

Hana Financial Group

# Message from the Board of Directors

FEB. 2023

# Letter to Shareholders

Dear Shareholders,

We sincerely thank you for your ongoing interest and support in Hana Financial Group (the “Group” or the “Company”).

Today, the Group announced its financial results for FY2022, which included an annual net profit of KRW 3,625.7 billion, continuing our steady growth over the past years despite growing uncertainties in the global economy and intensifying competition from Big Tech. Thanks to the efforts of management and employees, the Group’s profitability and capital adequacy metrics have improved while maintaining sound asset quality as well as the highest CET-1 ratio in the industry.

Throughout FY2022, the main objectives of the Board of Directors (“the Board”) have been: (i) fostering stable growth based on risk management; (ii) strengthening digital competitiveness; (iii) improving the ESG structure for the sustainable growth of the Group; and (vi) most importantly, increasing shareholder returns and value.

Since the establishment of the holding company in 2005, the Company has been the only domestic financial holding company to pay interim dividends every year except during 2009 Global Financial Crisis (“GFC”). The dividend yield has also remained at the highest level in the industry, showing consistency in our shareholder return policy. The Group seeks to continue being at the forefront of this trend with the announcement today of our robust plans for a more active shareholder return policy, including a higher dividend payout ratio, share buyback, and mid- to long-term target of reaching a shareholder return ratio of 50%.

The Board is cognizant that consistent long-term growth in shareholder value can only be achieved with an underpinning of strong ESG values and structures. As such, the Sustainable Management Committee (“the Committee”) has taken a key role in overseeing and steering the Group’s ESG initiatives. During FY2022, the Committee established sustainability blueprints to rigorously pursue and join various ESG schemes. As a result, the Group’s ESG endeavors have received positive recognition: Hana Financial Group has been newly added to the DJSI World Index with the highest score in the financial industry category of S&P Dow Jones ESG Evaluation and its MSCI ESG evaluation rating has been upgraded for two consecutive years to ‘AA’ during 2022.

## Letter to Shareholders (cont.)

Regarding the appointment of the Group's CEO, Mr Young-joo Ham, in early 2022, the Board continues to closely monitor the legal matters relating to the hiring practices and the FSC disciplinary warning issued in 2021. As part of this process, the independent directors of the CEO Nomination Committee evaluated the results of external legal advice which included the review of Supreme Court rulings in similar legal cases at peer financial groups. Following rigorous discussions, the Board concluded that the current CEO is fit to serve in this role until the final verdict.

Additionally, throughout FY2022, a key focus area of the Board has been to improve and increase our communication and engagement efforts with shareholders. In May 2022, a one-on-one meeting was held with our major shareholder. Subsequently, the independent directors held a roundtable with 19 institutional investors in November 2022 and last month additional one-on-one or group meetings with 11 institutions were convened to gather investors' input on effective ways to boost shareholder value.

We hope the following overview of the Board's initiatives in 2022 can provide useful insights into the ESG management and shareholder return policy of Hana Financial Group.

Yours faithfully,



On behalf of the Board

**Tae-seung Paik**

Chairman of the Board of Hana Financial Group

# Group Capital Management and Shareholder Return

## Capital Management Plan

- CET-1 Target 13~13.5%

(Minimum capital requirement 8%) + (Counter cyclical buffer 2.5%) + (Macro buffer 2.5% + FX buffer 0.5%)  
 Current regulatory requirement      Additional regulatory requirement      Macro uncertainty-related internal buffer

