

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

Shinhan Bank (security code: -)

<Affirmation>

Foreign Currency Long-term Issuer Rating: AA-
Outlook: Stable
Bonds: AA-

Rationale

- (1) Shinhan Bank is the core commercial bank of Shinhan Financial Group (SFG), one of the largest comprehensive financial groups in Korea. Other than banking, SFG is also engaged in a wide range of non-banking businesses including credit card, securities, life insurance and asset management, but Shinhan Bank accounts for around 60-70% of the group's consolidated net income. The ratings on Shinhan Bank reflect its solid business base in Korea, stable generation of profits backed by its strong risk management and comfortable levels of its capital adequacy ratios. Despite the deterioration of the business environment caused by the COVID-19 pandemic, Shinhan Bank continued to post resilient financial performances by absorbing increased credit costs. The support measures for businesses and households implemented by the government and banks will end going forward. However, JCR considers that even if the bank's asset quality weakens, any additional credit costs will remain at manageable levels in relation to the bank's earnings volume given that winding down of the support measures is expected to be gradual and that the Korean economy is projected to recover. JCR holds that Shinhan Bank will continue to generate stable profits and maintain its capital adequacy largely at the current level in the medium term. Based on these, it has affirmed the ratings with a Stable outlook.
- (2) Shinhan Bank is positioned as one of Korea's four largest banks and holds market shares of 12% for loans and 14% for deposits (as of the end of June 2020). Its solid franchise both in retail and corporate banking has enabled it to secure a consistent growth of deposits and loans in the competitive market. SFG which holds Shinhan Card, the country's largest credit card company, under its wing also boasts a high market presence in non-banking operations. Among major Korean banks, Shinhan Bank stands out for its stable management as its prudent operations have enabled it to enjoy a steady performance throughout economic cycles. Faced with the prolonged low interest rate environment, the bank has been focusing on profitability and soundness in recent years. For its lending business, it has been targeting a selective growth with a focus on unsecured loans for individuals and the SOHO/SME segment. Particularly notable is the growth of individual loans taken out for paying deposits under a real estate leasing contract ("Jeonse"). Following the outbreak of the COVID-19 pandemic, loans to support SMEs have also been increasing in volume.
- (3) Shinhan Bank has track records of prudent credit risk management, and has managed to limit loans to the sectors sensitive to economic cycles. Notably, the bank has significantly reduced its loans to the shipbuilding, shipping and construction sectors and real estate project financing since the global financial crisis. As for home financing loans that have been increasing in recent years, they are generally diversified into a number of small loans and duly secured mainly by guarantees. The bank's asset quality continued to improve in recent years under its strict risk control and the country's generally accommodative monetary environment. At the end of June 2021, its substandard-and-below NPL ratio stood at a historically low of 0.35%. Its credit cost ratio was also contained at the 20bp range in 2020, although it rose from the 10bps range in 2019. The higher credit cost ratio resulted from the downgrading of some borrowers and forward-looking additional provisioning. Some loans may become non-performing after the end of the support measures which include a payment moratorium. However, JCR sees a low possibility of the bank being forced to set aside a large amount of additional credit costs given its conservative provisioning and the projected recovery of the Korean economy.
- (4) Amid the continuing pressure on net interest margin under the prolonged low interest rate environment, Shinhan Bank's ROA based on pre-provisioning operating income stood at around 0.9% in 2020, providing adequate buffer to absorb credit costs. In 2020, the bank's financial performance was adversely affected by the pandemic as its credit costs surged in volume.

Nevertheless, its pre-tax income stayed resilient, with a year-on-year decline held to around 10%. Its total operating income was stable as its core net interest income modestly grew on increased volume of loans. In the first half of 2021, the bank's pre-tax income strongly rebounded on reduced credit costs and increased net operating income. SFG's pre-tax income declined only slightly in 2020 as solid earnings from non-banking operations led by its credit card unit compensated reduced earnings of its banking arm.

- (5) SFG's consolidated common equity Tier 1 (CET1) ratio stood at 13.4% (15.3% for Shinhan Bank) at the end of June 2021, remaining at a comfortable level for the AA range rating. The revised Basel III credit risk framework, adopted in 2020, contributed to increasing the group's CET1 ratio by some 1.2 percentage points. JCR holds that its sound capital adequacy will be maintained in the medium term supported by a steady profit accumulation. Shinhan Bank retains its stable liquidity position. Its won-denominated loan-to-deposit ratio stands slightly lower than 100% while its Basel III-based liquidity coverage ratio and net stable funding ratio stay at sound levels. As for foreign currency funding, the bank's reliance on wholesale funding has lowered as compared with past years.

Yoshihiko Tamura, Haruna Saeki

Rating

Issuer: Shinhan Bank

<Affirmation>

Foreign Currency Long-term Issuer Rating: AA- Outlook: Stable

Issue	Amount (bn)	Issue Date	Due Date	Coupon	Rating
Japanese Yen Bonds - Eighth Series (2017)	JPY 8.3	Nov. 2, 2017	Nov. 2, 2022	0.52%	AA-

Rating Assignment Date: August 26, 2021

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014), "Banks" (May 8, 2014) and "Rating Methodology for Financial Groups' Holding Companies and Group Companies" (March 29, 2019) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Shinhan Bank
Rating Publication Date:	August 31, 2021

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

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Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

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Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset

quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the order of seniority in repayment of interests and principal. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches if the issuer's financial structure differs so much and thereby the balance between debts shifted so greatly. Rating change is also possible in case of the financial products for which non-payment of interest/ principal is contractually permissible, if and when the assumptions made at the time of its determination turns out to be inaccurate. The change of the credit rating is assumed to be by a notch but often as much as a few notches.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

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Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Shinhan Bank	Issuer(Long-term)(FC)	June 11, 2010	A+	Stable
Shinhan Bank	Issuer(Long-term)(FC)	August 15, 2011	A+	Stable
Shinhan Bank	Issuer(Long-term)(FC)	June 19, 2012	A+	Stable
Shinhan Bank	Issuer(Long-term)(FC)	July 19, 2013	A+	Stable
Shinhan Bank	Issuer(Long-term)(FC)	July 8, 2014	A+	Stable
Shinhan Bank	Issuer(Long-term)(FC)	July 7, 2015	A+	Stable
Shinhan Bank	Issuer(Long-term)(FC)	July 29, 2016	A+	Stable
Shinhan Bank	Issuer(Long-term)(FC)	July 26, 2017	A+	Stable
Shinhan Bank	Issuer(Long-term)(FC)	July 25, 2018	AA-	Stable
Shinhan Bank	Issuer(Long-term)(FC)	July 30, 2019	AA-	Stable
Shinhan Bank	Issuer(Long-term)(FC)	August 28, 2020	AA-	Stable
Shinhan Bank	Japanese Yen Bonds - Eighth Series (2017)	October 27, 2017	A+	
Shinhan Bank	Japanese Yen Bonds - Eighth Series (2017)	July 25, 2018	AA-	
Shinhan Bank	Japanese Yen Bonds - Eighth Series (2017)	July 30, 2019	AA-	
Shinhan Bank	Japanese Yen Bonds - Eighth Series (2017)	August 28, 2020	AA-	

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Toshihiko Naito, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Toshihiko Naito
General Manager of International Rating Department

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026