

Shinhan Financial Group (SHG US)

FUNDAMENTAL VIEW ¹

As of 22 Dec 2022

- Shinhan was for many years the best managed of the large Korean financial groups, taking the opportunity around the Asian Financial crisis to acquire competitors and other businesses that increased its scale and expanded its business lines.
- It has a good track record, but in the past few years its performance has had more variability. After a bumpy 2020, it had a better 2021, although it had two good and two relatively poor quarters. 9M22 again has shown an improvement, thanks to rising interest rates. Capital is comfortable, asset quality is sound, and provision coverage is strong.

RISKS & CATALYSTS

As of 22 Dec 2022

- As one of the "Big Four" financial groups in Korea, we believe that Shinhan FG would very likely receive governmental support if needed.
- Credit costs are expected to rise from very low levels due to rising interest rates, but this is likely to be mitigated by government support for SMEs. Increasing NIMs will help too, though the extent of NIM increase may be capped by government intervention.
- Overseas growth opportunities are focused on Vietnam, although about 30% of Shinhan Bank's overseas loan book is in Japan and China.
- Shinhan had some recent missteps, with the misselling of asset management products to retail investors, resulting in KRW 63 bn in fines in 1Q21. The Shinhan Securities senior management was replaced as a consequence.

CREDIT QUALITY SCORE (CQS) ²

As of 27 Feb 2023

CURRENT CQS

65

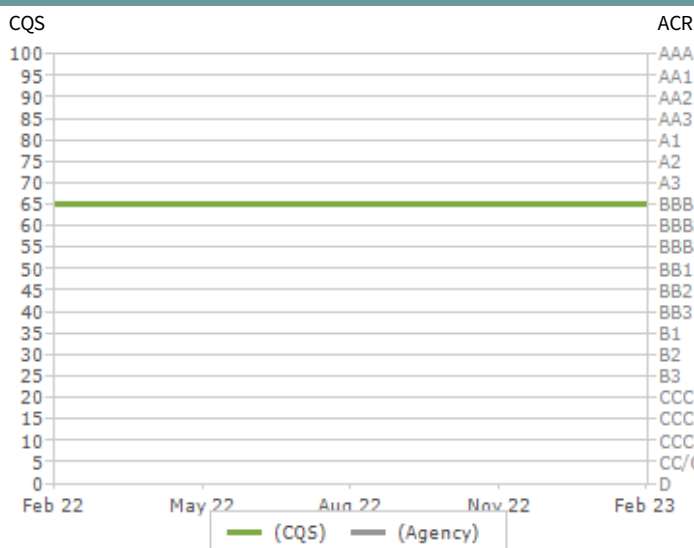
CQS OUTLOOK ³

NEGATIVE

STABLE

POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) ⁴ VS CQS



KEY METRICS

As of 22 Dec 2022

KRW BN	3Q22	FY21	FY20	FY19	FY18
Pre-Provision Profit ROA	1.22%	1.11%	1.09%	1.19%	1.17%
ROA	0.87%	0.66%	0.60%	0.64%	0.72%
ROE	11.7%	9.2%	8.4%	9.4%	9.4%
Provisions/Average Loans	0.26%	0.28%	0.43%	0.32%	0.27%
NPL Ratio	0.37%	0.39%	0.49%	0.52%	0.53%
CET1 Ratio	12.66%	13.10%	12.90%	11.20%	12.50%
Equity/Assets	7.0%	7.3%	7.3%	7.1%	7.8%
Net Interest Margin	1.96%	1.81%	1.80%	2.00%	2.10%

BUSINESS DESCRIPTION

As of 22 Dec 2022

- Shinhan Financial Group (SFG) is the holding company for one of the most diversified financial groups in Korea, with interests in banking, credit cards, securities, asset management and insurance.
- Shinhan Bank was set up in 1982 with seed capital from Korean residents in Japan. It was more professionally managed than the heavily politicised older banks and came through the 1997 Asian Financial Crisis in relatively good shape, taking the opportunity to acquire the larger and much longer-established Chohung Bank in 2003.
- In 2007, it made another timely acquisition, buying LG Card from its creditors after it failed during the 2003 Korean consumer lending crisis. Shinhan Card is the largest card issuer in Korea.
- Shinhan is also looking for overseas opportunities where growth is strong and Korean businesses have a presence, with a focus on Vietnam (where Shinhan Card also recently bought a consumer finance business), and Indonesia.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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