

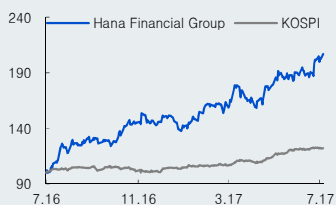
## Banks

Earnings Preview  
July 12, 2017

(Maintain)	<b>Buy</b>
Target Price (12M, W)	<b>56,000</b>
Share Price (07/10/17, W)	46,450
Expected Return	21%

NP (17F, Wbn)	1,746
Consensus NP (17F, Wbn)	1,727
EPS Growth (17F, %)	31.2
Market EPS Growth (17F, %)	39.6
P/E (17F, x)	7.9
Market P/E (17F, x)	10.0
KOSPI	2,382.10
Market Cap (Wbn)	13,749
Shares Outstanding (mn)	296
Free Float (%)	89.4
Foreign Ownership (%)	73.5
Beta (12M)	1.17
52-Week Low	22,450
52-Week High	46,450

(%)	1M	6M	12M
Absolute	8.9	47.7	106.9
Relative	8.9	26.8	70.5



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# Hana Financial Group

(086790 KS)

## Strengthened earnings power and still-strong investment appeal

### Turning weaknesses into strengths

Up until a year or so ago, Hana Financial Group (HFG) was subject to a valuation discount due to its high credit exposure to large corporations, concerns over potential asset quality deterioration and credit cost increases, and the risk of equity issues stemming from its low common equity tier 1 (CET1) ratio. Since 2013, however, the group has taken a more active approach to risk management, lowering its credit exposure to large firms and cutting back on loans to cyclical industries and high-risk groups. Since 2015, HFG has based its growth strategy on return on risk-weighted assets (RoRWA) to better manage its risk-weighted assets. As a result, the firm's share of credit exposure to large corporations has fallen to peer levels, while cyclical industry loans have also materially declined. More importantly, thanks to efforts to manage risk-weighted assets, the group's CET1 ratio improved to 11.35% (+97bps QoQ) at end-2Q16, easing investor worries. Furthermore, the group has increased its dividend appeal, hiking its interim dividend to W250 in 2016 (1% yield) from W150 in 2013-15 and its final dividend to W800 (2.4% yield) in 2016 from W500bn in 2015.

### 2Q17 preview: Net profit to top consensus at W525.5bn

We believe HFG now has better earnings power and visibility, thanks to its: 1) improved asset quality, which should keep credit costs stable; and 2) rising net interest margin (NIM). We also expect cost-saving effects from the integration/closures of overlapping branches and workforce reallocation—following the bank's IT system integration (the merger was completed in September 2015; IT system integration was completed in June 2016)—to continue for some time. Meanwhile, the credit card business appears to be entering a period of earnings recovery.

We forecast 2Q17 net profit at W525.5bn (+49.2% YoY, +6.8% QoQ), 20.9% above the Bloomberg consensus (W434.5bn) and 22.8% above the FnGuide consensus (W428bn). We estimate that the company booked W45bn in 2016 performance bonus payouts and W40bn in F/X translation losses on non-monetary foreign currency assets (due to a higher US\$/W rate at end-2Q17). Still, we believe that overall earnings remained robust, supported by: 1) net interest income expansion on higher NIM and loan asset growth; 2) strong net commission income; and 3) stable credit costs and SG&A expenses.

### Raise TP to W56,000

We revise our net profit estimates upward by 10.3% for 2017, 5.3% for 2018, and 4% for 2019 to account for NIM gains; accordingly, we raise our target price to W56,000 (from W49,000). We continue to recommend the stock as one of our top banking picks, along with KB Financial Group (KBFG). Considering our 2017F ROE of 7.5%, the stock looks undervalued at a 2017F P/B of 0.58x. Based on current share prices, dividend yields also appear compelling, at 3.1% for 2017 and 3.6% for 2018.

Fiscal year ending	12/14	12/15	12/16	12/17F	12/18F	12/19F
Net interest inc. (Wbn)	4,654	4,539	4,642	4,945	5,260	5,512
Net non-interest inc. (Wbn)	1,649	2,151	1,970	2,059	1,880	1,900
Operating profit (Wbn)	1,243	1,011	1,614	2,333	2,487	2,674
Net profit (Wbn)	938	910	1,330	1,746	1,831	1,977
EPS (W)	3,235	3,114	4,495	5,899	6,186	6,679
EPS growth (%)	-9.7	-3.7	44.4	31.2	4.9	8.0
P/E (x)	14.4	14.9	10.3	7.9	7.5	7.0
P/PPPOP (x)	5.8	6.4	5.4	4.3	4.2	3.9
P/B (x)	0.64	0.62	0.61	0.58	0.54	0.50
ROE (%)	4.6	5.8	6.7	7.5	7.4	7.5
Dividend yield (%)	1.3	1.4	2.3	3.1	3.6	4.0

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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# I. Valuation

## 1. Target price calculation

In deriving our target price, we revised our target P/B upward to 0.70x (from 0.61x), as we lifted our sustainable ROE assumption to 7.4% (from 6.8%). Accordingly, we raise our target price to W56,000 (from W49,000). We continue to recommend the stock as one of our top banking picks, along with KBFG.

**Table 1. Target price calculation**

Sustainable ROE	7.40%
Growth	2.00%
Cost of equity	9.7%
Cost of equity	9.7%
Risk-free rate	2.2%
Beta	1.16
Market risk premium	6.5%
Fair P/B (x)	0.70
2017F BPS (W)	80,319
Target price (W)	56,000

Source: Mirae Asset Daewoo Research estimates

**Table 2. Valuation metrics at target price of W56,000**

	2014	2015	2016	2017F	2018F
P/B (x)	0.77	0.75	0.74	0.70	0.65
P/E (x)	17.3	18.0	12.5	9.5	9.1
ROE (%)	4.6	4.2	6.0	7.5	7.4
EPS growth (%)	-9.7	-3.7	44.4	31.2	4.9
Div. yield (%)	1.1	1.2	1.9	2.6	2.9

Source: Company data, Mirae Asset Daewoo Research estimates

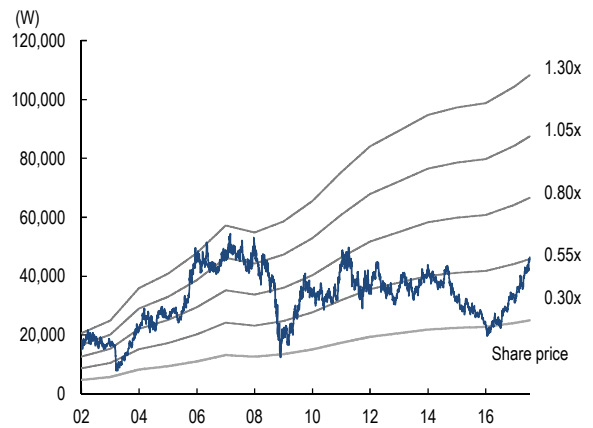
## 2. Valuation charts

**Figure 1. HFG's 12-month forward P/B and target price**



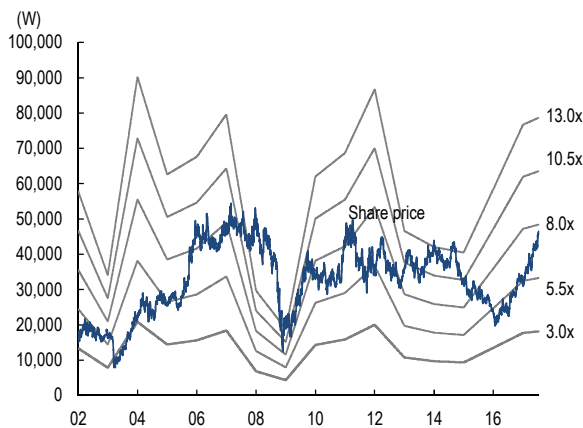
Source: Company data, QuantiWise, Mirae Asset Daewoo Research

**Figure 2. HFG's 12-month forward P/B**



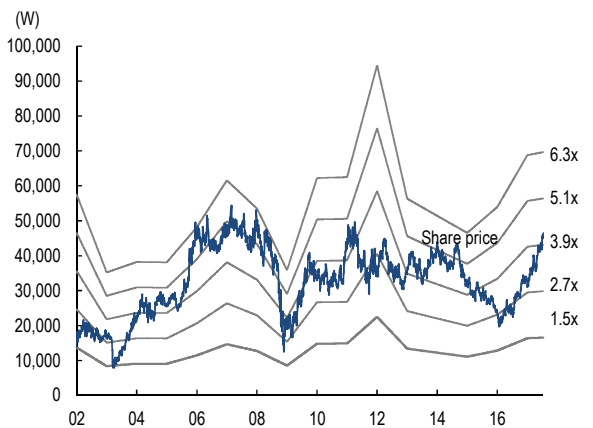
Source: Company data, QuantiWise, Mirae Asset Daewoo Research

**Figure 3. HFG's 12-month forward P/E**



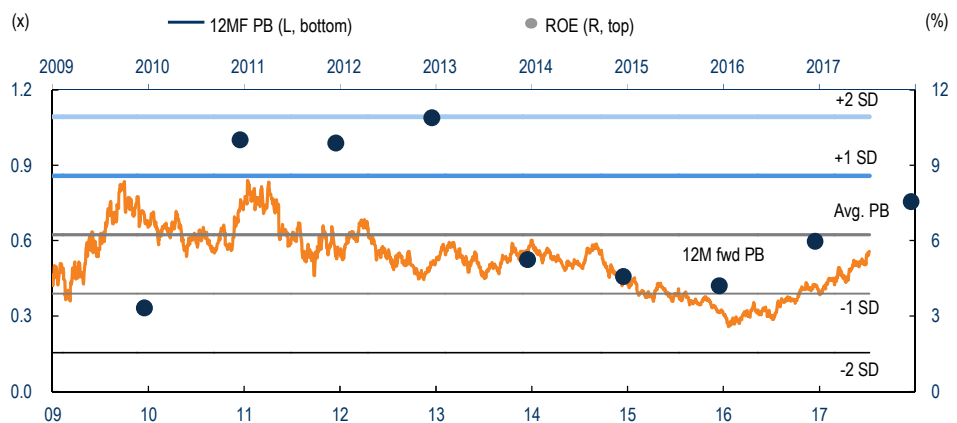
Source: Company data, QuantiWise, Mirae Asset Daewoo Research

**Figure 4. HFG's 12-month forward P/POP**



Source: Company data, QuantiWise, Mirae Asset Daewoo Research

**Figure 5. HFG's ROE and 12-month forward P/B**



Source: Company data, QuantiWise, Mirae Asset Daewoo Research

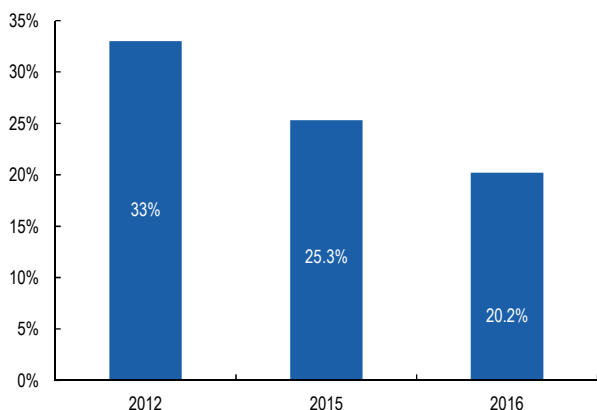
## II. Turning weaknesses into strength

### 1. Sharp improvement in asset soundness

Up until one or two years ago, HFG was subject to a valuation discount because of its high credit exposure to large corporations, concerns over potential asset quality deterioration and credit cost increases, and the risk of capital increases stemming from its low CET1 ratio.

