

**Banks**

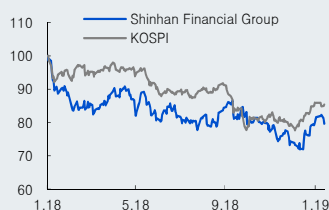
Results Comment  
February 13, 2019

(Maintain)	<b>Buy</b>
Target Price (12M, W)	<b>60,000</b>
Share Price (02/12/19, W)	42,450
Expected Return	41%

NP (18P, Wbn)	3,157
Consensus NP (18F, Wbn)	3,157
EPS Growth (18P, %)	8.2
Market EPS Growth (18F, %)	5.1
P/E (18P, x)	6.4
Market P/E (18F, x)	9.1
KOSPI	2,190.47

Market Cap (Wbn)	20,130
Shares Outstanding (mn)	474
Free Float (%)	85.1
Foreign Ownership (%)	67.3
Beta (12M)	0.48
52-Week Low	38,350
52-Week High	48,450

(%)	1M	6M	12M
Absolute	10.4	-1.5	-12.2
Relative	4.6	2.6	-4.4



*Mirae Asset Daewoo Co., Ltd.*

[Banks/Credit Cards]

**Heather Kang**  
+822-3774-1903  
heather.kang@miraeasset.com

# Shinhan Financial Group

(055550 KS)

## Making near-term progress while charting a long-term path

### 4Q18 review: Net profit of W513.3bn, in line with consensus; well-balanced growth and progress in globalization

For 4Q18, Shinhan Financial Group (SFG) delivered net profit (attributable to controlling interests) of W513.3bn (+142.7% YoY, -39.5% QoQ), in line with the consensus (W507.6bn based on Bloomberg and W510.9bn based on FnGuide). That said, the group missed our net profit estimate of W573.7bn, which was at the upper end of the consensus range, as other non-interest losses and non-operating losses were larger than our expectations. SFG's full-year net profit, which has steadily grown over the past five years, reached a record high in 2018. For the full year, 1) bank net profit grew a robust 33%; 2) non-bank net profit grew a solid 16%; 3) global bank profits expanded 37%; 4) group IB (GIB) profits increased 58% to W479.1bn; and 5) operating income from the digital platform climbed 26% to W1.19tr.

### W750bn worth of convertible preferred shares to be issued

SFG announced that it would issue 17,482,000 convertible preferred shares (3.7% of total shares outstanding) at W42,900 per share (0% discount) for a total of W750bn to IMM Private Equity. Under the deal, IMM Private Equity will have the option to convert the shares one year from the date of issuance through the following four years (May 1st, 2020 through April 30th, 2023). Any shares that are not converted during that period will be automatically converted into common shares on the first day the period expires. Dividends will be paid at a 4% rate based on the issue price. Management said that the latest share issue is primarily aimed at raising funds in advance to acquire the Orange Life Insurance shares it does not already own, and that it expects IMM Private Equity to serve as a strategic investor in SFG. We reflected the resulting share count increase in our estimates from 2Q20 (when the preferred shares become convertible) and see a 3.7% dilution. That said, while it is too early to say when or how SFG will acquire the remaining Orange Life shares, we note that previous cases have involved new share issues. Given that the group has already taken the necessary steps by attracting a strategic investor, we see little reason to worry about the increase in share count.

On February 1<sup>st</sup>, SFG officially included Orange Life Insurance as its subsidiary. We have not yet modeled the insurer in our net profit estimates. However, if we reflect Orange Life's net profit consensus (W345.4bn for 2019 and W356.3bn for 2020, based on Bloomberg) and discount the estimates by 5%, we estimate SFG's 2019-20 net profit attributable to controlling interests would grow to W3.57tr (+13% YoY) and W3.72tr (+4.4% YoY), respectively.

### Maintain Buy and TP of W60,000

We are positive on SFG's strategy to expand its business platform through acquisitions (Orange Life and Asia Trust in Korea, and Prudential Vietnam Finance Company, or PVFC, overseas). With profits growing steadily and valuation still attractive, we reaffirm our Buy call on the stock.

Fiscal year-end	12/15	12/16	12/17	12/18P	12/19F	12/20F
Net interest inc. (Wbn)	6,693	7,205	7,843	8,580	9,068	9,421
Net non-interest inc. (Wbn)	1,786	1,577	1,341	1,399	1,447	1,560
Operating profit (Wbn)	2,973	3,109	3,829	4,499	4,705	4,919
Net profit (Wbn)	2,367	2,775	2,918	3,157	3,372	3,524
EPS (W)	4,878	5,767	6,153	6,657	7,111	7,331
EPS growth (%)	13.7	18.2	6.7	8.2	6.8	3.1
P/E (x)	8.7	7.4	6.9	6.4	6.0	5.8
P/PPOP (x)	5.0	4.7	4.6	3.8	3.6	3.4
P/B (x)	0.67	0.65	0.61	0.56	0.52	0.50
ROE (%)	7.9	9.0	9.1	9.2	9.0	8.7
Dividend yield (%)	2.8	3.4	3.4	3.8	4.1	4.2

Note: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests  
Source: Company data, Mirae Asset Daewoo Research estimates

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### 2018 DPS of W1,600 (3.9% yield)

SFG's board declared a dividend of W1,600 per share for 2018, which was consistent with our expectation (W1,600), but below the Bloomberg consensus (W1,638). This equates to a dividend payout ratio of 23.9%, up slightly from 23.6% in 2017.

### 4Q18 review: Well-balanced growth and progress in globalization

Major one-off items in 4Q18 included: 1) W113bn in early retirement expenses; 2) W78.5bn in performance incentives; 3) W23bn in donations (including contributions to a job creation fund); 4) W9bn in additional provisions related to Hanjin Heavy I&C; 4) W27bn in reversals of provisions related to temporary credit card delinquencies in 3Q18 caused by the Chuseok holiday; 5) W12bn in reversals due to the recovery of STX Offshore & Shipbuilding's bad debt; 6) and W11.5bn in reversals due to the Daedong Construction bond sale.