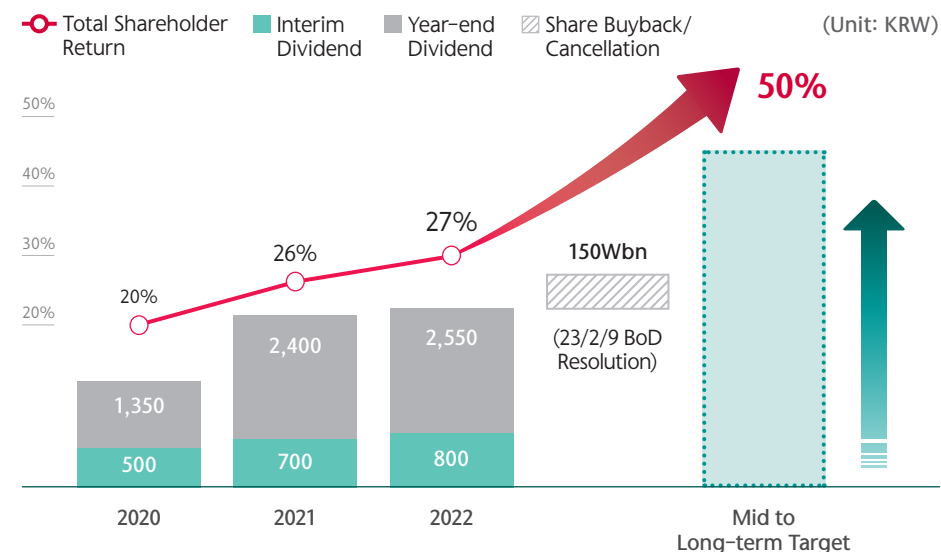
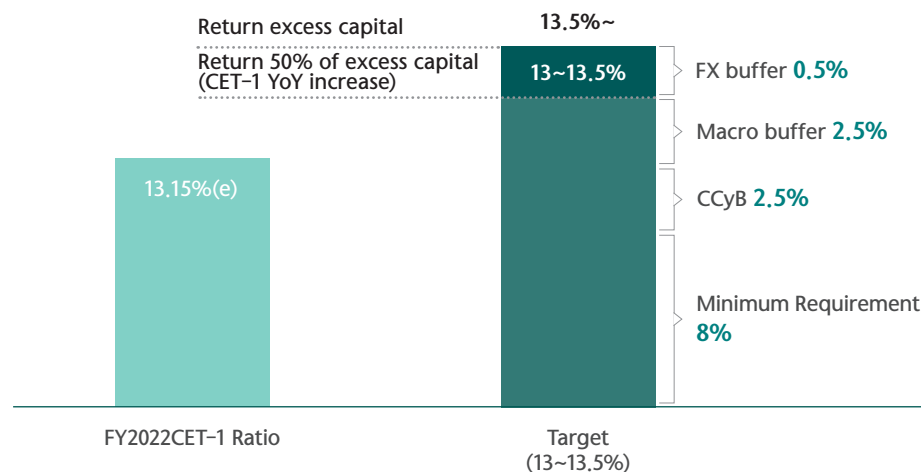
## Shareholder Return Plan

- CET-1 13~13.5% range: Return 50% of excess capital (CET-1 YoY increase equivalent)
- CET-1 13.5% and above: Return excess capital
- Mid to long-term shareholder return target 50%
  - Plan to deliver progressive increase to reach the target

\* The shareholder return policy is subject to change according to various factors such as limitations by laws and regulations, supervision by financial authorities, drastic change surrounding the operating environment, management purpose, etc.

## Social Responsibility

- Contributing to system stability by maintaining sound loss absorption capacity
- Performing primary roles (liquidity provider, etc.) as a key financial institution
- Improving the value of stakeholders such as strengthening financial consumer protection



Hana Financial Group

# **BOD Activities and Performance Highlights for FY2022**

FEB. 2023

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# **I. Board of Directors Introduction**

## 1. BoD Composition

# Board members and major committees

Minimum change expected in the composition of the Board to continue to successfully drive existing strategies and initiatives of the Group

Director	Role	Independence	Gender	Date of Appointment	Audit Committee	Group CEO Nomination Committee	Independent Director and Auditor Nomination Committee	Management Development and Compensation Committee	Sustainable Management Committee	Customer Risk Management Committee
Paik Tae-seung	Non-executive Chair	Independent	M	23 Mar 2018	Member	Chair	Chair	-	Member	-
Ham Young-joo	CEO	Not independent	M	25 Mar 2022	-	-	-	-	Member	-
Kim Hong-jin	Non-executive Director	Independent	M	23 Mar 2018	-	Member	Member	Chair	-	Member
Yang Dong-hoon	Non-executive Director	Independent	M	23 Mar 2018	Chair	Member	Member	-	Member	-
Heo Yoon	Non-executive Director	Independent	M	23 Mar 2018	-	Member	Member	Member	-	Member
Lee Jung-won	Non-executive Director	Independent	M	19 Mar 2019	Member	Member	Member	Member	Member	-
Kwon Sook-kyo	Non-executive Director	Independent	F	26 Mar 2021	-	Member	-	-	-	Chair
Park Dong-moon	Non-executive Director	Independent	M	26 Mar 2021	Member	Member	-	-	Chair	-
Lee Kang-won	Non-executive Director	Independent	M	25 Mar 2022	-	Member	-	-	-	Member
		89% Independent	11% Female		100% Independent	100% Independent	100% Independent	100% Independent	80% Independent	100% Independent