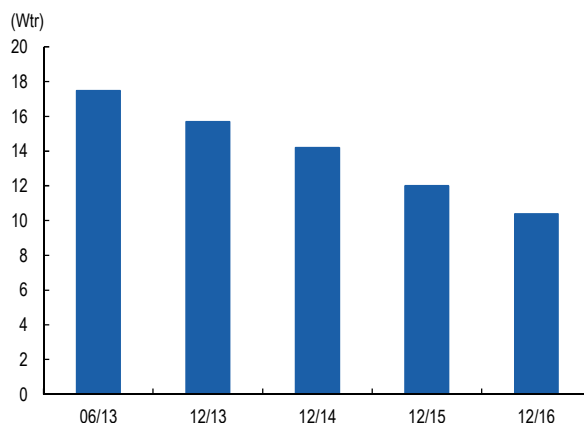
Since 2013, however, the group has taken a more active approach to risk management, lowering its credit exposure to large firms and cutting back on loans to cyclical industries and high-risk groups. As a result, the firm's credit exposure to large corporations fell to peer levels (20% of total credit) at end-2016. In addition, loans to cyclicals, including shipbuilding, shipping, and construction firms, dropped sharply (-41%) from W17.5tr at end-2Q13 to W10.4tr at end-2016, with lending to high-risk groups plunging from W10.4tr at end-2013 to W4.8tr at end-2016. Since 2015, HFG has based its growth strategy on return on RoRWA to better manage its risk-weighted assets.

**Figure 6. HFG's credit exposure to large corporations**



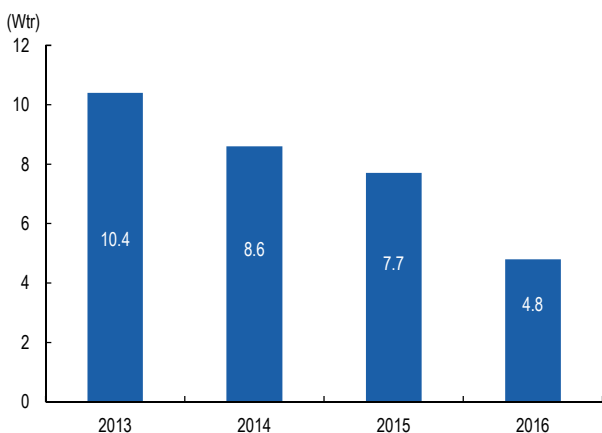
Note: Credit exposure to large corporations as a percentage of total lending  
Source: Company data, Mirae Asset Daewoo Research

**Figure 7. Downtrend in HFG's lending to cyclicals**



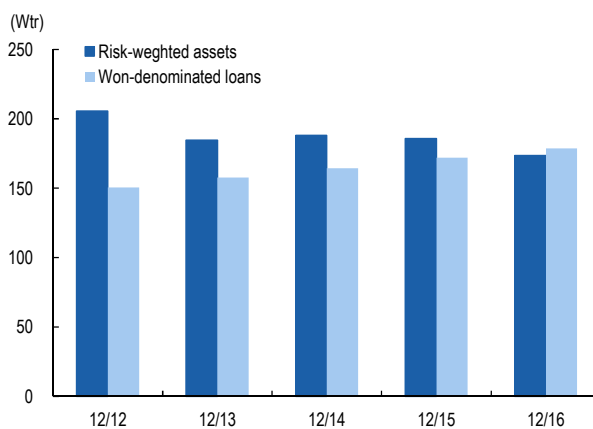
Note: Combined lending to the shipbuilding, shipping, and construction firms  
Source: Company data, Mirae Asset Daewoo Research

**Figure 8. Downtrend in HFG's lending to high-risk groups**



Source: Company data, Mirae Asset Daewoo Research

**Figure 9. HFG's risk-weighted assets and won-denominated loans**



Source: Company data, Mirae Asset Daewoo Research

Of note, thanks to HFG's efforts to manage risk-weighted assets and financial authorities' approval of the firm's plan for the internal assessment of credit risks, HFG's CET1 ratio improved to 11.35% (+97bps QoQ) at end-2Q16, easing investor concerns over potential capital increases. Furthermore, the group has increased its dividend appeal, hiking its interim dividend to W250 in 2016 (1.0% yield) from W150 in 2013-15, and its final dividend to W800 (2.4% yield) in 2016 from W500bn in 2015. As a result, dividend payout ratio (based on the sum of interim and final dividends) climbed to 23.4% in 2016 from 21.1% in 2015.

On the back of steady risk-weighted asset management efforts, robust earnings, and regulatory easing at end-2016 (recognition of loan loss provisions as CET1 capital), HFG's CET1 ratio reached 12.42% at end-2016, greatly exceeding the projected minimum requirement of 10.5% (assuming an increase in the countercyclical capital buffer requirement to 2.5% from the current 0%). Accordingly, in our view, the group has secured a sufficient buffer against a potential decline in CET1 ratio resulting from external issues (e.g., F/X volatility, etc.)

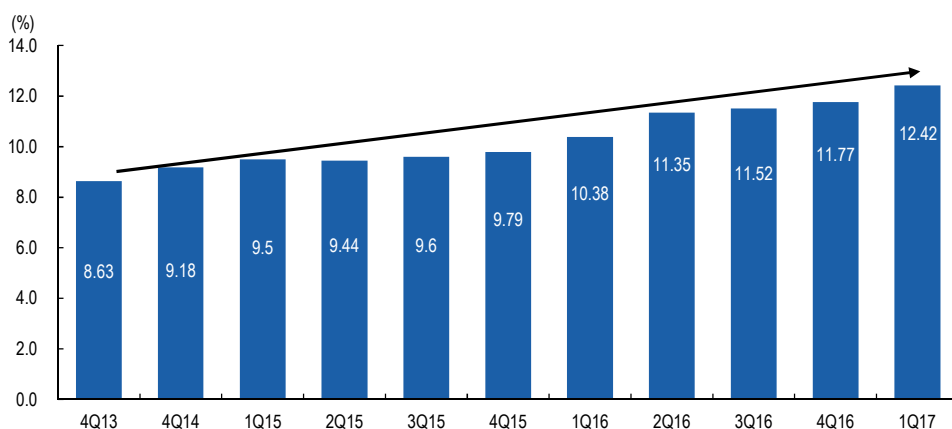
We forecast HFG's dividend payout ratio will steadily rise from 23.4% in 2016 to 24.6% in 2017, 26.7% in 2018, and 27.7% in 2019, with DPS trending up to W1,450 in 2017, W1,650 in 2018, and W1,850 in 2019 (based on an estimated interim dividend of W250). At the current share price (July 10<sup>th</sup> closing price of W46,450), these estimates translate into attractive dividend yields of 3.1% for 2017, 3.6% for 2018, and 4.0% for 2019.

**Figure 10. Basel III CET1 ratio depending on countercyclical capital buffer requirements for both D-SIBs and non-D-SIBs)**

(%)	2013	2014	2015	2016	2017	2018	2019	Total
Common Equity Tier 1 ratio(A)	3.5	4.0	4.5	4.5	4.5	4.5	4.5	
Capital conservation buffer(B)				0.625	1.25	1.875	2.5	+2.5
D-SIB chosen,additional capital required(D)				0.25	0.5	0.75	1.0	+1.0
<b>Total (A)+(B)+(D)</b>				<b>5.375</b>	<b>6.25</b>	<b>7.125</b>	<b>8.0</b>	
① Countercyclical capital buffer (C) 0%				0	0	0	0	
② Countercyclical capital buffer (C) 1%				0.25	0.50	0.75	1.0	
③ Countercyclical capital buffer (C) 2%				0.5	1.0	1.5	2.0	
④ Countercyclical capital buffer (C) 2.5%				0.625	1.25	1.875	2.5	
<b>Total (A)+(B)+(C)①+(D)</b>				<b>5.375</b>	<b>6.250</b>	<b>7.125</b>	<b>8.0</b>	Currently(C=0)
Total (A)+(B)+(C)②+(D)				5.625	6.750	7.875	9.0	D-SIB
Total (A)+(B)+(C)③+(D)				5.875	7.250	8.625	10.0	
Total (A)+(B)+(C)④+(D)				6.0	7.5	9.0	<b>10.5</b>	
<b>Total (A)+(B)+(C)①</b>				<b>5.125</b>	<b>5.750</b>	<b>6.375</b>	<b>7.0</b>	Currently(C=0)
Total (A)+(B)+(C)②				5.375	6.250	7.125	8.0	Non D-SIB
Total (A)+(B)+(C)③				5.625	6.750	7.875	9.0	
Total (A)+(B)+(C)④				5.750	7.0	8.250	<b>9.5</b>	

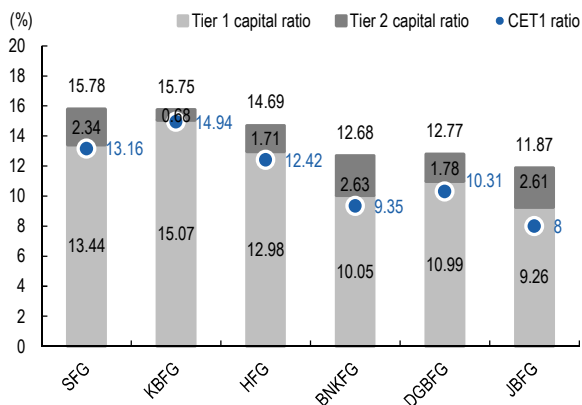
Source: BIS, BOK, FSC, FSS, Mirae Asset Daewoo Research