Bank net interest margin (NIM) fell 1bp QoQ to 1.61% (-2bps QoQ to 2.08% for group), but bank won-denominated loans grew 2.1% QoQ (+7.2% from end-2017). Group net interest income was W2.23tr (+7.5% YoY, +2.6% QoQ). Group net commission income was W463.7bn (+7.4% YoY, -3.3% QoQ), supported by strong trust and credit card commissions. SG&A expenses were W1.44tr (-9.4% YoY, +32.1% QoQ), leading to a cost-to-income ratio of 58.3% (-10.4%p YoY, +13.6%p QoQ). Thanks to several reversals, credit costs declined to W170.6bn (-55.7% YoY, -20.6% QoQ), or 24bps (annualized; -35bps YoY, -7bps QoQ) of total credit.

Group NPL ratio dipped 2bps QoQ to 0.53% (-2bps QoQ to 0.45% for bank). Bank and credit card delinquency ratios rose 2bps QoQ to 0.25% and 1.30%, respectively, but were still within healthy levels. Group BIS ratio, tier 1 ratio, and CET1 ratio (preliminary) stood at 14.88%, 13.43%, and 12.56%, respectively.

4Q18 non-bank profit was W170.1bn, contributing 31.7% of group net profit. For the full year, non-bank profit was W1.05tr, which represents a 16% YoY increase when excluding Shinhan Card's one-off reversals of provisions and gains from the sale of Visa shares during the previous year. This marked the fourth year in a row that non-bank net profit topped W1tr.

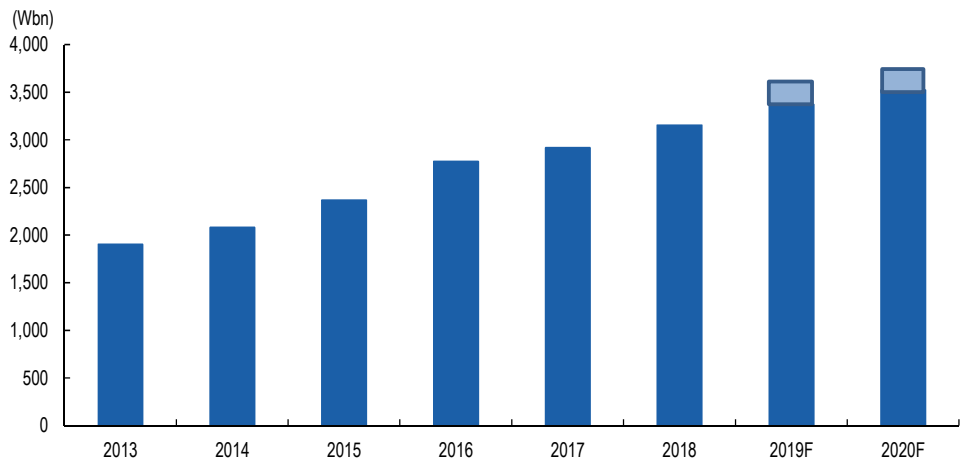
Combined net profit from overseas bank operations (overseas subsidiaries and branches) expanded 100.8% YoY to W76.7bn in 4Q18 and 36.8% YoY to W321.5bn in 2018. Overseas bank profit as a share of overall bank profit rose 0.4%p YoY to 14.1% in 2018 (from 13.7% in 2017).

**Figure 1. SFG, KBFG: Market capitalization trend and key M&A**



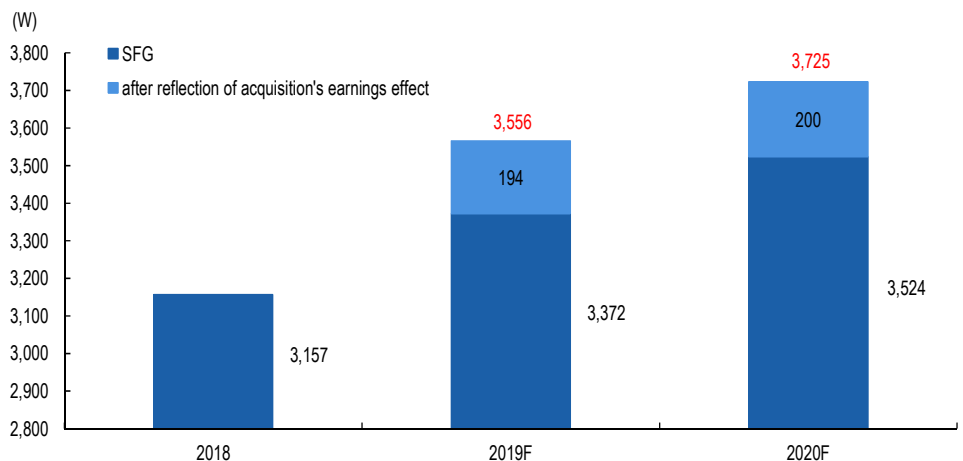
Source: Quantwise, Company data, Mirae Asset Daewoo Research

**Figure 2. SFG: Trend in net income and forecasts (after reflection of acquisition's earnings effect)**



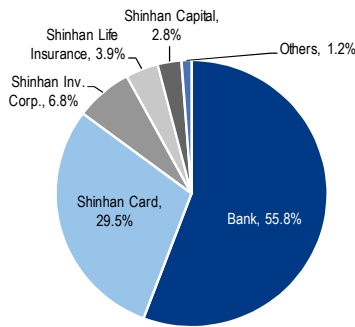
Note: Orange Life's net income is based on the Bloomberg consensus and discounted by 5%  
 Source: Company data, Mirae Asset Daewoo Research

**Figure 3. SFG: Net income in controlling interests (after reflection of acquisition's earnings effect)**



Note: Orange Life's net income is based on the Bloomberg consensus and discounted by 5%  
 Source: Company data, Mirae Asset Daewoo Research

