

Shinhan Financial Group (SHG US)

FUNDAMENTAL VIEW ¹

As of 07 Mar 2024

- Shinhan FG 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, and FY22 was better still thanks to rising interest rates. However, operating performance has turned weak again in FY23. NIM is well controlled. Credit costs have increased but are within our expectations. Recurring credit costs are expected to decrease in FY24, but additional provisions may still be needed. Capital is comfortable, but the distance vs. KBFG has increased.

RISKS & CATALYSTS

As of 07 Mar 2024

- As one of the "Big Four" financial groups in Korea, we believe Shinhan FG would likely receive governmental support if needed.
- Asset quality pressure is rising from domestic real estate project financing and overseas real estate investments, with credit costs rising from very low levels. Management expects recurring credit costs to decrease in FY24, but additional provisions may still be needed due to regulators' guidance for financial institutions to take a more conservative stance on provisioning.
- Shinhan FG had some relatively recent missteps, with the mis-selling 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.
- The group is under investigation for mis-selling equity linked products to retail investors in 2021; fines and regulatory actions may ensue.

CREDIT QUALITY SCORE (CQS)²

As of 22 Apr 2024

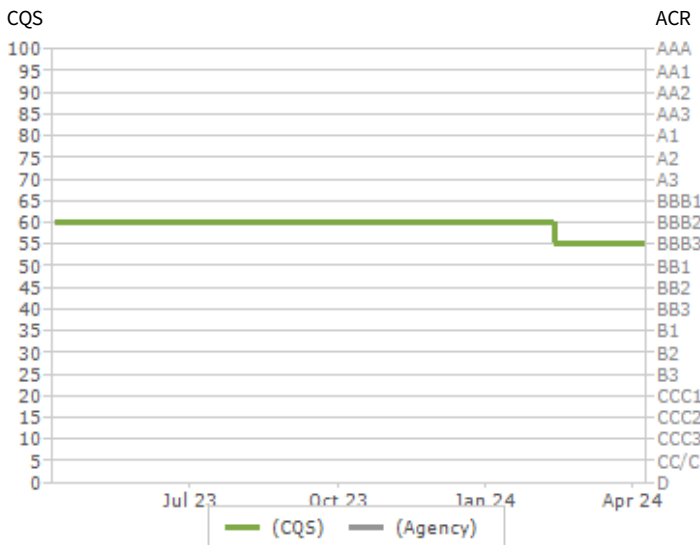
CURRENT CQS

55

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

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



KEY METRICS

As of 07 Mar 2024

KRW BN	FY19	FY20	FY21	FY22	FY23
Pre-Provision Profit ROA	1.19%	1.09%	1.11%	1.10%	1.23%
ROA	0.64%	0.60%	0.66%	0.72%	0.66%
ROE	9.4%	8.4%	9.2%	10.0%	8.6%
Provisions/Average Loans	0.32%	0.43%	0.28%	0.34%	0.78%
NPL Ratio	0.52%	0.49%	0.39%	0.41%	0.56%
CET1 Ratio	11.20%	12.90%	13.10%	12.79%	13.13%
Equity/Assets	7.1%	7.3%	7.3%	7.6%	7.8%
Net Interest Margin	2.00%	1.80%	1.81%	1.96%	1.97%

BUSINESS DESCRIPTION

As of 07 Mar 2024

- Shinhan Financial Group (Shinhan FG) is one of the most diversified financial groups in Korea and the holding company of the second largest Korean bank - Shinhan Bank. It also has credit cards, securities, asset management and insurance subsidiaries.
- 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 bought a consumer finance business in 2019) and Indonesia. ~30% of Shinhan Bank's overseas loan book is in Japan and China.

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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