**Figure 11. HFG's CET1 ratio trend**



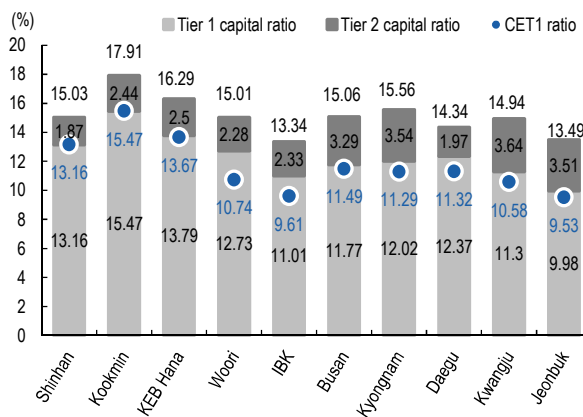
Source: Company data, Mirae Asset Daewoo Research

**Figure 12. Major financial groups' BIS CAR (as of end-1Q17)**



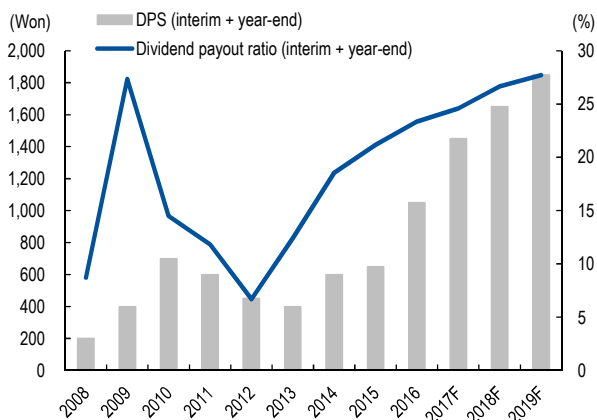
Source: Company data, Mirae Asset Daewoo Research

**Figure 13. Major banks' BIS CAR (as of end-1Q17)**



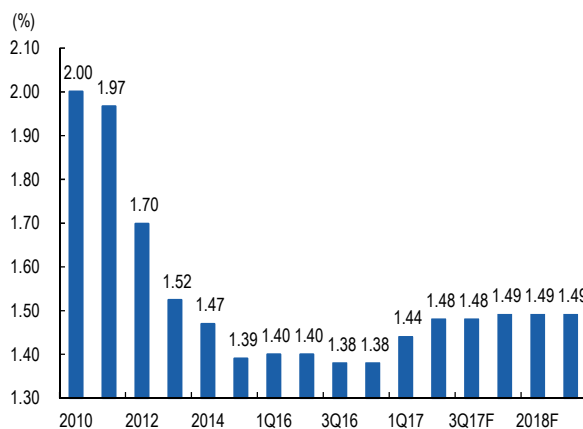
Source: Company data Mirae Asset Daewoo Research

**14. HFG's dividend payout ratio and DPS**



Source: Company data, Mirae Asset Daewoo Research

**Figure 15. HFG's dividend yield**



Note: Based on the July 10<sup>th</sup> closing price of W46,450  
Source: Company data, Mirae Asset Daewoo Research

## 2. Streamlined cost structure

The Financial Services Commission (FSC) approved the inclusion of Korea Exchange Bank (KEB) as one of HFG's subsidiaries in January 2012, following the group's acquisition of the bank in November 2010. Notably, only one year has passed since the completion of Hana Bank and KEB's IT integration (June 2016) following their merger in September 2015.

Since the IT system integration, efforts to integrate/shutter overlapping branches and reallocate employees have taken off. In addition, through the disposal of idle properties, HFG has been expanding its liquidity. Indeed, the firm booked W29bn in gains from property disposals in 1Q16 and W50bn in gains from the disposal of Hana Bank's real estate (previously a branch office site) in Hong Kong.

In addition, the group is in talks to sell KEB Hana Bank's headquarters building in Seoul. According to media reports, Booyoung Group was selected as the preferred bidder in June. If the building (book value of W460bn) is sold at W900bn, HFG should see gains of around W400bn from the deal.

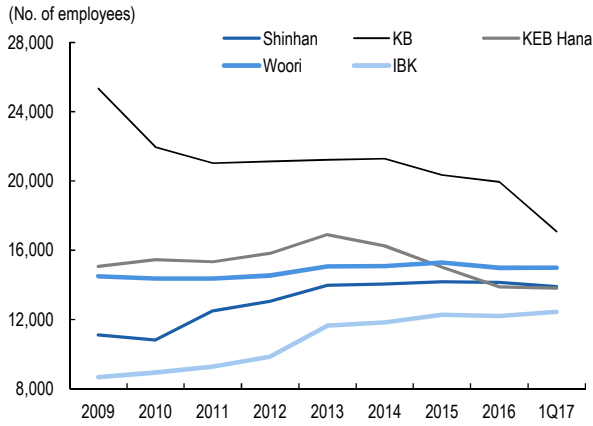
From a medium- to long-term perspective, we think financial market players need strategies to adapt to the low-interest, low-growth environment and market changes such as the increasing share of non-face-to-face channels.

At end-4Q16, HFG carried out a massive early retirement program, driving up SG&A expenses by roughly W230bn in the quarter. Meanwhile, the streamlining of the firm's labor cost structure should facilitate cost reductions of W100bn per year from 2017 onwards. Indeed, in 1Q17, HFG's SG&A expenses shrank 5.6% YoY and 27.8% QoQ to W878.7bn.

Accordingly, SG&A expenses are projected to decline to W3.77tr (-7.5% YoY) in 2017 from W4.08tr (-10.0% YoY) in 2016 and W4.53tr (+15.1% YoY) in 2015, and show only limited growth starting in 2018.

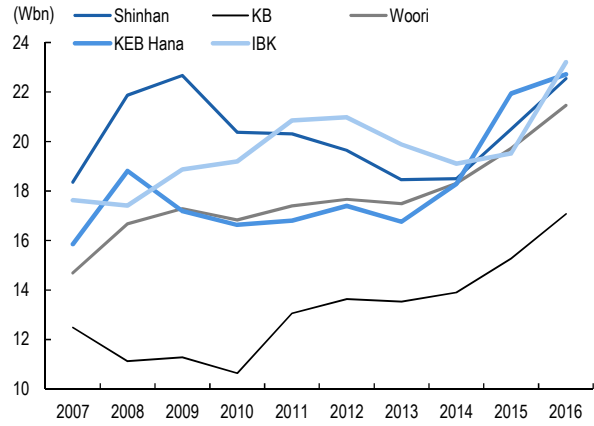
In addition, cost-to-income ratio, which stood at 67.7% in 2015 and 61.7% in 2016 (reflecting the amortization of negative goodwill related to the acquisition of KEB and early retirement program costs), is forecast to fall to 53.9% in 2017, 53.6% in 2018, and 52.5% in 2019.

**Figure 16. Total head count trends for top five domestic banks**



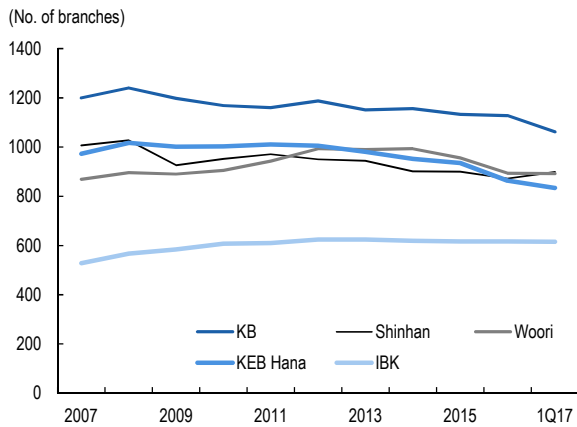
Source: FSS, Mirae Asset Daewoo Research

**Figure 17. Total assets per employee for top five domestic banks**



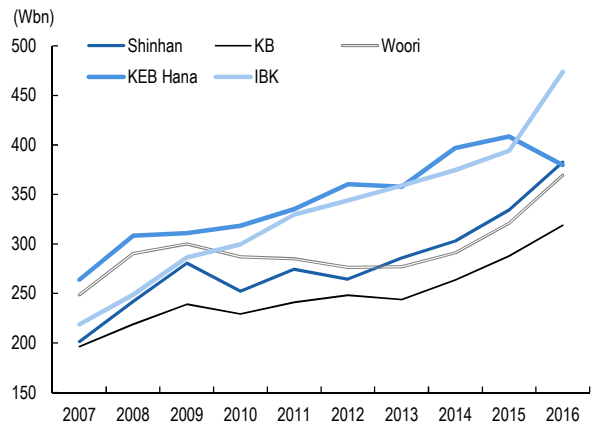
Note: Pre-2014 data for KEB Hana Bank are based on KEB data  
Source: FSS, Mirae Asset Daewoo Research

**Figure 18. No. of branches operated by top five domestic banks**



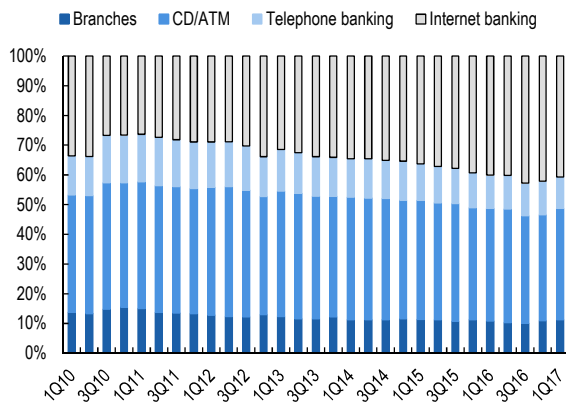
Source: FSS, Mirae Asset Daewoo Research

**Figure 19. Total assets per branch for top five domestic banks**



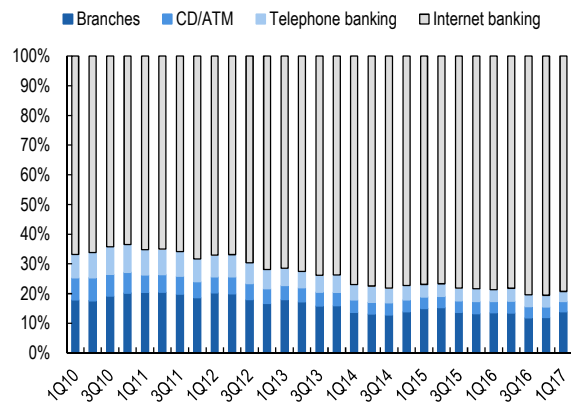
Note: Pre-2014 data for KEB Hana Bank are based on KEB  
Source: FSS, Mirae Asset Daewoo Research

