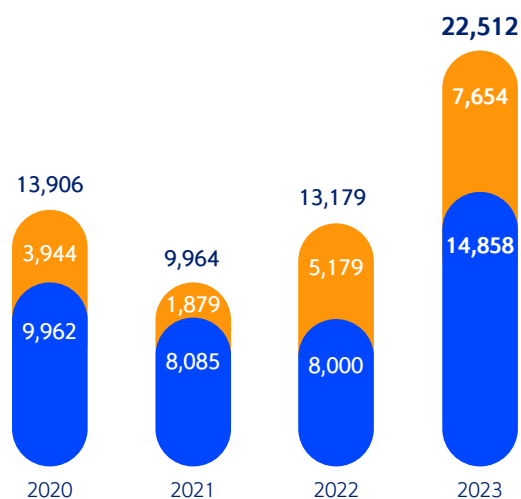
In 2023, operating income rose by 10.7%. Of this, non-interest income markedly increased by 51.0%, bolstered by a rise in fee income. This achievement holds considerable significance for Shinhan, as we aim for the long-term improvement of our return on equity (ROE). At the same time, we view it as reflective of our financial performance aligning with our strategic focus on expanding a capital-light business model.

Furthermore, in terms of costs, the preemptive adjustments to key risk indicators, such as the loss-given default (LGD), have prepared us to effectively buffer against potential future risks.

Shinhan's financial performance has thus established a solid foundation for the ongoing enhancement of shareholder returns. Moving forward, we remain dedicated to fulfilling your expectations with a steadfast return policy.

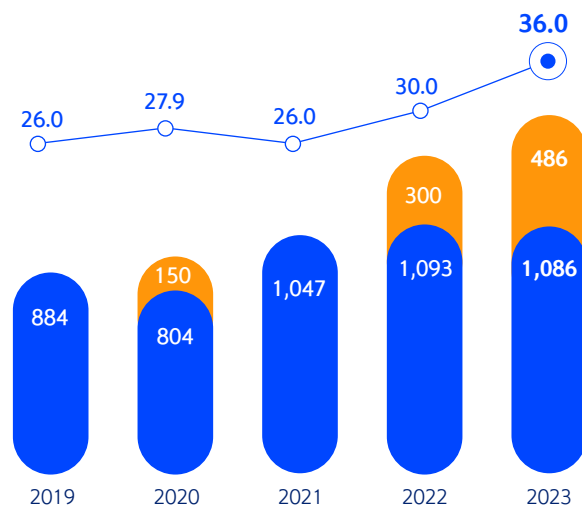
4-Year Provisioning for Credit Losses (KRW billion)

- Nominal Provisioning
- Recurring Provisioning
- COVID-19/Countercyclical Provisioning



5-Year Shareholder Return Rates (% , KRW billion)

- Total Shareholder Return Rate
- Cash Dividends
- Share Buyback and Cancellations



Looking Ahead to 2024

Like other countries, Korea is also expected to experience the aftermath of an economic downturn, with anticipated difficulties in the credit sector. Despite potential improvements in macroeconomic indicators due to the recovery of key industries such as semiconductors, the Korean economy is expected to exhibit a 'recessionary recovery' amidst sagging domestic market sentiment, particularly in the real estate sector.

This situation will present a number of different challenges for the Korean financial sector, which is highly dependent on the domestic market. Without question, it will be a challenge to maintain financial stability, a prerequisite for continuous improvements in return on equity (ROE) and shareholder return policy. As mentioned above, there is growing concern over the asset soundness of SME loans and real estate PFs.

Nevertheless, Shinhan Bank's overall delinquency rate, as well as that of Shinhan Card—barometers of general economic conditions—has remained stable without any significant changes since the end of 2022. With proactive monitoring of these indicators and effective management of asset quality—and utilizing the KRW 1.9 trillion in loan loss provisions additionally put aside during the pandemic between 2020 and 2023—Shinhan's financial performance is expected to remain stable.

Korea's Real Estate Market

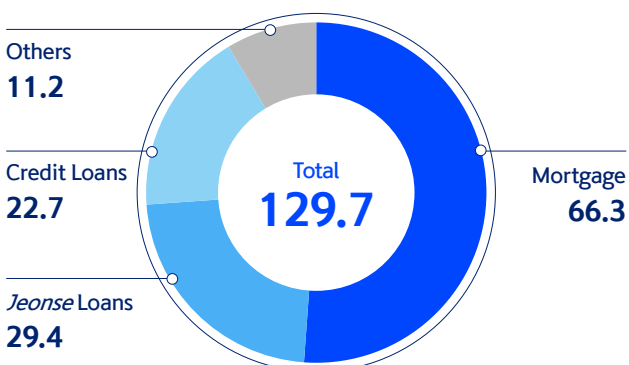
Now, let's move on to the most pressing topic concerning Korea's financial landscape in 2023: the real estate market.