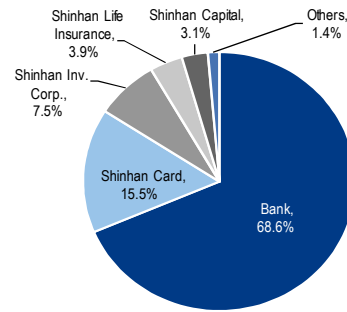
**Figure 4. SFG: Earnings contribution by subsidiary in 2017 (before reflecting consolidation adjustments and other factors)**



(Wbn)	Net income (a)	Ownership (b)	Net income (a) x (b)	%
<b>Bank</b>	<b>1,736.1</b>		<b>1,728.3</b>	<b>55.8</b>
Shinhan Bank	1,711.0	100.0	1,711.0	55.2
Jeju Bank	25.1	68.9	17.3	0.6
<b>Non-Bank</b>	<b>1,377.9</b>		<b>1,370.9</b>	<b>44.2</b>
Shinhan Card	913.8	100.0	913.8	29.5
Shinhan Inv. Corp.	211.9	100.0	211.9	6.8
Shinhan Life Insurance	120.6	100.0	120.6	3.9
Shinhan BNP Paribas	19.7	65.0	12.8	0.4
Shinhan Capital	87.6	100.0	87.6	2.8
Shinhan Savings Bank	16.8	100.0	16.8	0.5
Shinhan Data System	1.4	100.0	1.4	0.0
Shinhan AITAS	6.5	99.8	6.5	0.2
Shinhan Credit Info.	0.3	100.0	0.3	0.0
Shinhan Alternative Investment	-0.8	100.0	-0.8	0.0
<b>Total</b>	<b>3,114.0</b>		<b>3,099.2</b>	<b>100</b>

Note: Excluding the effects of large-scale reversals of loss provisions (1Q18), we estimate the profit contribution of Shinhan Card and non-bank businesses at 22.6% and 38.8%, respectively  
Source: Company data, Mirae Asset Daewoo Research

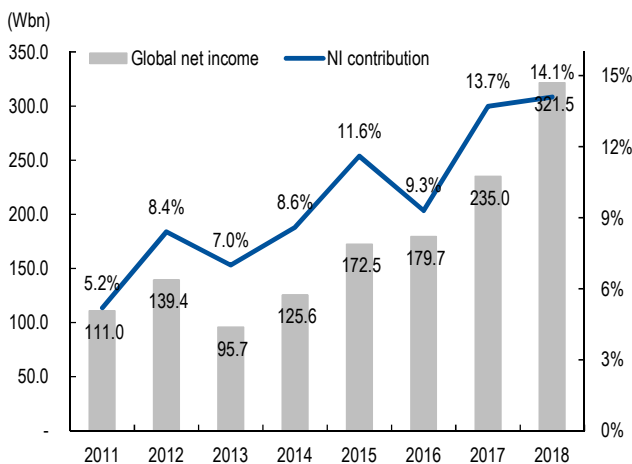
**Figure 5. SFG: Earnings contribution by subsidiary in 2018 (before reflecting consolidation adjustments and other factors)**



(Wbn)	Net income (a)	Ownership (b)	Net income (a) x (b)	%
<b>Bank</b>	<b>2,306.4</b>		<b>2,298.2</b>	<b>68.6</b>
Shinhan Bank	2,279.0	100.0	2,279.0	68.1
Jeju Bank	27.4	71.9	19.2	0.6
<b>Non-bank</b>	<b>1,057.4</b>		<b>1,050.7</b>	<b>31.4</b>
Shinhan Card	519.4	100.0	519.4	15.5
Shinhan Inv. Corp.	251.3	100.0	251.3	7.5
Shinhan Life Insurance	131.0	100.0	131.0	3.9
Shinhan BNP Paribas	18.9	65.0	12.3	0.4
Shinhan Capital	103.4	100.0	103.4	3.1
Shinhan Savings Bank	19.4	100.0	19.4	0.6
Shinhan Data System	1.3	100.0	1.3	0.0
Shinhan AITAS	8.5	99.8	8.4	0.3
Shinhan Credit Info.	1.4	100.0	1.4	0.0
Shinhan Alternative Investment	-0.8	100.0	-0.8	0.0
Shinhan REITs Management	3.6	100.0	3.6	0.1
<b>Total</b>	<b>3,363.8</b>		<b>3,348.9</b>	<b>100.0</b>

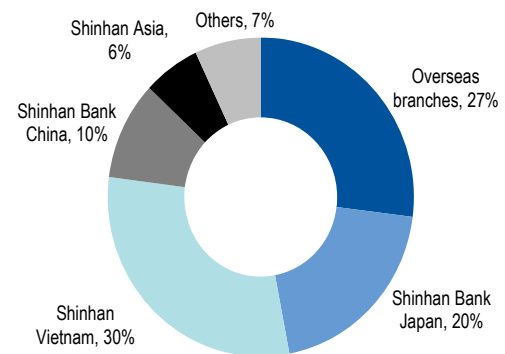
Note: The profit contribution of Jeju Bank is measured with ownership percentages of 68.9% (before paid-in capital increase) and 71.9% (after paid-in capital increase)  
Source: Company data, Mirae Asset Daewoo Research

**Figure 6. SFG: Net profit contribution from overseas branches**



Source: Company data, Mirae Asset Daewoo Research

**Figure 7. SFG: Overseas operations' net profit breakdown (4Q18)**



Source: Company data, Mirae Asset Daewoo Research

Figure 8. SFG: 2020 SMART Project (IR presentation)

**1** **Balanced Growth** 

Bank	Interest Income	Domestic	Organic	Analog (Off-line)	Entity Centric	Business Strategy	Corporate-oriented
NI from Banks (YoY)	Interest Income (YoY)	NI from Domestic (YoY) <sup>2)</sup>	Group NI (YoY) <sup>2)</sup>	Cost-to – Income Ratio	Customized Strategy for each of the subsidiaries	Mid-term Business Strategy 2020 SMART Project	Creative Culture, “The Shinhan Leader”
<b>+33%</b>	<b>+9%</b>	<b>+18%</b>	<b>+19%</b>	<b>47.5%</b>			