**Figure 20. Transaction breakdown by channel**



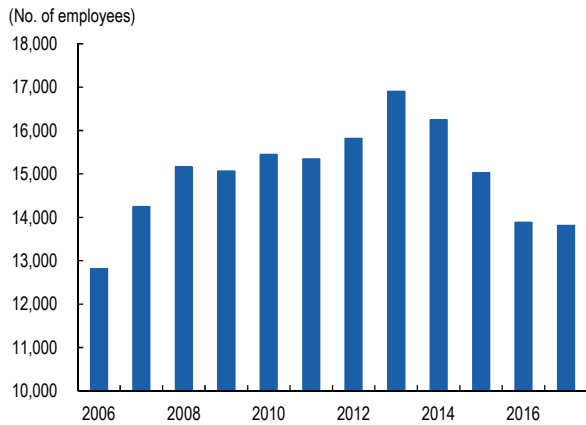
Source: BOK, Mirae Asset Daewoo Research

**Figure 21. Inquiry breakdown by channel**



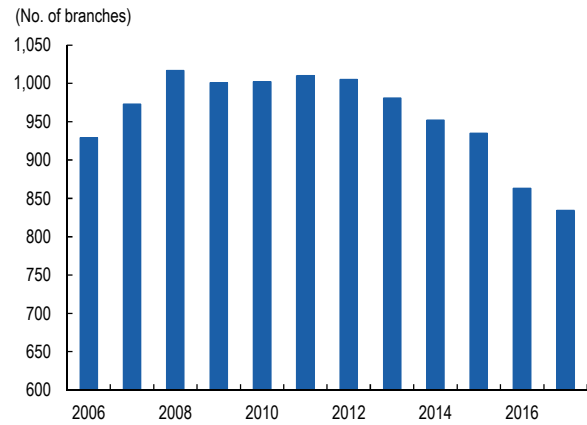
Source: BOK, Mirae Asset Daewoo Research

**Figure 22. Total no. of KEB Hana Bank employees**



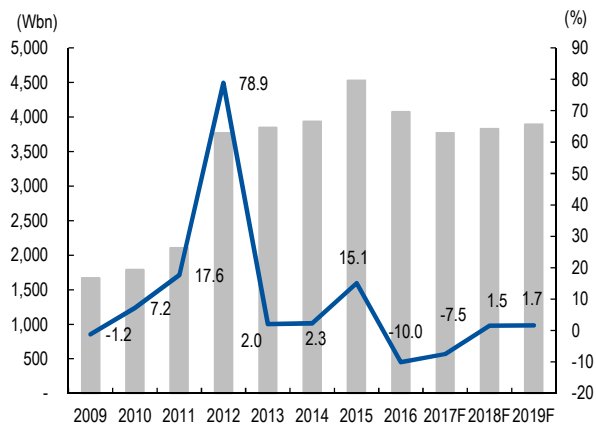
Source: FSS, Mirae Asset Daewoo Research

**Figure 23. Total number of domestic KEB Hana Bank branches**



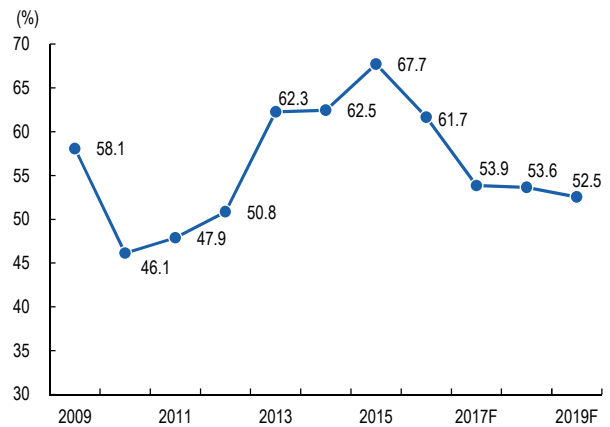
Source: FSS, Mirae Asset Daewoo Research

**Figure 24. HFG's SG&A and SG&A growth**



Source: Company data, Mirae Asset Daewoo Research

**Figure 25. HFG's cost-to-income ratio trend**



Source: Company data, Mirae Asset Daewoo Research

### III. Improved earnings power

#### 1. 2Q17 net profit to come in at W525.2bn, above the market consensus

We forecast 2Q17 net profit at W525.5bn (+49.2% YoY, +6.8% QoQ), 20.9% above the Bloomberg consensus (W434.5bn) and 22.8% above the FnGuide consensus (W428bn). We estimate that the company booked W45bn in 2016 performance bonus payouts and W40bn in F/X translation losses on non-monetary foreign currency assets (due to a higher US\$/W rate at end-2Q17). Still, we believe overall earnings remained robust, supported by: 1) net interest income expansion on NIM expansion and loan asset growth; 2) strong net commission income; and 3) stable credit costs and SG&A expenses.

Bank NIM is expected to rise 4bps QoQ to 1.48% in 2Q, following a 6bps QoQ increase in 1Q17. We believe the improvement in NIM is attributable to: 1) a decline in funding costs resulting from the expansion of low-cost deposits; 2) an increase in lending rates in line with the rebound of market interest rates; and 3) lending portfolio improvements on the back of a greater mix of loans to high-credit retail customers and SMEs. Won-denominated loans are expected to expand 1.6% from end-1Q levels, driven largely by loans to SMEs.

Group-wide net interest income likely increased to a robust W1.22tr (+6.6% YoY, +2.4% QoQ), while net commission income likely remained almost flat QoQ at W450bn (+7.1% YoY).

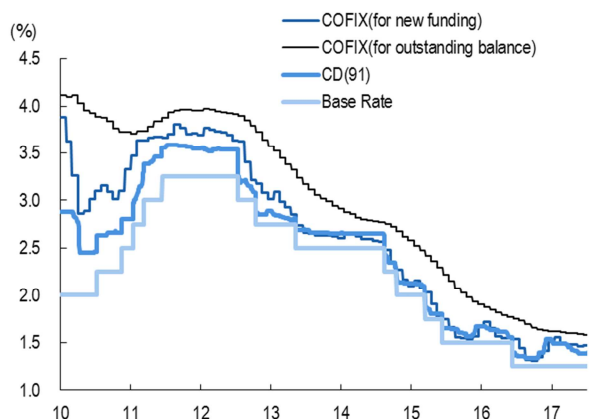
Meanwhile, group-level credit costs likely remained stable at W130.2bn (-58.8% YoY, -69.2% QoQ), supported by improved asset quality and the absence of major credit events, with the ratio of credit costs to total credit standing at 5bps (non-annualized; -5bps YoY, -12bps QoQ). Despite estimated bonus payments of W45bn, SG&A expenses were also likely managed well at W923.4bn (-5.3% YoY, +5.1% QoQ), helped by the large early retirement program carried out in the prior quarter and other cost-saving efforts.

Table 3. 2Q17 preview for HFG

(Wbn)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17F	YoY chg. (%, %p)	QoQ chg. (%, %p)
Net interest income	1,168	1,145	1,146	1,184	1,192	1,220	6.6	2.4
Net non-interest income	556	569	633	212	733	537	-5.6	-26.7
<b>Total net operating income</b>	<b>1,724</b>	<b>1,713</b>	<b>1,779</b>	<b>1,396</b>	<b>1,924</b>	<b>1,757</b>	<b>2.6</b>	<b>-8.7</b>
SG&A expenses	931	975	954	1,216	879	923	-5.3	5.1
<b>PPOP</b>	<b>793</b>	<b>738</b>	<b>825</b>	<b>180</b>	<b>1,046</b>	<b>834</b>	<b>13.0</b>	<b>-20.3</b>
Provisions	231	316	206	168	423	130	-58.8	-69.2
<b>Operating profit</b>	<b>562</b>	<b>422</b>	<b>619</b>	<b>12</b>	<b>623</b>	<b>703</b>	<b>66.8</b>	<b>12.9</b>
Non-operating income	32	63	-12	123	40	18	-71.3	-54.6
<b>Pretax profit</b>	<b>594</b>	<b>485</b>	<b>607</b>	<b>135</b>	<b>663</b>	<b>721</b>	<b>48.9</b>	<b>8.8</b>
<b>Net profit</b>	<b>438</b>	<b>352</b>	<b>450</b>	<b>90</b>	<b>492</b>	<b>525</b>	<b>49.2</b>	<b>6.8</b>
Total assets	336,379	326,685	331,522	348,177	342,984	350,609	7.3	2.2
Total loans & receivables	217,721	214,038	222,227	228,607	228,013	231,059	8.0	1.3
Won-denominated loans (bank-level)	169,261	169,022	172,422	178,709	179,879	182,757	8.1	1.6
Total credit	227,430	226,109	226,893	236,700	235,466	238,846	5.6	1.4
Total liabilities	207,207	206,278	207,263	222,413	216,513	221,173	7.2	2.2
Total deposits	23,123	23,547	23,667	23,390	23,533	23,978	1.8	1.9
(%)								
NIM (bank)	1.40	1.40	1.38	1.38	1.44	1.48	0.08	0.04
Cost-to-income ratio	54.0	56.9	53.6	87.1	45.7	52.6	-4.4	6.9
NPL (sub-standard & below) ratio	1.30	1.23	1.11	0.92	0.89	0.83	-0.40	-0.05
NPL coverage ratio	125.0	136.3	143.1	162.4	182.1	183.7	47.4	1.6
RoAE	0.13	0.11	0.14	0.03	0.14	0.15	0.05	0.01
RoAA	1.97	1.57	1.98	0.40	2.18	2.30	0.73	0.12
Credit costs (to total credit)	0.10	0.14	0.09	0.07	0.18	0.05	-0.09	-0.12
Total CAR	13.43	14.43	14.53	14.26	14.69	15.00	0.57	0.32
Tier 1 ratio	10.91	11.90	12.08	12.31	12.98	12.50	0.60	-0.48