A significant risk factor often cited for Korea's financial market is the high household-debt-to-GDP ratio, which stems from Koreans' trust and preference for real estate assets. The majority of Koreans, having experienced superior returns from real estate assets compared to the stock market in past decades, tend to believe in the invincibility of the real estate market. This has resulted in a propensity whereby 76% of household assets (according to Shinhan's Future Strategy Research Institute) are concentrated in real estate and other non-financial assets.

More importantly, Korea's unique "*jeonse* system," a rental agreement in which the entire rent is paid in a lump sum up front and refunded at the end of the term, has also contributed to increasing household debt. Consequently, a significant portion of Korea's household debt comprises mortgage loans or *jeonse* loans.

Tied in with this are the rapid interest rate hikes over the past few years that have dragged down housing transactions, leading to price adjustments and, eventually, concerns about the overall health of household debt.

Shinhan Bank's Household Debt by Product
(as of December 2023, KRW trillion)



3-Year Trends in Shinhan Bank Delinquency Ratio by Product

(before write-off, %)	2021	2022	2023
Credit Loans	0.78	0.81	1.12
General Credit	2.30	2.13	2.90
Prime Credit	0.42	0.50	0.70
Microfinance	4.44	4.09	5.03
Secured Loans	0.18	0.20	0.35
Mortgage	0.15	0.18	0.31

However, let me remind you of the characteristically high entry barrier to the Korean real estate market. Korea's conservative loan-to-value (LTV) and debt service ratio (DSR) requirements result in a relatively low LTV ratio for mortgage loans. Given that borrowers are individuals with a certain credit rating or income level and above, the likelihood of a crisis in the Korean economy due to household debt seems low. In point of fact, Shinhan Bank's mortgage loan delinquency trends support this view.

Therefore, it is safe to say that concerns over the Korean real estate market are less about high household debt, but more about the stability of project financing (PF) market linked to new real estate developments.

The commercial real estate market in Korea, concentrated around office buildings in and around Seoul, remains relatively resilient, with strong demand and low vacancy rates. Most of the issues concerning the real estate PF market are related to residential development, especially those projects that are being newly initiated or planned in their early stages.

Typically, residential real estate PF in Korea goes through three stages. Given that the majority of sales are made in the pre-sale stage, the likelihood of default decreases after the second stage, when construction usually begins.

As a result, issues in the PF market are likely to arise mainly in the first stage of financing—the bridge loan stage. Key participants in the bridge loan market are securities firms, savings banks, and capital companies, with the government estimating the market size at KRW 30 trillion (according to the Construction & Economy Research Institute of Korea). A temporary liquidity crisis in the Korean bond market in the latter half of 2022 revealed a variety of issues that emerged around the bridge loan market, and the resultant sagging demand in the residential real estate market gave rise to concerns over the market.

While the bridge loan market problem could die down with an increase in real estate demand and a reduction in development costs, considering the economic developments currently unfolding, this does not seem like a short-term prospect. Well aware of this, the government has shifted its policy from encouraging maturity extensions through consortium agreements to promoting restructuring in the bridge loan market.

In this process of restructuring, additional defaults may occur among bridge loan market participants, necessitating close monitoring of the market situation. Yet considering the market size and the relatively low exposure of major financial institutions, we expect that the market can be managed at an appropriate level, contrary to the concerns some have expressed. Furthermore, in the process of restructuring, major financial institutions like Shinhan may be presented with opportunities to secure quality deals.

Real Estate PF Market Structure

	Land Acquisition/Permit			Construction/Sales Phase		Completion Phase
Project Phase	Land purchase contract	Final payment (land acquisition completed)	Permit acquisition, contractor selection	Groundbreaking	Pre-sale	Completion, Move-in
Funding	Land purchase contract	Bridge loan (land balance payment, other costs)		Main PF (construction costs, etc.)	Installment payment loans	Mortgage loan
Founding Source	Equity: Developer PF loan: securities firms, etc.	Senior: Mutual finance, savings banks Mid-tier: Asset management firms, investment corporations Subordinate: Securities firms		Financial institutions (securitized finance)	Home buyers (financial institutions)	Financial institutions
Risks	Permit risk Land acquisition feasibility Main PF funding sources, etc.			Sales risk Contractor risk Cash flow risk		Unsold/Unleased/ Rental risks

Given the recent demographic changes taking place in Korean society, specifically in the notable rise in single-person households and the recent reduction in housing supply, the residential real estate PF market will regain momentum once market restructuring concludes in a recovering economy. As such, it is vital for us to stay nimble and patient as we wisely ride out the current uncertainties and seize upon emerging opportunities.