Non-Banks	Non-Interest Income	Overseas	Inorganic	Digital (On-line)	One Shinhan	Corporate Culture	Community-oriented
NI from Non-Banks (YoY) <sup>3)</sup>	Fee Income (YoY)	NI from Global Business (SHB, YoY)	New Business Lines + M&As	Operating Income through Digital Platform	Matrix Business Lines, Cross-Selling Ratio	ESG Recognition	Compassionate Finance
<b>+16%</b>	<b>+13%</b>	<b>+37%</b>	Orange Life, Asia Trust, Shinhan REITs, ANZ Vietnam, PVFC, Archipelago Asset Mgmt.	<b>1,186 bil.</b>	<b>39.7%</b>	<b>A+ Grade</b> from CGS	“Society of Hope” Project
Non Banks NI Contribution <b>31%</b>	Non-Interest Income Proportion <b>24%</b> <sup>4)</sup>	Global NI Contribution <b>14%</b>					

**2** **Global Expansion** 

**3** **Digital Transformation** 

**4** **Uphold Corp. Culture** 

1) Financial Figures are as of Dec. 31, 2018

3) Excluding non-recurring write-backs and sales gains from securities disposal from SHC

2) Excluding write-backs from SHC

4) Excluding Interest expenses related to Provision for policy reserves of Shinhan Life

Source: Company data, Mirae Asset Daewoo Research

Table 1. SFG: 4Q18 review

(Wbn)	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18P	YoY chg. (%, %p)	QoQ chg. (%, %p)
Net interest income	1,914.7	1,986.8	2,072.2	2,058.8	2,121.4	2,171.8	2,228.1	7.5	2.6
Net fee & commission income	437.1	454.6	431.7	482.6	513.3	479.4	463.7	7.4	-3.3
Net other income	29.4	-113.4	-195.6	-98.1	-1.6	-214.6	-225.2	RR	RR
<b>Total net operating income</b>	<b>2,381.2</b>	<b>2,328.1</b>	<b>2,308.3</b>	<b>2,443.3</b>	<b>2,633.1</b>	<b>2,436.6</b>	<b>2,466.5</b>	<b>6.9</b>	<b>1.2</b>
SG&A expenses	1,078.4	1,080.6	1,587.5	1,087.0	1,126.4	1,089.2	1,439.0	-9.4	32.1
<b>PPOP</b>	<b>1,302.8</b>	<b>1,247.5</b>	<b>720.8</b>	<b>1,356.3</b>	<b>1,506.7</b>	<b>1,347.4</b>	<b>1,027.5</b>	<b>42.5</b>	<b>-23.7</b>
Provisions	147.3	208.1	385.4	179.4	173.8	214.8	170.6	-55.7	-20.6
<b>Operating profit</b>	<b>1,155.5</b>	<b>1,039.4</b>	<b>335.4</b>	<b>1,176.9</b>	<b>1,332.9</b>	<b>1,132.6</b>	<b>856.9</b>	<b>155.5</b>	<b>-24.3</b>
Non-operating income	34.0	41.1	-115.0	17.1	-24.1	33.7	-59.4	RR	TTR
<b>Pretax profit</b>	<b>1,189.5</b>	<b>1,080.5</b>	<b>220.5</b>	<b>1,194.0</b>	<b>1,308.8</b>	<b>1,166.3</b>	<b>797.5</b>	<b>261.8</b>	<b>-31.6</b>
<b>Net profit</b>	<b>892.0</b>	<b>817.3</b>	<b>211.5</b>	<b>857.5</b>	<b>938.1</b>	<b>847.8</b>	<b>513.3</b>	<b>142.7</b>	<b>-39.5</b>
Total assets	413,911	429,793	426,306	433,397	453,268	457,709	459,608	7.8	0.4
Total loans & receivables	262,449	274,769	275,566	277,838	287,921	292,360	299,609	8.7	2.5
Won-denominated loans (bank)	185,950	191,912	195,497	197,409	201,294	205,188	209,568	7.2	2.1
Total credit	251,184	260,625	263,976	266,659	276,024	281,369	287,918	9.1	2.3
Total deposits	237,996	248,443	249,419	250,965	259,911	260,651	265,000	6.2	1.7
Total shareholders' equity	32,689	33,688	33,703	33,148	34,299	36,017	36,659	8.8	1.8
(%)									
NIM (bank)	1.56	1.56	1.58	1.61	1.63	1.62	1.61	0.03	-0.01
Cost-to-income ratio	45.3	46.4	68.8	44.5	42.8	44.7	58.3	-10.4	13.6
NPL (substandard & below) ratio	0.72	0.64	0.62	0.64	0.59	0.55	0.53	-0.09	-0.03
NPL coverage ratio	225.3	246.1	259.6	262.3	276.4	290.7	301.8	42.1	11.1
RoAE	0.22	0.19	0.05	0.20	0.21	0.19	0.11	0.06	-0.07
RoAA	2.83	2.53	0.64	2.63	2.84	2.46	1.45	0.80	-1.02
Credit cost (to total credit)	0.06	0.08	0.15	0.07	0.06	0.08	0.06	-0.09	-0.02
BIS ratio	15.15	15.11	14.78	14.86	14.87	15.25	14.88	0.10	-0.37
Tier-1 ratio	13.73	13.60	13.32	13.43	13.45	13.79	13.43	0.11	-0.36
CET1 ratio	13.40	13.16	12.88	13.08	13.04	12.96	12.56	-0.32	-0.40

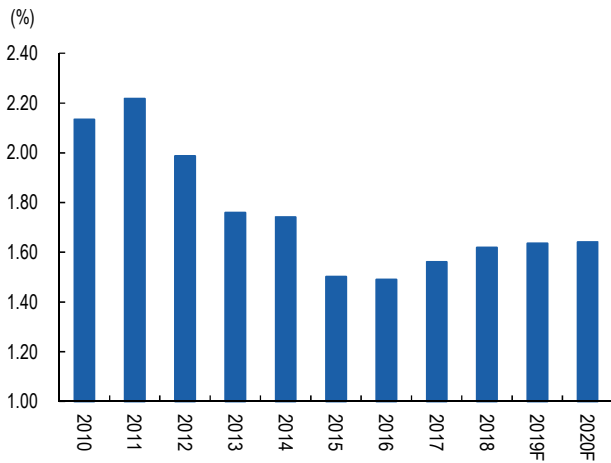
Note: ROA, ROE, and credit cost data are non-annualized; NPL coverage ratio is based on the old formula (including credit loss reserves); TTR = turn to red; RR = remain red  
Source: Company data, Mirae Asset Daewoo Research