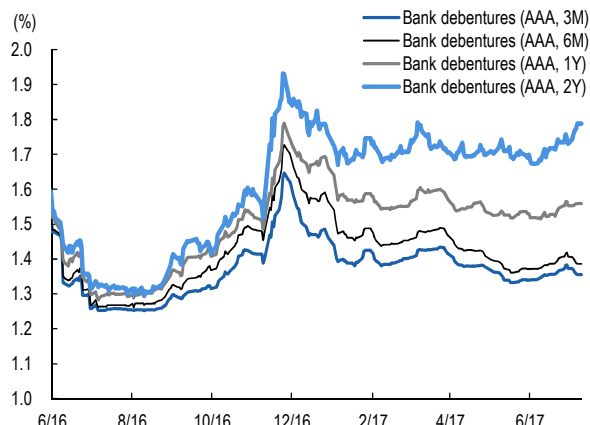
Source: Company data, Mirae Asset Daewoo Research

**Figure 26. Interest rates for CD/COFIX loans and the base rate**



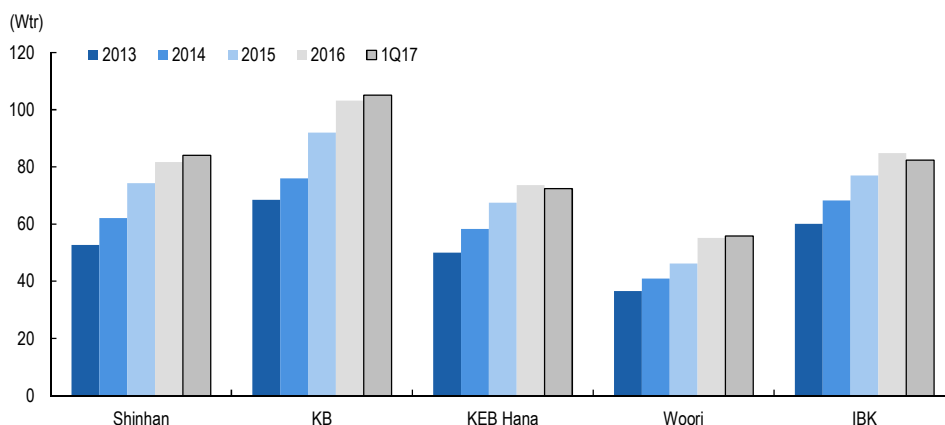
Source: KOSCOM, KFB, BOK, Mirae Asset Daewoo Research

**Figure 27. Bank debenture (AAA) yield trends**



Source: KOSCOM, KFB, BOK, Mirae Asset Daewoo Research

**Figure 28. Large banks' low-cost core deposit balance trends**



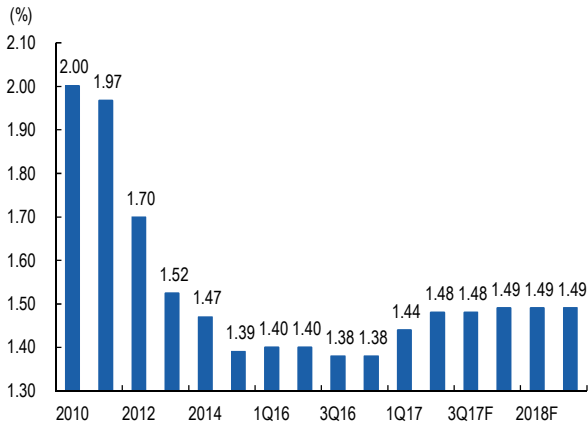
Source: Company data, Mirae Asset Daewoo Research

**Table 4. Proportion of low-cost deposits by bank**

	2013	2014	2015	1Q16	2Q16	3Q16	4Q16	1Q17
Shinhan	33.1	36.0	38.4	38.7	39.3	38.8	40.0	41.2
KB	35.2	37.4	43.0	43.6	44.4	44.7	46.0	46.5
KEB Hana	27.9	29.6	34.3	34.2	35.1	34.3	35.1	35.3
Woori	37.0	39.4	41.0	42.5	42.4	40.5	43.0	41.6
IBK	25.0	27.0	28.4	30.0	31.0	31.2	32.3	32.6
Busan	33.1	33.6	35.6	38.3	39.1	39.7	40.4	38.2
Kyongnam	29.2	28.4	29.9	32.6	32.5	32.4	32.7	33.8
Daegu	36.7	36.4	38.0	39.7	40.0	40.2	40.6	41.1
Kwangju	32.0	31.7	37.4	36.2	36.8	38.1	37.9	36.4
Jeonbuk	24.9	24.8	33.2	35.3	35.9	33.5	32.7	33.3
Average	31.7	32.4	35.9	37.1	37.6	37.4	38.1	38.0

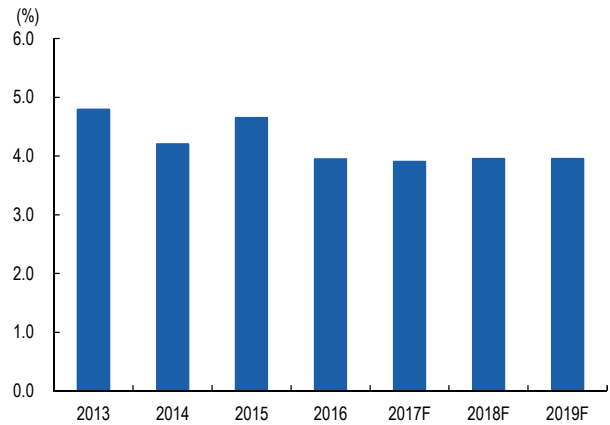
Source: Company data, Mirae Asset Daewoo Research

**Figure 29. KEB Hana Bank's NIM trend**



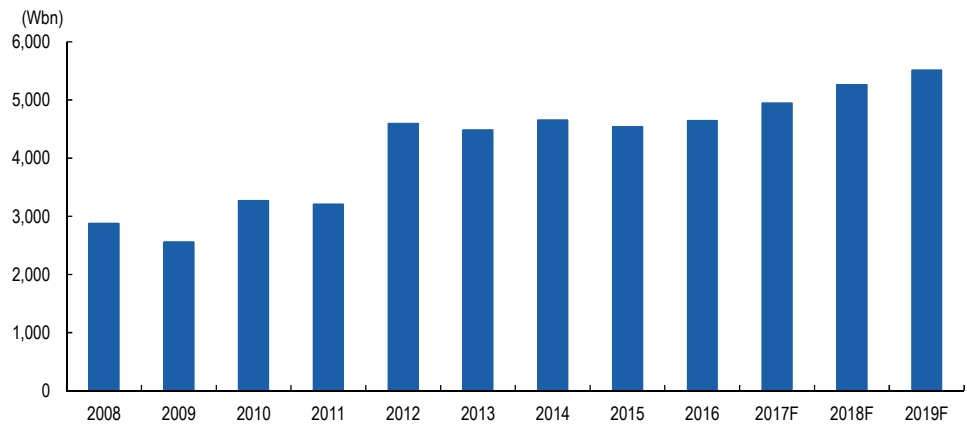
Source: Company data, Mirae Asset Daewoo Research

**Figure 30. KEB Hana Bank's won-denominated loan growth**



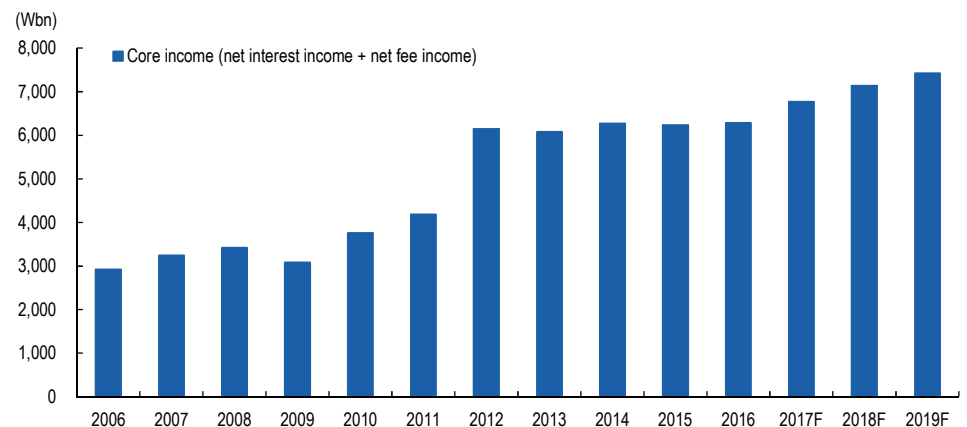
Source: Company data, Mirae Asset Daewoo Research

**Figure 31. HFG's net interest income trend**



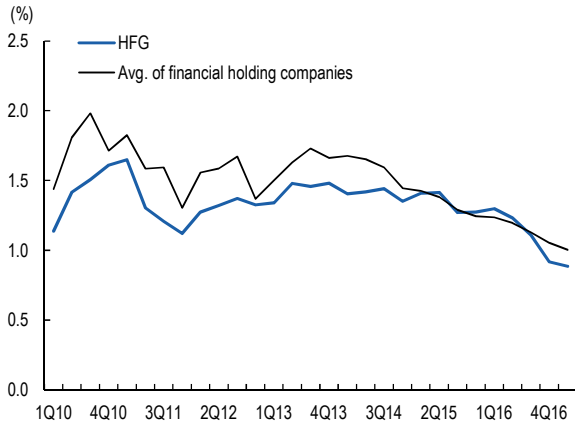
Source: Company data, Mirae Asset Daewoo Research

**Figure 32. HFG's core income trend**



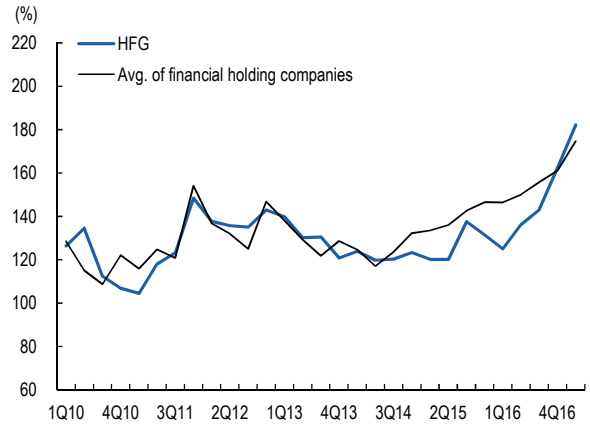
Source: Company data, Mirae Asset Daewoo Research