As of the end of December 2023, Shinhan's exposure to real estate PF stands at KRW 9 trillion, with bridge loans accounting for KRW 1.8 trillion. Nonetheless, when considering their percentage of our total loans, the magnitude of the loan loss provisions already allocated, and our current asset quality standing, their impact on the Group's financial stability, even in challenging circumstances, is expected to remain within a manageable level.

SFG's Real Estate PF Exposure

(KRW billion, %)	Group total	Shinhan Bank	Shinhan Card	Shinhan Securities	Shinhan Life	Shinhan Capital	Jeju Bank	Shinhan Savings Bank
Total	9,006.0	3,055.6	534.6	1,304.8	671.1	2,851.4	142.8	445.8
Substandard & Below Ratio	2.73	0.00	0.00	10.52	0.00	2.71	0.00	7.04
Delinquency Ratio	1.48	0.00	0.00	1.50	0.00	2.15	18.63	5.90
NPL Coverage Ratio	3.64	1.50	1.03	8.32	1.34	5.20	0.60	2.09
Seoul Metropolitan Areas	68.87	74.48	84.79	61.50	82.75	60.59	20.87	80.41
Residential	60.63	69.83	31.85	48.98	49.19	63.13	43.21	72.96

Responding to Regulatory Changes

Following the pandemic, central banks worldwide, including the Bank of Korea, adopted contractionary monetary policies. A distinct feature of Korea, however, has been the preemptive and cautious approach to raising the base interest rate, managing its pace and trajectory to stably mitigate economic volatility. This approach has significantly influenced the asset quality management strategies of commercial banks in Korea, as is evidenced in Shinhan's current soundness figures.

Inevitable asset quality deterioration resulting from economic contraction is anticipated, with Shinhan expecting an increase in credit cost ratios and non-performing asset ratios over the previous year. In particular, the slump in the real estate market, which significantly affects the overall domestic market, is likely to have an impact on the soundness of loans to SMEs and SOHO customers. Thus, it is essential to manage the deterioration of asset quality within certain limits and thoroughly prepare to generate profits again once the economy recovers.

As mentioned above, our conservative provisioning policy, maintained post-pandemic until 2023, is poised to serve Shinhan well in the current recessionary climate.

Shinhan's crisis management prowess and achievements across various economic cycles are well-acknowledged in the market. With some central banks, including the Bank of Korea, showing signs of shifting away from contractionary policies, we are hopeful that the array of risk factors currently under scrutiny, including the much-discussed real estate PF issues, will be mitigated to a significant degree in the coming years.

Shinhan's management team, in collaboration with the board of directors, is not only meticulously addressing the current challenges but is also poised to agilely navigate impending regulatory shifts. Particularly in the finance sector, which is highly sensitive to regulatory changes, we are committed to closely monitoring these developments and actively engaging in the regulatory authorities' efforts towards advancing the regulations.

Globally, including Korea, there is a growing demand for enhanced consumer rights. Due to the potential for the information asymmetry inherent in financial products to arise between financial institutions and consumers, disputes have become more frequent. Korean financial supervisory authorities are therefore pushing ahead with measures and systemic reforms in response to this situation.

Leveraging our experiences and lessons learned over the past few years, Shinhan is proactively implementing and expanding systems to actively protect consumers and clearly delineate responsibility in cases of consumer rights infringements. Our objective extends beyond the mere introduction of systems to achieve operational excellence through process establishment and system development. It is our sincere hope that Shinhan's forward-looking efforts will proliferate across the Korean financial landscape, fostering greater customer trust.

Effective Management of Shareholder Equity

It has been several years since Korea's financial industry entered a low-growth phase. Previously, financial companies used to expand asset growth to improve capital profitability. Yet as Korea's rapid economic growth slowed down, market competition intensified, reducing the margins available to financial companies. Today, relying solely on quantitative growth is no longer a viable strategy for enhancing return on equity (ROE).

In the past, we used to achieve a high ROE in non-banking operations such as the credit card business. Today, however, it has become challenging to realize a high ROE in these sectors, making it difficult to improve ROE solely through revenue expansion.