Table 2. SFG: Earnings forecast revision

(Wbn)	Revised			Previous			% chg.		
	2018P	2019F	2020F	2018F	2019F	2020F	2018P	2019F	2020F
Net interest income	8,580	9,068	9,421	8,590	9,044	9,376	-0.1	0.3	0.5
Net non-interest income	1,399	1,447	1,560	1,409	1,437	1,509	-0.7	0.7	3.3
<b>Total net operating income</b>	<b>9,980</b>	<b>10,515</b>	<b>10,981</b>	<b>9,999</b>	<b>10,480</b>	<b>10,886</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.9</b>
SG&A expenses	4,742	4,872	4,981	4,666	4,774	4,864	1.6	2.1	2.4
<b>PPOP</b>	<b>5,238</b>	<b>5,643</b>	<b>6,000</b>	<b>5,333</b>	<b>5,707</b>	<b>6,022</b>	<b>-1.8</b>	<b>-1.1</b>	<b>-0.4</b>
Provisions	739	938	1,081	904	1,082	1,212	-18.3	-13.3	-10.8
<b>Operating profit</b>	<b>4,499</b>	<b>4,705</b>	<b>4,919</b>	<b>4,429</b>	<b>4,625</b>	<b>4,810</b>	<b>1.6</b>	<b>1.7</b>	<b>2.3</b>
Non-operating income	-33	6	6	30	39	39	-208.4	-83.6	-85.0
<b>Pretax profit</b>	<b>4,467</b>	<b>4,712</b>	<b>4,925</b>	<b>4,459</b>	<b>4,664</b>	<b>4,849</b>	<b>0.2</b>	<b>1.0</b>	<b>1.6</b>
<b>Net profit</b>	<b>3,157</b>	<b>3,372</b>	<b>3,524</b>	<b>3,217</b>	<b>3,349</b>	<b>3,482</b>	<b>-1.9</b>	<b>0.7</b>	<b>1.2</b>

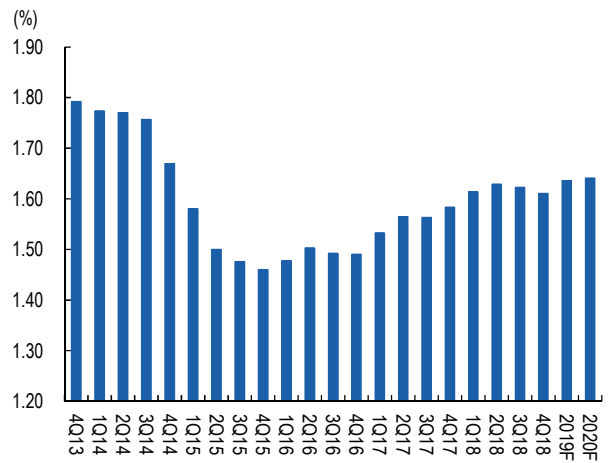
Source: Mirae Asset Daewoo Research estimates

**Figure 9. SFG: Bank NIM trend (1)**



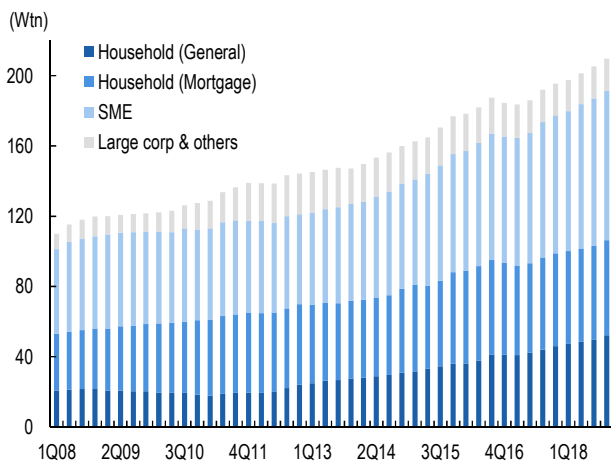
Source: Company data, Mirae Asset Daewoo Research

**Figure 10. SFG: Bank NIM trend (2)**



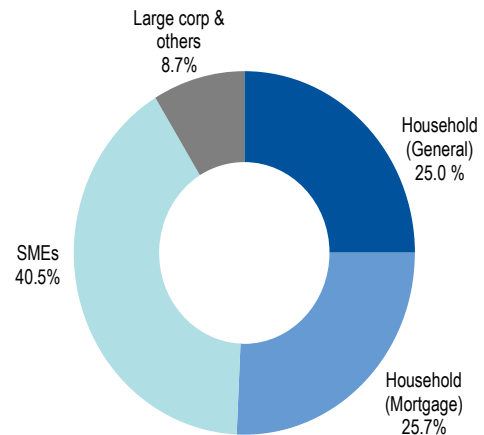
Source: Company data, Mirae Asset Daewoo Research

**Figure 11. SFG: Bank won-denominated loan trend**



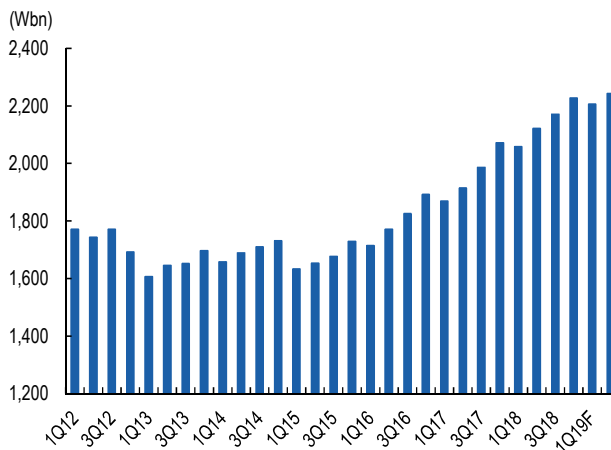
Source: Company data, Mirae Asset Daewoo Research

