

Hana Financial Group (086790 KS)

FUNDAMENTAL VIEW ¹

As of 22 Aug 2024

- Hana Financial Group (Hana FG) struggled for several years to make its acquisition of the former Korea Exchange Bank a success, but results improved dramatically in 2015 as revenues grew and cost efficiencies improved.
- It has produced particularly strong results since 2020, but its profit growth momentum has slowed down in 1H24. Credit costs will go up marginally in 2H, loan growth will slow down, and more focus will be put on RWA management and capital enhancement.
- 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 22 Aug 2024

- Unlike other FGs, Hana FG reported a decline in credit costs in 2Q24 due to large reversals, but additional provisions are expected in 2H24, in relation to real estate trusts and the new PF viability assessment guideline.
- Both the group's NIM and the bank's NIM are lower than the respective peers, and both saw larger-than-peers declines this quarter. Returns lagged its peers in 1H24.
- Hana FG's CET 1 ratio is lower than KBFG's and Shinhan FG's and is slightly below its 13% target; management plans to improve it in the following two quarters through portfolio rebalancing and RWA management. Hana Bank's CET 1 ratio is the highest among the major 4 banks.

CREDIT QUALITY SCORE (CQS)²

As of 24 Dec 2024

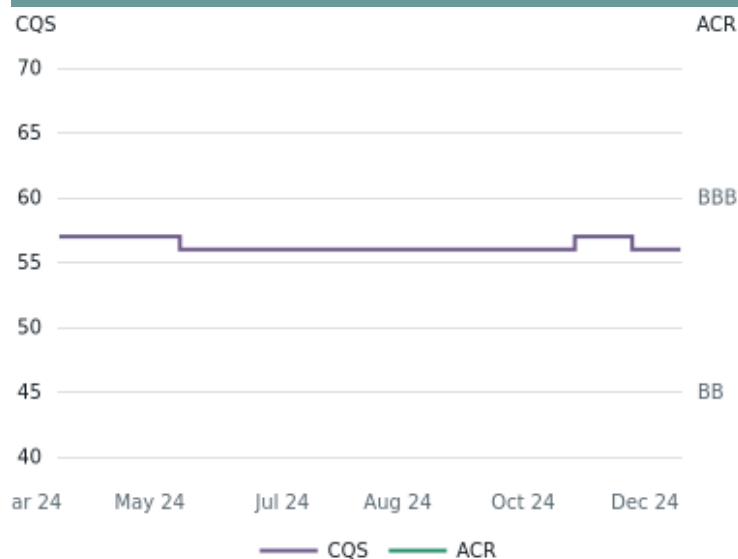
CURRENT CQS

56

CQS OUTLOOK ³

NO OUTLOOK

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



KEY METRICS

As of 22 Aug 2024

KRW BN	FY20	FY21	FY22	FY23	1H24
Pre-Provision Profit ROA	1.07%	1.07%	1.10%	1.11%	1.14%
ROA	0.61%	0.74%	0.66%	0.59%	0.69%
ROE	9.0%	10.9%	10.1%	9.0%	10.4%
Provisions/Loans	0.30%	0.16%	0.34%	0.45%	0.27%
NPL Ratio	0.40%	0.32%	0.34%	0.50%	0.56%
CET1 Ratio	12.0%	13.8%	13.2%	13.2%	12.8%
Equity/Assets	6.7%	6.8%	6.4%	6.6%	6.5%
Net Interest Margin	1.60%	1.66%	1.83%	1.82%	1.73%

BUSINESS DESCRIPTION

As of 22 Aug 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 due to staff union opposition, it could not merge with Hana Bank until 2015.
- Hana FG's overseas business is smaller than its peers, and is complemented by KEB's extensive international operations. KEB was started in 1967 as a government-owned bank specializing in foreign exchange. It had 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). Last year, Hana FG decided not to proceed with the acquisition of KDB Life Insurance after two months of due diligence.

GLOSSARY

- 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.
 - 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.
 - 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.
 - 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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