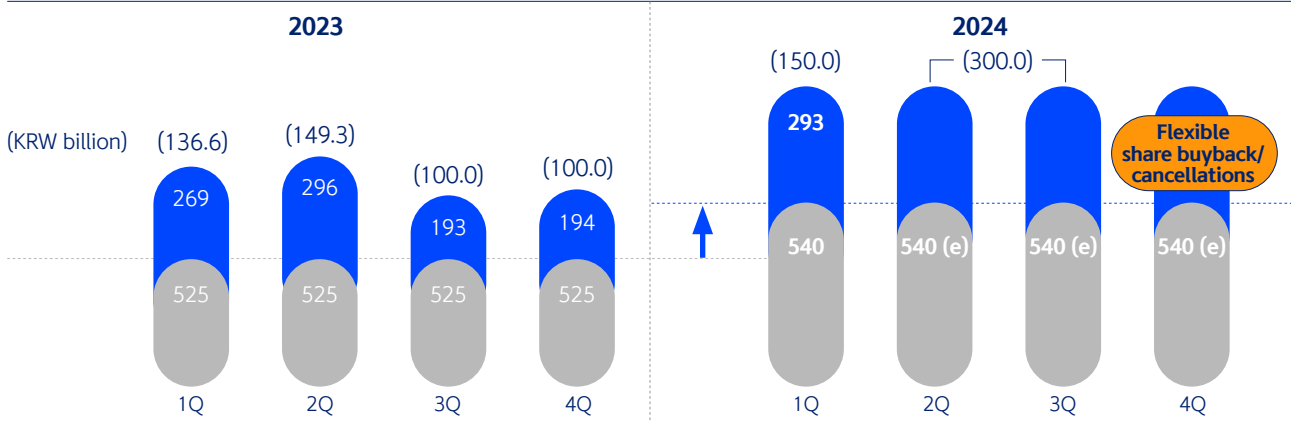
Many shareholders have become aware of this situation and have begun to call for the return of capital that does not guarantee capital profitability. In recognition of that, the government's ongoing Corporate Value-Up Program is a policy being pursued over the medium to long term.

If capital-intensive businesses reach a limit in revenue expansion, reducing the total amount of capital can be a viable alternative for improving ROE. Especially in the current situation of low stock prices, share buyback and cancellation can not only secure stock price elasticity but also increase shareholder benefits at a relatively low cost. Under this rationale, Shinhan has been implementing a share buyback and cancellations policy as a main method of ensuring high returns to shareholders and as an effective capital management policy—and well before the Corporate Value-Up Program was even designed.

I mentioned this commitment in an interview with Bloomberg TV last February. Shinhan is firmly committed to gradually acquire and cancel shares to secure stock price elasticity.

In 2024, Shinhan intends to maintain an appropriate level of capital ratio based on financial stability and proceed with its uniform quarterly cash dividends, as well as the share buyback and cancellations mentioned above. Through these measures, we aim to gradually increase the scale of returns as part of our commitment to a predictable shareholder return policy.

2024 Shareholder Return Policy Plan



- **Equalization and regularization of quarterly cash dividend payments**

(KRW 525/quarter x 4 = KRW 2,100/year)

- **Quarterly share buybacks and cancellations**

(Totaling KRW 485.9 billion)

- **Total shareholder return rate 36%**

- Share Buyback Amount/Total Shares (KRW)
- Dividend Per Share

- **Equal payment of cash dividends for quarterly and year-end**

(i.e.: KRW 540/quarter x 4 = KRW 2,160/year)

- **Progressive increase¹⁾ in the total shareholder return rate through share buyback and cancellation**

Considerations for deciding the level of shareholder returns

- Economic uncertainties
- Consensus level based on regulatory authorities' stress testing results
- ※ The amount of cash dividends, and share buyback and cancellations are determined quarterly by the Board of Directors.

1) The scale of share buyback and cancellations is determined by considering the 2024 capital allocation plan (with a ratio of 6 for growth and 4 for shareholder return) along with other factors.

In Closing

The year 2024 will be a crucial year, a time when financial stability could be threatened by any number of risk factors, making meticulous risk management imperative throughout the year.

The newly joined directors—Song Seongjoo and Choi Young-Gwon—are experts in risk management and capital markets. I have no doubt that they, along with the existing board and management team, will resolve the challenges facing the Korean financial market one by one and help build a sustainable Shinhan together.

Although it is my duty to meet every shareholder in person to share my thoughts and listen to your invaluable opinions directly, I appreciate your understanding as I am conveying my message through this letter. I hope this letter has faithfully shed light on the strong will and stable progress of Shinhan Financial Group, and I ask for your unwavering support moving forward.

Once again, I thank all the shareholders who supported us at the 23rd Annual General Meeting of shareholders, and I hope to be back in touch with you in the very near future.

Yours Sincerely,

진옥동

Jin Okdong

Chief Executive Officer
Shinhan Financial Group