**Figure 12. SFG: Bank won-denominated loan breakdown (4Q18)**



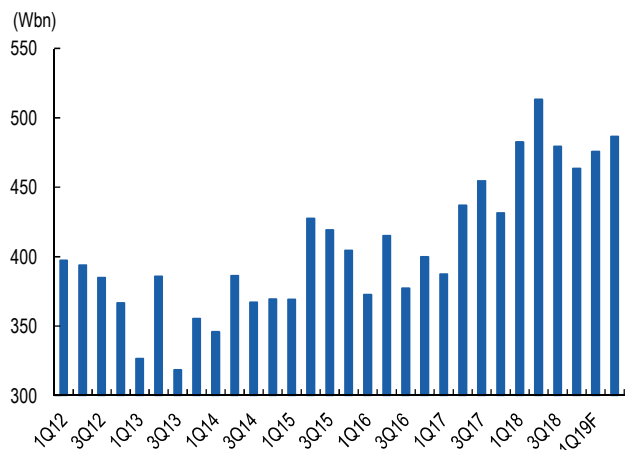
Source: Company data, Mirae Asset Daewoo Research

**Figure 13. SFG: Net interest income trend and forecasts**



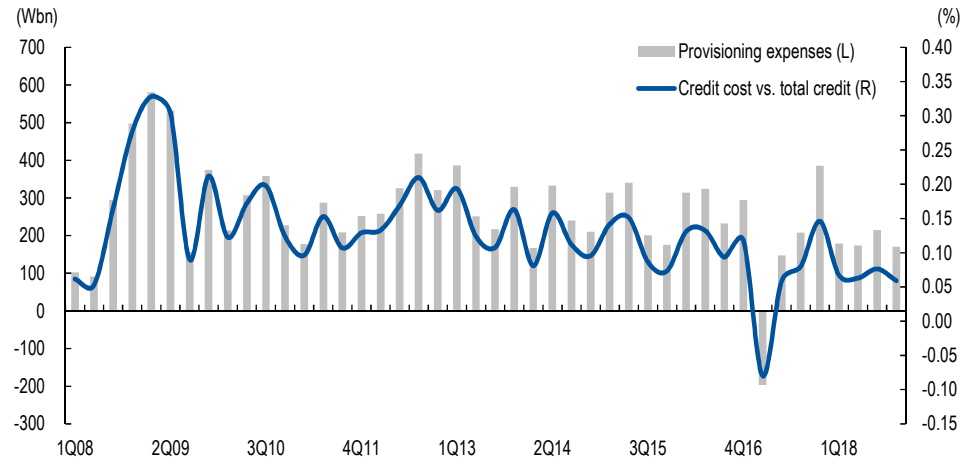
Source: Company data, Mirae Asset Daewoo Research

**Figure 14. SFG: Net fee & commission income**



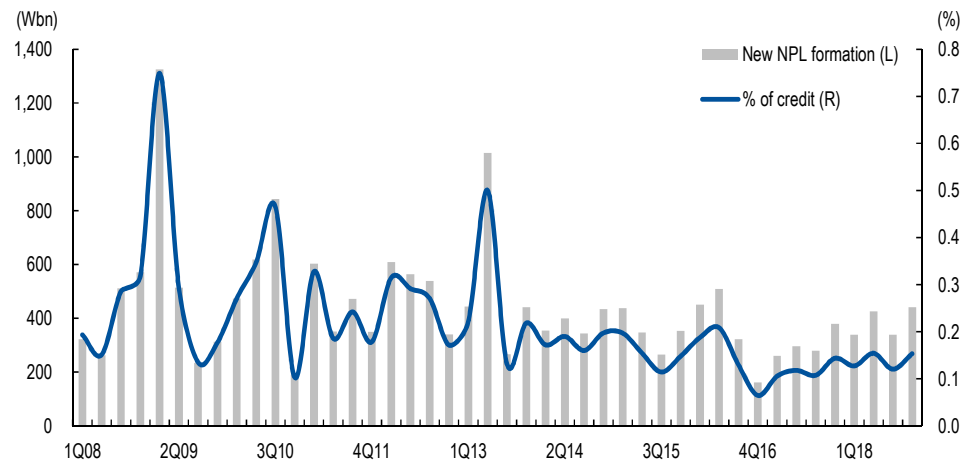
Source: Company data, Mirae Asset Daewoo Research

**Figure 15. SFG: Group credit cost trend**



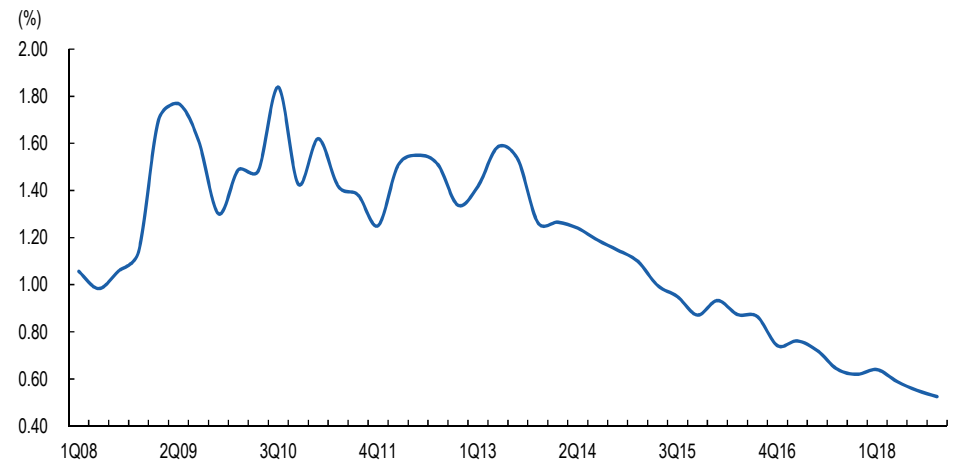
Note: Credit cost as % of total credit is non-annualized  
 Source: Company data, Mirae Asset Daewoo Research

