19-I-0029
July 30, 2019

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. SFG also holds the country's largest credit card company as well as other non-banking subsidiaries including securities, life insurance and asset management companies, and is engaged in a wide range of businesses. Shinhan Bank accounts for a large part (around 60-70%) of the group's consolidated net income, but the group's revenue sources are relatively diversified into banking and non-banking arms compared with the country's other largest financial groups. 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 capital adequacy ratios. The rating outlook is Stable. Operating environment surrounding the Korean banks has been facing some uncertainties due to factors such as potential slowdown of the domestic and the international economy or intensifying trade conflicts. Nevertheless, JCR holds that Shinhan Bank will maintain certain levels of net income and capital adequacy ratios given the current level of its earning power as well as its sound asset quality.

(2) Shinhan Bank is positioned as one of Korea's four largest banks. Its market share in the country's banking sector as of the end of 2018 was 12% for loans and 14% for deposits. It has a solid domestic operating base with strong relations both with individual and corporate clients. When compared with its domestic peers, the bank stands out for its stable management as its prudence in business operation has enabled it to deliver a steady performance through 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. Of note is the growth of individual loans taken out for paying deposits under a "Jeonse" contract, a unique type of contract for real estate leasing in Korea. As for corporate loans, the real estate sector has been the main driver of the growth as well. Behind such trends has been the boom in the real estate markets especially in Seoul. Going forward, the pace of loan growth may slow as the authorities has strengthened measures to rein in the overheating of the country's real estate markets.

(3) Shinhan Bank's asset quality continued to improve under the generally accommodative monetary environment in the country. Its substandard-and-below ratio and precautionary-and-below ratio declined to a historically low of 0.45% and 0.95%, respectively, at the end of 2018. Its credit cost also decreased to a very modest level of below 10bps in 2018. Shinhan Bank has traditionally put an emphasis on maintaining a balanced loan portfolio, and has managed to limit loans to the sectors sensitive to economic cycles. JCR views its credit standards have remained prudent in recent years. Notably, the bank's loans to the shipbuilding industry, which has still been undergoing a restructuring, have significantly decreased over the last five years. The remaining exposure to this industry is unlikely to constitute a factor that significantly weighs on the bank's profitability for a long time, although a temporary increase in credit cost due to specific borrowers is still possible. As for the increasing exposure to the real estate sector, it is generally diversified into a number of small loans and largely secured by guarantees or collaterals. JCR therefore views that any deterioration of the bank's asset quality when the trends in the real estate markets turn negative should be manageable. Meanwhile, JCR considers it is necessary to watch potential impacts on the bank's credit cost when business conditions deteriorate in the home market or abroad, as some of the bank's top borrowers are companies from Korea's major export industries such as automobile and electronics.

(4) Shinhan Bank's financial performance has been solid with its pre-tax income increasing for the five consecutive years to 2018. During the latest three years in particular, both top-line and bottom-line

profits showed a healthy growth, as net interest income maintained a relatively high year-on-year growth of more or less 10% supported by the turnaround of net interest margin reflecting the increase in market rates, while loan loss provisioning continued to decrease. The bank's core profitability based on pre-provision operating income has also recovered somewhat in recent years, standing at a satisfactory level in terms of its balance with the level of credit cost. Going forward, the Bank of Korea's rate cut in July 2019 will likely put a downward pressure on the bank's margins albeit temporarily, but an increase in loan volume and enhanced operating efficiency is expected to contribute to maintaining a certain level of profits. Looking at SFG's consolidated performance, earnings of the credit card business, the largest contributor among the non-banking arm, have been negatively affected by the tighter regulations such as the cuts in merchant fees in recent years. Nevertheless, the group's pre-tax income has been solid driven by the banking arm.

(5) SFG's consolidated common equity Tier 1 ratio stood at 11.6% (13% for Shinhan Bank) at the end of June 2019, comfortable for the AA range rating. JCR holds that sound levels of capital adequacy will be maintained supported by a steady profit accumulation. Shinhan Bank's Won-denominated loan-to-deposit ratio has remained stable at slightly lower than 100%. As for foreign currency funding, the bank has been making progress in reducing its reliance on wholesale funding. JCR will continue to watch whether the bank will be able to improve its profitability including through an expansion of its overseas operations which the bank has been working on, leading to a further enhancement of capital adequacy, or to further strengthen its liquidity position including the foreign currency funding base.

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 - Seventh Series (2017)	JPY 16.7	Nov. 2, 2017	Nov. 2, 2020	0.36%	AA-
Japanese Yen Bonds - Eighth Series (2017)	JPY 8.3	Nov. 2, 2017	Nov. 2, 2022	0.52%	AA-

Rating Assignment Date: July 26, 2019

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status 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 methodology for determination of the credit rating 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

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:	July 30, 2019

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.

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.

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 Rule17g-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 publication by the issuer or 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.

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 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.

12 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/

13 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.

14 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

JCR

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	Japanese Yen Bonds - Seventh Series (2017)	October 27, 2017	A+	
Shinhan Bank	Japanese Yen Bonds - Seventh Series (2017)	July 25, 2018	AA-	
Shinhan Bank	Japanese Yen Bonds - Eighth Series (2017)	October 27, 2017	A+	
Shinhan Bank	Japanese Yen Bonds - Eighth Series (2017)	July 25, 2018	AA-	

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

I, Atsushi Masuda, 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.

Atsushi Masuda
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