**Figure 33. NPL ratio comparison: HFG v. average of listed financial holding companies**



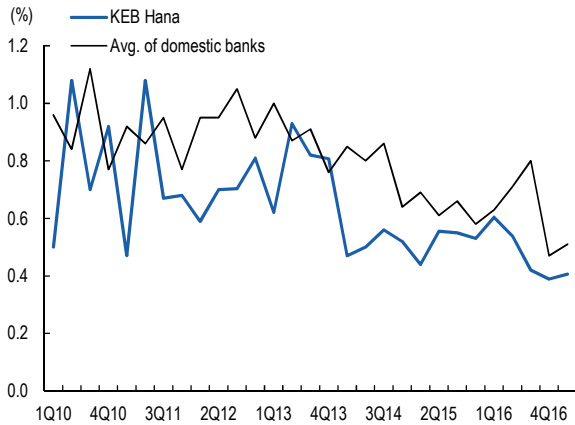
Source: Company data, Mirae Asset Daewoo Research

**Figure 34. NPL coverage ratio comparison: HFG vs. average of listed financial holding companies**



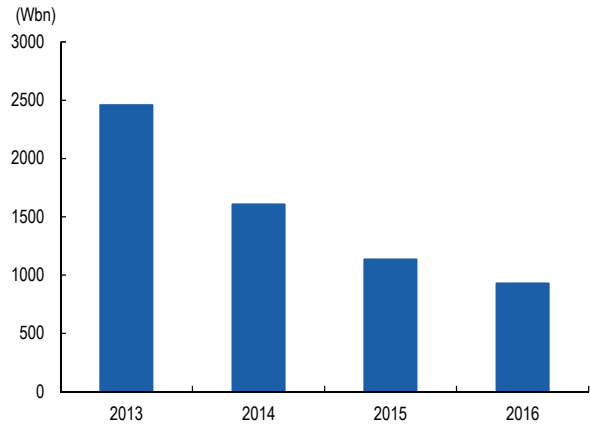
Source: Company data, Mirae Asset Daewoo Research

**Figure 35. Delinquency rate comparison: KEB Hana Bank vs. average of domestic banks**



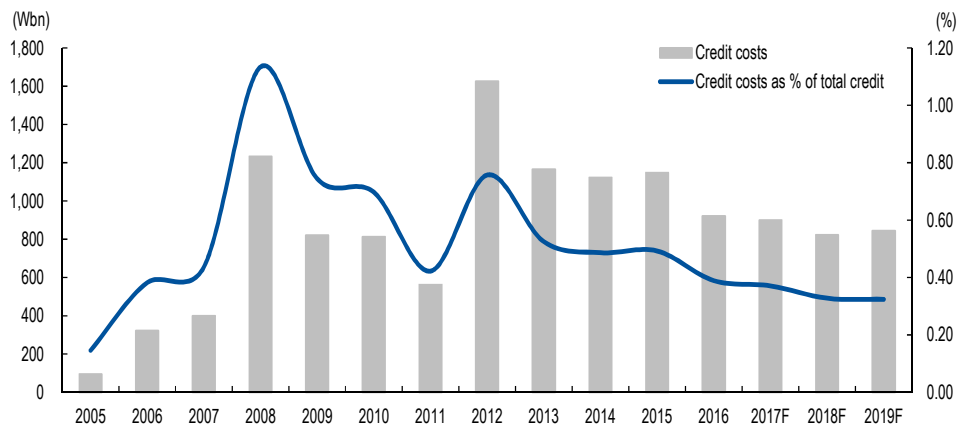
Source: Company data, Mirae Asset Daewoo Research

**Figure 36. HFG's new NPL formation**



Source: Company data, Mirae Asset Daewoo Research

**Figure 37. Credit costs vs. credit costs as % of total credit**



Source: Company data, Mirae Asset Daewoo Research

## 2. Improved earnings power and higher ROE

HFG is likely to manage its credit costs at steady levels, backed by asset quality improvement, and display only limited growth in SG&A costs thanks to a streamlined cost structure and continuous cost management efforts. Moreover, net interest income is entering a period of meaningful growth, driven by NIM expansion (resulting from a modest rise in market interest rates) and steady loan growth.

HFG has expanded its recurring earnings base to the mid- to high-W1tr level and improved ROE to the mid-7% level, backed by enhanced operational efficiency following the bank's IT system integration and an earnings recovery the credit card business.

We have raised our net profit estimates by 10.3% for 2017, 5.3% for 2018, and 4% for 2019, reflecting stronger-than-anticipated NIM in 2Q and greater-than-expected SG&A savings.

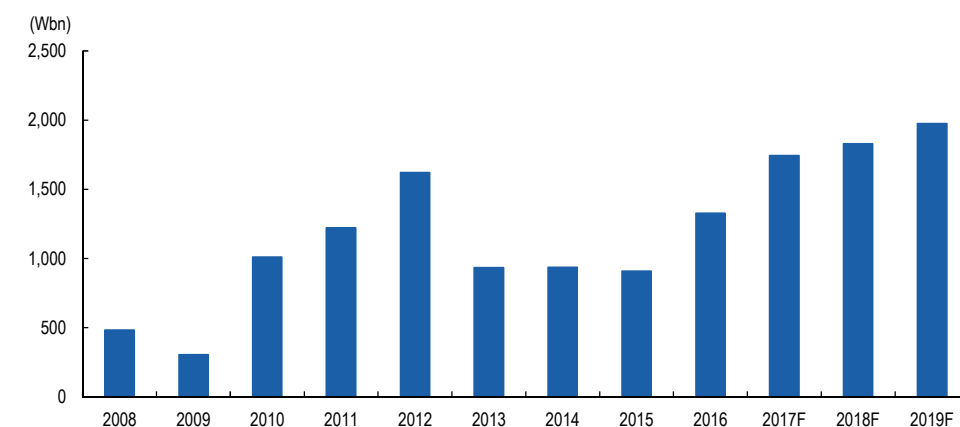
Despite recent share price gains, we still see upside to HFG shares, as consensus estimates have yet to fully reflect the improvement in recurring earnings power. We expect gradual upward revisions to the consensus estimate as actual quarterly earnings are confirmed.

**Table 5. Earnings forecast revisions for HFG**

(Wbn)	Revised			Previous			Change(%, %p)		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Net interest income	4,945	5,260	5,512	4,926	5,225	5,501	0.4	0.7	0.2
Net non-interest income	2,059	1,880	1,900	1,906	1,812	1,836	8.0	3.8	3.5
<b>Total net operating income</b>	<b>7,005</b>	<b>7,139</b>	<b>7,413</b>	<b>6,833</b>	<b>7,037</b>	<b>7,337</b>	<b>2.5</b>	<b>1.5</b>	<b>1.0</b>
SG&A expenses	3,773	3,829	3,895	3,779	3,855	3,926	-0.2	-0.7	-0.8
<b>PPOP</b>	<b>3,232</b>	<b>3,310</b>	<b>3,518</b>	<b>3,054</b>	<b>3,182</b>	<b>3,411</b>	<b>5.8</b>	<b>4.0</b>	<b>3.1</b>
Provisions	899	823	844	934	812	828	-3.8	1.3	1.9
<b>Operating profit</b>	<b>2,333</b>	<b>2,487</b>	<b>2,674</b>	<b>2,119</b>	<b>2,370</b>	<b>2,583</b>	<b>10.1</b>	<b>4.9</b>	<b>3.5</b>
Non-operating income	68	41	47	65	36	38	4.6	13.9	23.7
<b>Pretax profit</b>	<b>2,401</b>	<b>2,528</b>	<b>2,721</b>	<b>2,184</b>	<b>2,406</b>	<b>2,621</b>	<b>9.9</b>	<b>5.1</b>	<b>3.8</b>
<b>Net profit</b>	<b>1,746</b>	<b>1,831</b>	<b>1,977</b>	<b>1,582</b>	<b>1,739</b>	<b>1,902</b>	<b>10.3</b>	<b>5.3</b>	<b>4.0</b>

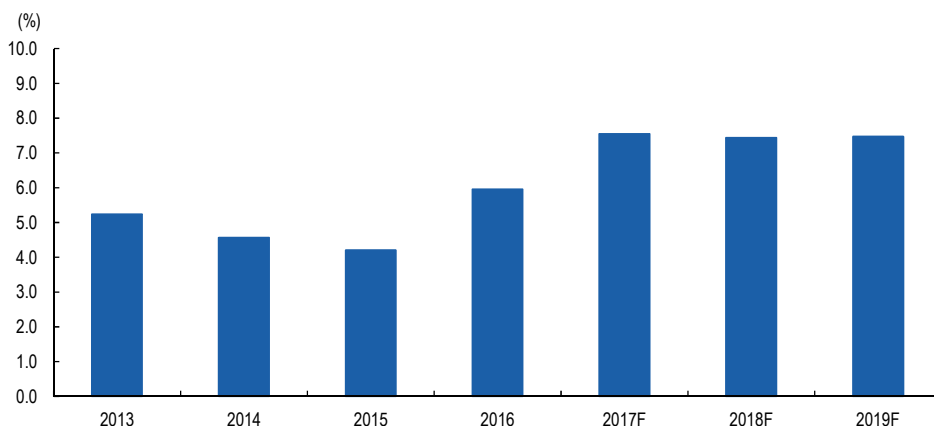
Source: Mirae Asset Daewoo Research

**Figure 38. HFG's net profit to trend upward**



Source: Company data, Mirae Asset Daewoo Research

**Figure 39. HFG: ROE to rise**



Source: Mirae Asset Daewoo Research

**Table 6. Mirae Asset Daewoo Research estimates vs. consensus**

	Mirae Asset Daewoo Research			Consensus			Difference (% , %p)		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Net profit (Wbn)	1,746	1,831	1,977	1,686	1,728	1,849	3.6	6.0	6.9
ROE (%)	7.5	7.4	7.5	7.4	7.2	7.2	0.17	0.25	0.28
DPS (W)	1,450	1,650	1,850	1,252	1,338	1,521	15.8	23.3	21.6