**Figure 16. Group (bank and credit card) new NPL formation**



Note: New NPL formation as % of total credit is non-annualized  
 Source: Company data, Mirae Asset Daewoo Research

**Figure 17. SFG: Group NPL ratio trend**



Source: Company data, Mirae Asset Daewoo Research

## Shinhan Financial Group (055550 KS/Buy/TP: W60,000)

## Comprehensive Income Statement (Summarized)

Year end 12 (Wbn)	12/17	12/18P	12/19F	12/20F
Interest income	11,799	13,572	14,712	15,278
Interest expense	3,956	4,992	5,644	5,858
<b>Net interest income</b>	<b>7,843</b>	<b>8,580</b>	<b>9,068</b>	<b>9,421</b>
Net fees and commissions	1,711	1,939	1,908	1,960
Net other non-interest income	-370	-540	-461	-400
<b>Total net operating income</b>	<b>9,184</b>	<b>9,980</b>	<b>10,515</b>	<b>10,981</b>
G&A expenses	4,811	4,742	4,872	4,981
<b>PPOP</b>	<b>4,373</b>	<b>5,238</b>	<b>5,643</b>	<b>6,000</b>
Total provision expenses	544	739	938	1,081
<b>Operating profit</b>	<b>3,829</b>	<b>4,499</b>	<b>4,705</b>	<b>4,919</b>
Net non-operating income	-32	-33	6	6
<b>Income before income taxes</b>	<b>3,796</b>	<b>4,467</b>	<b>4,712</b>	<b>4,925</b>
Income tax expense	848	1,268	1,296	1,354
Net profit	2,948	3,198	3,416	3,570
<b>Net profit (ex. minority interest)</b>	<b>2,918</b>	<b>3,157</b>	<b>3,372</b>	<b>3,524</b>
<b>Normalized net profit</b>	<b>2,642</b>	<b>3,157</b>	<b>3,372</b>	<b>3,524</b>
<b>Core income</b>	<b>9,554</b>	<b>10,519</b>	<b>10,976</b>	<b>11,380</b>
<b>Core PPOP</b>	<b>4,743</b>	<b>5,778</b>	<b>6,104</b>	<b>6,400</b>

## DuPont analysis (%)

Interest income	2.87	3.06	3.15	3.16
Interest expense	0.96	1.13	1.21	1.21
<b>Net interest income</b>	<b>1.91</b>	<b>1.94</b>	<b>1.94</b>	<b>1.95</b>
Net commissions income	0.42	0.44	0.41	0.41
Net other non-interest income	-0.09	-0.12	-0.10	-0.08
<b>Total net operating profit</b>	<b>2.24</b>	<b>2.25</b>	<b>2.25</b>	<b>2.27</b>
G&A expenses	1.17	1.07	1.04	1.03
<b>PPOP</b>	<b>1.06</b>	<b>1.18</b>	<b>1.21</b>	<b>1.24</b>
Total provision expenses	0.13	0.17	0.20	0.22
Net non-operating income	-0.01	-0.01	0.00	0.00
<b>Income before income taxes</b>	<b>0.92</b>	<b>1.01</b>	<b>1.01</b>	<b>1.02</b>
Income tax expense	0.21	0.29	0.28	0.28
Net profit (non-controlling)	0.01	0.01	0.01	0.01
<b>ROA</b>	<b>0.71</b>	<b>0.71</b>	<b>0.72</b>	<b>0.73</b>
<b>Leverage (x)</b>	<b>12.9</b>	<b>12.9</b>	<b>12.5</b>	<b>12.0</b>
<b>ROE</b>	<b>9.13</b>	<b>9.21</b>	<b>9.02</b>	<b>8.73</b>

## Asset quality (%)

NPL ratio	0.62	0.53	0.52	0.51
Broad NPL ratio	1.52	1.30	1.29	1.28
NPL coverage ratio	259.6	301.8	312.1	314.1
Reserves to total credits	1.6	1.6	1.6	1.6
Credit cost (% of total loans)	0.20	0.25	0.30	0.33
Credit cost (% of total credit)	0.21	0.26	0.31	0.34

## Per share items (W)

EPS (reported)	6,153	6,657	7,111	7,331
EPS (normalized)	5,572	6,657	7,111	7,331
BVPS	69,210	75,354	82,301	84,783
DPS (common share)	1,450	1,600	1,720	1,780
PPOP/ share	9,222	11,046	11,900	12,480

Source: Company data, Mirae Asset Daewoo Research estimates

## Statement of Financial Condition (Summarized)

Year end 12 (Wbn)	12/17	12/18P	12/19F	12/20F
Cash & dues	22,669	17,416	17,846	18,347
Securities	103,182	84,257	86,445	88,986
Net loans and receivables	275,566	299,609	311,485	324,762
Tangible assets	3,440	3,479	3,520	3,562
Other assets	21,449	54,847	55,739	56,648
<b>Total assets</b>	<b>426,306</b>	<b>459,608</b>	<b>475,035</b>	<b>492,305</b>
Deposits	249,419	265,000	276,291	288,363
Borrowings	27,587	29,819	29,726	29,738
Debentures	51,341	63,228	64,110	65,159
Other liabilities	64,256	64,903	64,911	66,342
<b>Total liabilities</b>	<b>392,603</b>	<b>422,949</b>	<b>435,038</b>	<b>449,603</b>
Capital stock	2,645	2,645	2,732	2,732
Hybrid securities	424	1,532	1,532	1,532
Capital surplus	9,887	9,895	10,558	10,558
Retained earnings	20,791	22,959	25,548	28,207
Capital adjustments	-398	-553	-597	-597
Other comprehensive income	-530	-746	-746	-746
Non-controlling interests	883	926	970	1,016
<b>Total shareholders' equity</b>	<b>33,703</b>	<b>36,659</b>	<b>39,997</b>	<b>42,702</b>

