

Hana Financial Group (086790 KS)

FUNDAMENTAL VIEW ¹

As of 07 Mar 2024

- Hana Financial Group (Hana FG) had struggled for several years to make a success of its acquisition of the former Korea Exchange Bank, but from 2015, results improved dramatically as revenues grew and cost efficiencies improved.
- It has produced particularly strong results since 2020 and is the most improved of the financial groups; we see improved capital adequacy and comfortable provisioning in the latest quarter, although reduced NIMs, one-off costs and increased provisions led to a 50.5% QoQ fall in 4Q23 net income.
- The group is looking for inorganic growth in its non-bank businesses as it has fallen behind Shinhan FG and KBFG in this area, but has so far shied away from a large acquisition.

RISKS & CATALYSTS

As of 07 Mar 2024

- Similar to peers, Hana FG's credit costs crept up to 39 bp in FY23 (FY22: 31 bp) but below our expectations; kitchen sinking has taken place to avoid more costs related to domestic PF and international CRE exposure.
- The group's NIM performance has been weaker than peers this year and is expected to continue to fall without any meaningful improvement expected in the foreseeable future.
- The group NPL coverage ratio was lower than peers at 162% vs 180% at peers (still comfortable, though).
- Hana FG took provisions in 4Q19 for a JV investment with China Minsheng Investment and for potentially mis-selling high-risk investment funds to retail investors, and in 2Q20 for private equity exposure, with limited further details. Some fines/regulatory action is expected due to the mis-selling of equity linked securities to retail investors in 2021.

CREDIT QUALITY SCORE (CQS)²

As of 22 Apr 2024

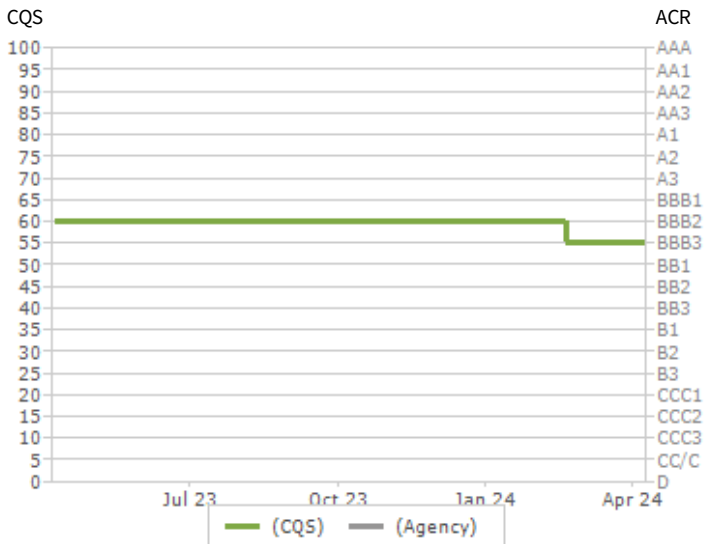
CURRENT CQS

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	0.99%	1.07%	1.07%	1.10%	1.11%
ROA	0.60%	0.61%	0.74%	0.66%	0.59%
ROE	8.8%	9.0%	10.9%	10.1%	9.0%
Provisions/Loans	0.27%	0.30%	0.16%	0.34%	0.45%
NPL Ratio	0.48%	0.40%	0.32%	0.34%	0.49%
CET1 Ratio	12.0%	12.0%	13.8%	13.2%	13.2%
Equity/Assets	6.7%	6.7%	6.8%	6.4%	6.6%
Net Interest Margin	1.75%	1.60%	1.66%	1.83%	1.82%

BUSINESS DESCRIPTION

As of 07 Mar 2024

- Hana FG is the third-largest financial group in South Korea. From small origins as a finance company in the 1970s, after the 1997 Asian crisis, Hana grew by acquiring three other banks, including the much older Seoul Bank, which had a banking and trust management business.
- Hana FG bought Korea Exchange Bank (KEB) from Lone Star in 2012 after overcoming many hurdles, but could not merge it with Hana Bank until 2015 due to staff union opposition.
- Hana FG's overseas business is smaller than peers and is complemented by KEB's extensive international operations. KEB was started in 1967 as a government-owned bank specialising in foreign exchange. It has a leading share in FX transactions and trade finance among Korean banks.
- Hana FG has shown good growth in its credit card and securities non-bank businesses, but is less diversified than its larger peers KB and Shinhan, which have also acquired insurance companies. Its latest acquisition (in 2019) was a 15% stake in Vietnam's state-owned Bank for Investment & Development (BIDV). Hana FG has recently decided not to proceed with the acquisition of KDB Life Insurance after two months of due diligence.

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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