## 2. BoD Skill Matrix

### BoD consists of industry experts with rich experiences

Director	Expertise	Career in Finance	Previous Roles/Experiences
Paik Tae-seung	Legal	Bank of Korea	Professor
Ham Young-joo	-	Hana Bank	CEO
Kim Hong-jin	Economics	Korea Securities Depository / Korea Financial Intelligence Unit	Government Official
Yang Dong-hoon	Accounting	Bank of Korea	Professor
Heo Yoon	Economics	The World Bank (Consultant)	Professor
Lee Jung-won	Finance & Business Administration	Shinhan Bank	CEO
Kwon Sook-kyo	IT & Finance	Woori Financial Group / Citi Bank	CEO
Park Dong-moon	Business Administration	-	CEO
Lee Kang-won	Legal	-	Judge

- Focus on providing diversified professional backgrounds of independent directors to deliver business objectives and stakeholder value and monitor governance
- The priority of the Board is to set governance standards for the Group to meet shareholder expectations
- Each Board member showed 100% attendance in every committee meeting held during the year

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## **II. Board Activities and Achievements**

in Driving Sustainable Growth and  
Enhancing Shareholder Value

## 1. Summary of Board Meetings and Major Resolutions in 2022

# Playing a key role in steering and overseeing the group

As HFG's highest decision-making body, BoD held 9 meetings to review and make decision on various strategic initiatives reaching 93 cases in FY2022

### Major Decisions

Meeting	Agenda	Details
3 <sup>rd</sup> Meeting (Mar 25, 2022)	CEO nomination	Executive director Ham Young-joo was nominated as the new CEO
4 <sup>th</sup> Meeting (Apr 22, 2022)	Group's vision and mid- to long-term strategies	The new vision, 'All connected in Hana Finance', and 'ONE Value 2030', the new mid- to long-term strategic targets, have been established
	Retirement of treasury stocks	Decided to retire 4,338,586 treasury shares (appx. KRW 150 bn) to improve shareholder value while diversifying shareholder return policy Participation in capital increase of Hana Financial Investment (currently Hana Securities)
	Participation in capital increase of Hana Financial Investment (currently Hana Securities)	Decided to participate in capital increase of Hana Securities worth appx. KRW 500 bn to strengthen non-banking arm
5 <sup>th</sup> Meeting (Jul 22, 2022)	FY2022 Interim dividend	Decided on interim dividend of 800 won per each of 291,563,476 shares (excluding treasury stocks), totaling appx. KRW 233.3 bn
	Participation in capital increase of Hana Insurance	Decided to participate in capital increase of Hana Insurance worth appx. KRW 150 bn to strengthen non-banking arm
8 <sup>th</sup> Meeting (Nov 25, 2022)	FY2023 Group management plan and budget	Decided on the group management plan, budget, and major targets of FY2023