Source: Bloomberg consensus estimates, Mirae Asset Daewoo Research

**Table 7. HFG's quarterly and annual earnings**

(Wbn)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17F	3Q17F	4Q17F	2014	2015	2016	2017F	2018F	2019F
Net interest income	1,168	1,145	1,146	1,184	1,192	1,220	1,257	1,276	4,654	4,539	4,642	4,945	5,260	5,512
Net non-interest income	556	569	633	212	733	537	458	332	1,649	2,151	1,970	2,059	1,880	1,900
<b>Total net operating income</b>	<b>1,724</b>	<b>1,713</b>	<b>1,779</b>	<b>1,396</b>	<b>1,924</b>	<b>1,757</b>	<b>1,715</b>	<b>1,608</b>	<b>6,303</b>	<b>6,690</b>	<b>6,612</b>	<b>7,005</b>	<b>7,139</b>	<b>7,413</b>
SG&A expenses	931	975	954	1,216	879	923	928	1,042	3,936	4,531	4,077	3,773	3,829	3,895
<b>PPOP</b>	<b>793</b>	<b>738</b>	<b>825</b>	<b>180</b>	<b>1,046</b>	<b>834</b>	<b>787</b>	<b>566</b>	<b>2,366</b>	<b>2,159</b>	<b>2,535</b>	<b>3,232</b>	<b>3,310</b>	<b>3,518</b>
Provisions	231	316	206	168	423	130	166	180	1,123	1,148	921	899	823	844
<b>Operating profit</b>	<b>562</b>	<b>422</b>	<b>619</b>	<b>12</b>	<b>623</b>	<b>703</b>	<b>621</b>	<b>386</b>	<b>1,243</b>	<b>1,011</b>	<b>1,614</b>	<b>2,333</b>	<b>2,487</b>	<b>2,674</b>
Non-operating income	32	63	-12	123	40	18	28	-18	9	186	206	68	41	47
<b>Pretax profit</b>	<b>594</b>	<b>485</b>	<b>607</b>	<b>135</b>	<b>663</b>	<b>721</b>	<b>649</b>	<b>368</b>	<b>1,253</b>	<b>1,196</b>	<b>1,820</b>	<b>2,401</b>	<b>2,528</b>	<b>2,721</b>
Net profit	<b>438</b>	<b>352</b>	<b>450</b>	<b>90</b>	<b>492</b>	<b>525</b>	<b>470</b>	<b>258</b>	<b>938</b>	<b>910</b>	<b>1,330</b>	<b>1,746</b>	<b>1,831</b>	<b>1,977</b>

Source: Company data, Mirae Asset Daewoo Research

## IV. Overseas expansion

### Medium- to long-term growth driver

In light of the domestic low-interest, low-growth environment, we believe that overseas expansion—particularly into the high-potential Southeast Asian market—will be essential from a long-term perspective. Although financial firms pursuing overseas expansion may not generate material results in the short term, they will likely widen their gaps with players that choose to stay at home over time.

Among domestic banks, KEB Hana Bank has the greatest number of overseas branches, operating 142 in 24 countries (HFG: 151). In particular, the bank is performing well in Indonesia, which enjoys high growth potential. PT. Bank KEB Hana Indonesia posted a net profit of W57.1bn (+58% YoY; ROE of around 13%) in 2016.

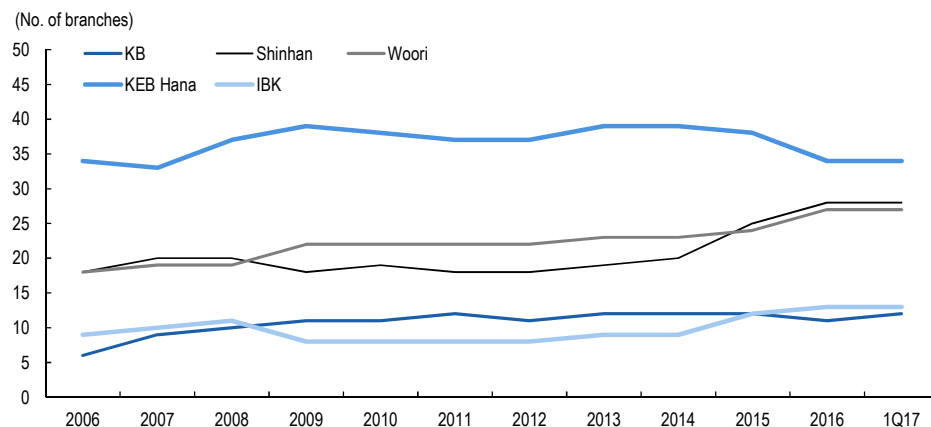
According to HFG, the contribution of overseas earnings stands at around 20%; going forward, the company aims to drive this percentage up to 40%.

**Table 8. 2016 overview of HFG’s overseas operations**

Region	Details
China	Expanded into the Chinese reinsurance market by acquiring a 9.9% stake in CM Investment Holdings
China	Increased its stake in CM International Financial Leasing
Myanmar	Invested in Myanmar microfinance funds
New York	Opened a global investment banking desk at the New York branch
Hong Kong, Singapore	Launched Globis, an integrated IT system
Asia	Opened 16 additional branches in China, Indonesia, and Myanmar.

Source: Company materials, Mirae Asset Daewoo Research

**Figure 40. Overseas branches operated by domestic banks**



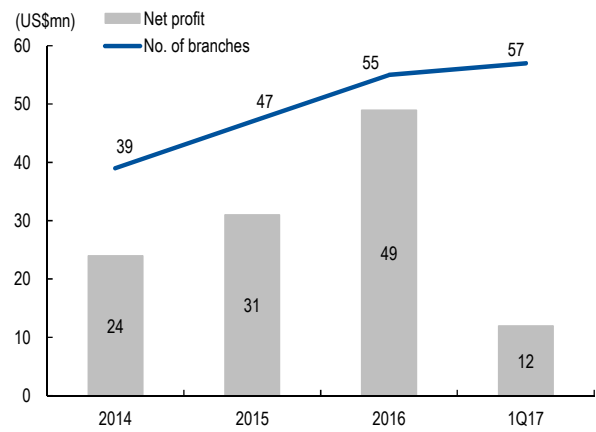
Source: FSS, Mirae Asset Daewoo Research

**Figure 41. HFG's global network**



Source: Company materials, Mirae Asset Daewoo Research

**Figure 42. HFG: PT. Bank KEB Hana Indonesia**



Source: Company data, Mirae Asset Daewoo Research

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## V. Risk factors

### Measures to curb household debt growth

If the new administration's household debt management policies turn out to be more robust than expected, banks' household lending growth and net interest income could fall short of market expectations, hurting investor sentiment on banks (financial holding companies).

Despite lingering uncertainties, we believe that the administration's household debt management measures should not warrant much concern. Indeed, banks have been tightening their mortgage lending criteria since 2H16 in order to slow household loan growth. They have lowered their household loan growth target to 3-4% for 2017, while reducing the number of approvals for new collective loans.

The administration recently announced a set of measures aimed at stabilizing the real estate market, including tighter loan-to-value (LTV) and debt-to-income (DTI) ratios. It also plans to introduce new debt service ratio (DSR) and additional DTI ratio rules. We note that these household debt measures are largely in line with the internal guidelines that banks have either already been implementing or plan to introduce. Moreover, the administration's first real estate measures are focused on curbing speculative demand in some regions. The government will likely take additional measures depending on the actual effects of the aforementioned policies on the market. All in all, we believe the government intends to shift from a debt-driven growth strategy to an income-driven one by engineering a soft landing for the household debt issue via disposable income growth. Given that the government's recent household debt measures were not aimed at restricting the extension of loans to non-speculative home buyers, however, we see limited downside to our household lending growth forecasts.

Moreover, the government's policies to tame household debt growth could help protect banks' NIM and ease systemic risks over the medium to long term

### Higher F/X volatility to increase earnings volatility

**F/X translation gains (losses) on non-monetary foreign currency assets:** At end-2015, HFG recorded W2.2tr in foreign currency debts related to its equity investments in overseas subsidiaries. Under K-IFRS (introduced in 2011), equity stakes in overseas subsidiaries are booked at historical F/X rates at the time of initial recognition, and debts incurred to finance stake acquisitions are subject to end-quarter exchange rates to reflect their value. As such, a decline (increase) in F/X rates versus the end-quarter rate would lead to a fall (rise) in debts, which would be recognized as F/X translation gains (losses) on the income statement. F/X translation gains/losses are unrealized paper profits/losses. However, hedging the exposure to F/X volatility would cost W40-50bn per year, according to HFG. HFG has hedged about 40% of its positions.

By currency, foreign debts related to equity investments in overseas subsidiaries break down as follows: 65-67% in US\$, 15% in EUR, 11% in JPY, and 7-9% in CA\$. Assuming F/X rates for other currencies move in line with the US\$/W rate, the company estimates that F/X translation gains (losses) on non-monetary assets would expand by around W15bn for every W10 decline (increase) in the US\$/W rate.

We do not believe earnings volatility arising from F/X fluctuations is of great concern, as losses (gains) on non-monetary assets related to equity investments in overseas subsidiaries are just accounting losses (gains).

## VI. Appendix

**Table 9. Banking/card stocks: 2017 monthly institutional and foreign net buying (selling)**

(Wbn)	SFG		KBFG		HFG		Woori		IBK		BNKFG		DGBFG		JBFG		Kwangju		Total of nine banks		Samsung Card		Total	
	For.	Inst.	For.	Inst.	For.	Inst.	For.	Inst.	For.	Inst.	For.	Inst.	For.	Inst.	For.	Inst.	For.	Inst.	For.	Inst.	For.	Inst.	For.	Inst.
Jan.	36	-36	124	-9	98	-39	46	-21	60	-78	-3	-6	7	0	7	-8	6	-1	380	-198	8	-12	388	-209
Feb.	15	11	-3	44	36	13	4	20	4	-41	9	-14	0	15	3	-1	4	0	73	47	5	3	78	50
Mar.	56	-82	276	-183	157	-127	14	-16	-6	-58	16	2	14	-4	-9	21	2	2	520	-446	7	-20	527	-466
Apr.	95	-71	-5	49	54	-13	69	10	4	0	27	-6	3	8	4	-1	0	0	251	-24	1	-1	252	-25
May	55	17	120	-73	20	2	27	-22	-2	-9	16	-2	38	-44	8	-6	1	-2	283	-139	15	-13	298	-153
Jun.	74	-62	212	-150	107	-49	33	128	66	-4	26	-3	3	-13	2	-7	0	-3	524	-162	20	-38	544	-201
Jul.	0	1	398	24	-12	18	13	11	-8	18	1	3	2	-5	1	3	0	-1	395	71	1	-4	396	67
<b>Total</b>	<b>331</b>	<b>-221</b>	<b>1,123</b>	<b>-298</b>	<b>459</b>	<b>-195</b>	<b>206</b>	<b>109</b>	<b>118</b>	<b>-171</b>	<b>93</b>	<b>-27</b>	<b>68</b>	<b>-43</b>	<b>16</b>	<b>1</b>	<b>12</b>	<b>-6</b>	<b>2,425</b>	<b>-851</b>	<b>57</b>	<b>-85</b>	<b>2,482</b>	<b>-937</b>