## Key ratios (%)

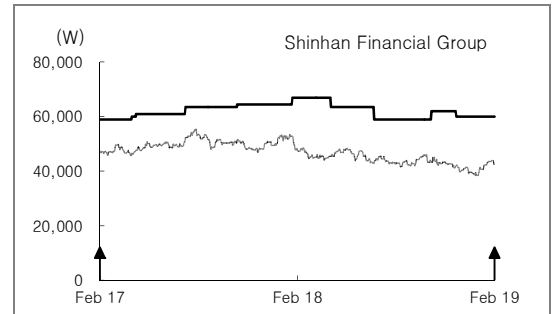
<b>Growth (YoY)</b>				
Won loan growth (Bank)	5.9	7.2	4.4	4.4
Net loans & receivables growth	6.4	8.7	4.0	4.3
Deposit growth	6.1	6.2	4.3	4.4
Shareholders' equity growth	6.2	8.8	9.1	6.8
Total assets growth	7.7	7.8	3.4	3.6
Net interest income growth	8.8	9.4	5.7	3.9
Net fee income growth	9.3	13.3	-1.6	2.7
PPOP growth	2.3	19.8	7.7	6.3
Operating profit growth	23.2	17.5	4.6	4.5
Net profit growth	5.2	8.2	6.8	4.5
<b>Profitability</b>				
Net interest spread (Bank)	1.80	1.87	1.89	1.89
Net interest margin (Bank)	1.56	1.62	1.64	1.64
PPOP margin	1.1	1.2	1.2	1.2
ROA	0.7	0.7	0.7	0.7
ROE	9.1	9.2	9.0	8.7
<b>Liquidity</b>				
W LDR (excl. CDs) (Bank)	99.2	99.2	99.2	99.2
Loans to assets	64.6	65.2	65.6	66.0
<b>Capital adequacy</b>				
Total CAR	14.8	14.9	14.9	15.3
Tier 1 CAR	13.3	13.4	13.9	14.3
Tier 2 CAR	1.5	1.5	1.1	1.0
<b>Operating efficiency</b>				
Cost to income	52.4	47.5	46.3	45.4
Cost to assets	1.1	1.0	1.0	1.0
<b>Dividend</b>				
Payout ratio	23.6	23.9	24.8	24.9

## APPENDIX 1

### Important Disclosures & Disclaimers

#### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Shinhan Financial Group (055550)	12/04/2018	Buy	60,000
	10/19/2018	Buy	62,000
	07/05/2018	Buy	59,000
	04/16/2018	Buy	63,500
	02/08/2018	Buy	67,000
	02/08/2018	Buy	63,500
	02/04/2018	Buy	67,000
	10/25/2017	Buy	64,500
	07/21/2017	Buy	63,500
	04/21/2017	Buy	61,000
	04/13/2017	Buy	60,000
	02/02/2017	Buy	59,000



#### Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

#### Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (≡), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

\* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

\* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

\* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

\* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

#### Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	81.28%	9.63%	9.09%	0.00%
Investment Banking Services	84.61%	3.85%	11.54%	0.00%

\* Based on recommendations in the last 12-months (as of December 31, 2018)

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## Mirae Asset Daewoo International Network

---

### Mirae Asset Daewoo Co., Ltd. (Seoul)

Global Equity Sales Team  
Mirae Asset Center 1 Building  
26 Eulji-ro 5-gil, Jung-gu, Seoul 04539  
Korea

Tel: 82-2-3774-2124

---

### Mirae Asset Securities (USA) Inc.

810 Seventh Avenue, 37th Floor  
New York, NY 10019  
USA

Tel: 1-212-407-1000

---

### PT. Mirae Asset Sekuritas Indonesia

Equity Tower Building Lt. 50  
Sudirman Central Business District  
Jl. Jend. Sudirman, Kav. 52-53 Jakarta Selatan  
12190  
Indonesia  
Tel: 62-21-515-3281

---

### Mirae Asset Securities Mongolia UTsK LLC

#406, Blue Sky Tower, Peace Avenue 17  
1 Khoroo, Sukhbaatar District  
Ulaanbaatar 14240  
Mongolia

Tel: 976-7011-0806

---

### Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center  
100 Century Avenue, Pudong New Area Shanghai  
200120  
China

Tel: 86-21-5013-6392

---

### Mirae Asset Securities (HK) Ltd.

Suites 1109-1114, 11th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
China  
Tel: 852-2845-6332

---

### Mirae Asset Wealth Management (USA) Inc.

555 S. Flower Street, Suite 4410,  
Los Angeles, California 90071  
USA

Tel: 1-213-262-3807

---

### Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01  
Singapore 049909  
Republic of Singapore

Tel: 65-6671-9845

---

### Mirae Asset Investment Advisory (Beijing) Co., Ltd

2401B, 24th Floor, East Tower, Twin Towers  
B12 Jianguomenwai Avenue, Chaoyang District  
Beijing 100022  
China

Tel: 86-10-6567-9699

---

### Ho Chi Minh Representative Office

7F, Saigon Royal Building  
91 Pasteur St.  
District 1, Ben Nghe Ward, Ho Chi Minh City  
Vietnam

Tel: 84-8-3910-7715

---

### Mirae Asset Securities (UK) Ltd.

41st Floor, Tower 42  
25 Old Broad Street,  
London EC2N 1HQ  
United Kingdom

Tel: 44-20-7982-8000

---

### Mirae Asset Wealth Management (Brazil) CCTVM

Rua Funchal, 418, 18th Floor, E-Tower Building Vila  
Olimpia  
Sao Paulo - SP  
04551-060  
Brasil  
Tel: 55-11-2789-2100

---

### Mirae Asset Securities (Vietnam) LLC

7F, Saigon Royal Building  
91 Pasteur St.  
District 1, Ben Nghe Ward, Ho Chi Minh City  
Vietnam

Tel: 84-8-3911-0633 (ext.110)

---

### Beijing Representative Office

2401A, 24th Floor, East Tower, Twin Towers  
B12 Jianguomenwai Avenue, Chaoyang District  
Beijing 100022  
China

Tel: 86-10-6567-9699 (ext. 3300)

---