Note: Based on July 10<sup>th</sup> data

Source: KRX, QuantiWise, Mirae Asset Daewoo Research

**Table 10. Banking/card stocks: Share performances and changes in foreign ownership**

Company		SFG	KBFG	HFG	Woori	IBK	BNKFG	DGBFG	JBFG	Kwangju	Samsung Card
Absolute performance (%)	1W	-0.3	-0.7	1.9	1.9	3.5	0.5	1.3	4.8	4.3	-0.1
	1M	-1.0	2.7	8.9	12.8	8.5	1.9	0.4	5.5	4.3	-5.8
	3M	7.4	20.8	29.9	38.5	22.9	18.6	5.0	16.3	23.6	3.2
	6M	10.0	32.7	47.7	50.0	20.4	24.4	21.9	17.9	24.8	0.1
	1Y	31.7	80.5	106.9	100.0	33.5	35.9	37.9	19.4	58.6	-4.2
	YTD	9.2	34.1	48.6	48.2	16.1	24.4	19.2	16.1	23.6	-1.8
Performance relative to KOSPI (%p)	1W	0.2	-0.2	2.4	2.4	4.0	1.0	1.8	5.4	4.8	0.4
	1M	-1.0	2.7	8.9	12.8	8.4	1.9	0.4	5.5	4.3	-5.8
	3M	-4.3	9.2	18.3	26.8	11.3	6.9	-6.7	4.6	12.0	-8.5
	6M	-6.5	16.2	31.2	33.5	3.9	7.9	5.4	1.5	8.3	-16.4
	1Y	10.4	59.2	85.6	78.7	12.1	14.5	16.5	-2.0	37.2	-25.5
	YTD	-8.4	16.6	31.1	30.7	-1.4	6.9	1.7	-1.5	6.1	-19.3
Net increase in foreigners ownership (%p)	1W	-0.0	1.7	-0.1	0.2	-0.1	-0.0	0.1	0.1	0.0	0.0
	1M	0.1	2.1	0.2	1.1	0.3	0.3	0.1	0.2	-0.1	0.1
	3M	0.5	3.0	0.7	0.7	0.8	1.1	2.1	1.0	0.2	0.7
	6M	1.4	4.5	3.0	1.5	0.9	2.9	3.1	0.9	1.1	1.0
	1Y	3.9	1.1	8.1	1.6	0.9	3.8	1.8	7.6	5.7	-2.8
	YTD	1.6	5.2	4.1	2.1	1.7	2.9	3.5	1.8	2.2	1.2

Note: Based on July 10<sup>th</sup> data

Source: KRX, QuantiWise, Mirae Asset Daewoo Research

## Hana Financial Group (086790 KS/Buy/TP: W56,000)

## Comprehensive Income Statement (Summarized)

Year end 12(Wbn)	12/16	12/17F	12/18F	12/19F
Interest income	8,382	8,673	9,079	9,498
Interest expense	3,740	3,728	3,820	3,985
<b>Net interest income</b>	<b>4,642</b>	<b>4,945</b>	<b>5,260</b>	<b>5,512</b>
Net fees and commissions	1,640	1,824	1,873	1,913
Net other non-interest income	330	236	7	-13
<b>Total net operating income</b>	<b>6,612</b>	<b>7,005</b>	<b>7,139</b>	<b>7,413</b>
G&A expenses	4,077	3,773	3,829	3,895
<b>PPOP</b>	<b>2,535</b>	<b>3,232</b>	<b>3,310</b>	<b>3,518</b>
Total provision expenses	921	899	823	844
<b>Operating profit</b>	<b>1,614</b>	<b>2,333</b>	<b>2,487</b>	<b>2,674</b>
Net non-operating income	206	68	41	47
<b>Income before income taxes</b>	<b>1,820</b>	<b>2,401</b>	<b>2,528</b>	<b>2,721</b>
Income tax expense	420	570	612	659
Net profit	1,400	1,831	1,916	2,063
<b>Net profit (ex. minority interest)</b>	<b>1,330</b>	<b>1,746</b>	<b>1,831</b>	<b>1,977</b>
<b>Normalized net profit</b>	<b>1,486</b>	<b>1,746</b>	<b>1,831</b>	<b>1,977</b>
<b>Core income</b>	<b>6,235</b>	<b>6,282</b>	<b>6,769</b>	<b>7,132</b>
<b>Core PPOP</b>	<b>1,704</b>	<b>2,205</b>	<b>2,997</b>	<b>3,303</b>

## DuPont analysis (%)

Interest income	2.48	2.46	2.50	2.51
Interest expense	1.11	1.06	1.05	1.05
<b>Net interest income</b>	<b>1.38</b>	<b>1.41</b>	<b>1.45</b>	<b>1.46</b>
Net commission income	0.49	0.52	0.52	0.51
Net other non-interest income	0.10	0.07	0.00	0.00
<b>Total net operating profit</b>	<b>1.96</b>	<b>1.99</b>	<b>1.96</b>	<b>1.96</b>
G&A expenses	1.21	1.07	1.05	1.03
<b>PPOP</b>	<b>0.75</b>	<b>0.92</b>	<b>0.91</b>	<b>0.93</b>
Total provision expenses	0.27	0.26	0.23	0.22
Net non-operating income	0.06	0.02	0.01	0.01
<b>Income before income taxes</b>	<b>0.54</b>	<b>0.68</b>	<b>0.70</b>	<b>0.72</b>
Income tax expense	0.13	0.16	0.17	0.17
Net profit (non-controlling)	0.02	0.02	0.02	0.02
<b>ROA</b>	<b>0.44</b>	<b>0.50</b>	<b>0.50</b>	<b>0.52</b>
<b>Leverage (x)</b>	<b>15.1</b>	<b>15.2</b>	<b>14.8</b>	<b>14.3</b>
<b>ROE</b>	<b>5.96</b>	<b>7.55</b>	<b>7.44</b>	<b>7.47</b>

## Asset quality (%)

NPL ratio	0.92	0.81	0.77	0.74
Broad NPL ratio	2.11	1.96	1.81	1.66
NPL coverage ratio	162.4	180.5	183.8	188.9
Reserves to total credits	1.5	1.5	1.4	1.4
Credit cost (% of total loans)	0.40	0.38	0.34	0.33
Credit cost (% of total credit)	0.39	0.37	0.33	0.32

## Per share items (KRW)

EPS (reported)	4,495	5,899	6,186	6,679
EPS (normalized)	5,021	5,899	6,186	6,679
BVPS	75,971	80,319	86,007	92,728
DPS (common share)	1,050	1,450	1,650	1,850
PPOP/ share	8,565	10,919	11,182	11,884

Source: Company data, Mirae Asset Daewoo Research estimates

## Statement of Financial Condition (Summarized)

Year end 12 (Wbn)	12/16	12/17F	12/18F	12/19F
Cash & dues	29,226	24,603	26,685	27,878
Securities	69,741	72,819	77,920	80,875
Net loans and receivables	228,607	234,732	243,702	253,029
Tangible assets	3,752	3,787	3,743	3,699
Other assets	16,852	20,069	19,715	19,377
<b>Total assets</b>	<b>348,177</b>	<b>356,011</b>	<b>371,765</b>	<b>384,858</b>
Deposits	222,413	225,592	234,699	244,176
Borrowings	20,032	19,097	20,411	21,138
Debentures	32,306	33,098	34,908	35,922
Other liabilities	50,037	53,472	55,227	55,027
<b>Total liabilities</b>	<b>324,787</b>	<b>331,259</b>	<b>345,245</b>	<b>356,263</b>
Capital stock	1,480	1,480	1,480	1,484
Hybrid securities	444	444	444	444
Capital surplus	10,463	10,463	10,463	10,463
Retained earnings	10,575	11,982	13,666	15,651
Capital adjustments	-13	-13	-13	-13
Other comprehensive income	-461	-581	-581	-581
Non-controlling interests	902	977	1,062	1,148
<b>Total shareholders' equity</b>	<b>23,390</b>	<b>24,752</b>	<b>26,521</b>	<b>28,595</b>

## Key ratios (%)

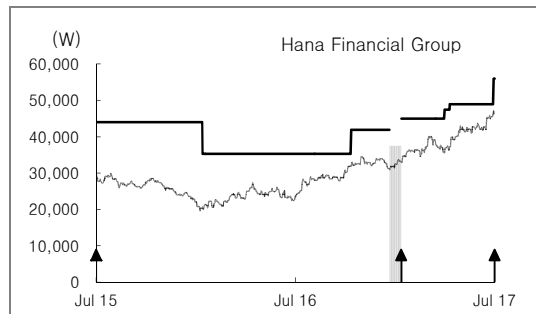
<b>Growth (YoY)</b>				
KRW loan growth (Bank)	3.9	3.9	4.0	4.0
Net loans & receivables growth	3.3	2.7	3.8	3.8
Deposit growth	7.5	1.4	4.0	4.0
Shareholders' equity growth	1.8	5.8	7.1	7.8
Total asset growth	6.5	2.3	4.4	3.5
Net interest income growth	2.3	6.5	6.4	4.8
Net fee income growth	-3.3	11.2	2.7	2.1
PPOP growth	17.5	27.5	2.4	6.3
Operating profit growth	59.7	44.5	6.6	7.5
Net profit growth	46.2	31.2	4.9	8.0
<b>Profitability</b>				
Net interest spread (Bank)	1.35	1.43	1.45	1.45
Net interest margin (Bank)	1.39	1.47	1.49	1.49
PPOP margin	0.8	0.9	0.9	0.9
ROA	0.4	0.5	0.5	0.5
ROE	6.0	7.5	7.4	7.5
<b>Liquidity</b>				
KRW LDR (excl. CDs) (Bank)	98.0	99.0	99.0	99.0
Loans to assets	65.7	65.9	65.6	65.7
<b>Capital adequacy</b>				
Total CAR	14.3	15.1	15.2	15.5
Tier 1 CAR	12.3	12.6	12.7	13.1
Tier 2 CAR	1.9	2.5	2.5	2.4
<b>Operating efficiency</b>				
Cost to income	61.7	53.9	53.6	52.5
Cost to assets	1.2	1.1	1.0	1.0
<b>Dividend</b>				
Payout ratio	23.4	24.6	26.7	27.7

# APPENDIX 1

## Important Disclosures & Disclaimers

### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Hana Financial Group(086790)	07/11/2017	Buy	56,000
	04/22/2017	Buy	49,000
	04/12/2017	Buy	47,500
	01/23/2017	Buy	45,000
		No Coverage	
	10/23/2016	Buy	42,000
	01/25/2016	Buy	35,300
	05/29/2015	Buy	44,000



### 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

Buy	Trading Buy	Hold	Sell
69.67%	17.06%	13.27%	0.00%

\* Based on recommendations in the last 12-months (as of June 30, 2017)

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