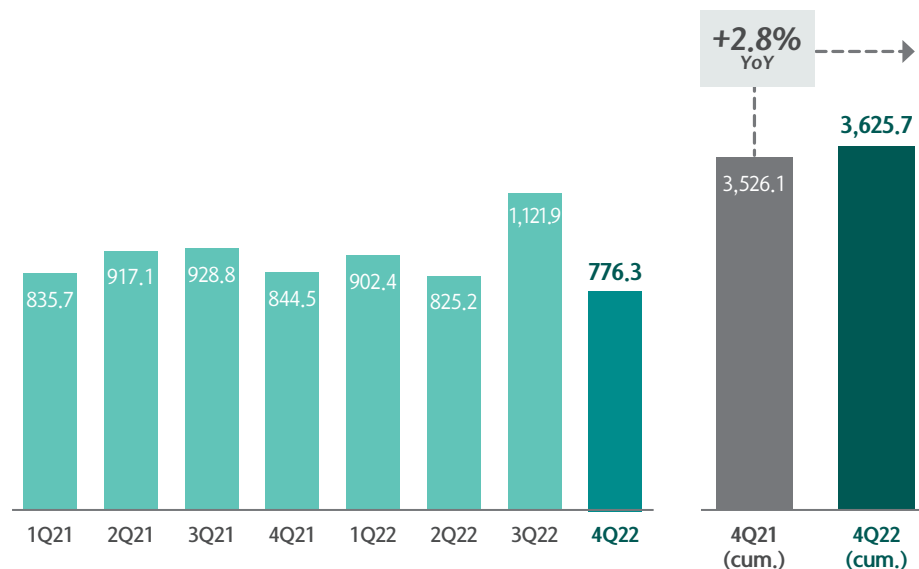
### Key Strategic Goals

- Stable growth based on tight risk-management
- Strengthening of group's competitive edge in digital technology
- Building a financial ecosystem through collaboration with fintech startups
- Laying out concrete plans to reinforce group's non-banking or fee-based business
- Sustainable management built on key ESG principles

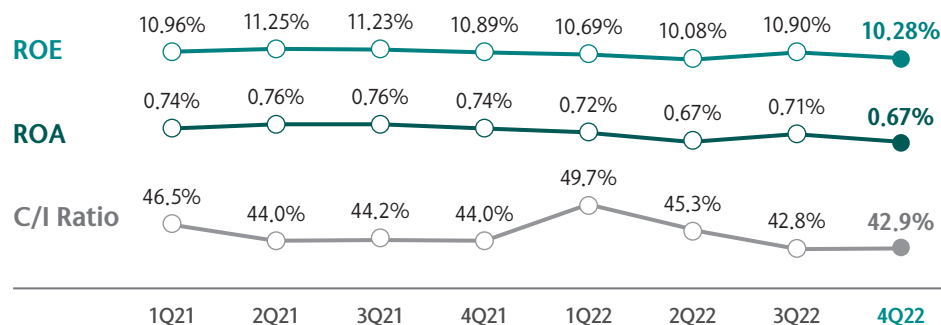
## 2. Management and Supervision of Company Operations

In 2022, the Group posted a record net profit of KRW 3,625.7 billion

### Group Net income (Unit: Wbn)



### Group Major Indices (Cumulative)



### Highlights

#### General Operating Income

**10,337.9 Wbn**

(+12.2% YoY)

Despite weak disposition and valuation amid volatile market, profitability improved largely due to solid loan growth and favorable rate environment



#### C/I Ratio

**42.9%**

(-1.1%p YoY)

Cost efficiency was achieved based on group-wide effort to control normalized SG&A (Record low C/I Ratio)



#### NPL Coverage

**187.85%**

(Group NPL Coverage Ratio)

Benign key risk metrics such as delinquency ratio maintained. Sizable pre-emptive provisions led to the record high NPL coverage ratio

#### Shareholder Return

**KRW 2,550 / 150 Wbn**

(Year-end DPS)

(Buyback)

Group delivers the highest dividend payout ratio among the peers (27%); BoD also resolved KRW 150 Wbn share buyback/cancellation

#### Q4 Key One-offs

[Pre-tax] FX valuation gain 161.4Wbn, IB asset valuation loss 64.3Wbn  
Additional pre-emptive provision 247.2Wbn

### 3. Sustainable management and Key ESG Performances

## Board's ESG initiatives received global recognition

- Sustainable Management Committee, which was established in 2021, is at the center of HFG's ESG initiatives
- Upon the committee's request, Hana has successfully rolled out various policies to promote sustainable and inclusive finance

#### Sustainable Management



- **Sustainable Management Committee establishes the strategies and oversees ESG activities** of the Group
- The committee introduced the Group's '**2050 Carbon Neutrality Roadmap**' in 1H22 which targets a reduction in carbon emission based on **Science-Based Targets (SBTs)**
- Joined the **Net-Zero Banking Alliance (NZBA)** and obtained official approval from **the Science-Based Target Initiative (SBTi)** for the 7th in Korea

#### Inclusive Finance



- The famous '**Project of building 100 daycare facilities**' is expected to **benefit 9,166 children** and create KRW 261.1 billion of social value by its completion in 2023
- The project will be expanded further by supporting the remodeling of old childcare facilities to create a better environment for children
- **HFG endorsed the UN Women's Empowerment Principle (WEP)** implementing principles to **enhance women's empowerment and gender equality**

#### External Recognition



- HFG's efforts to fulfill ESG principles have been globally recognized in 2022
- Won a title as the **world's top-rated bank in Dow Jones Sustainability Indices' (DJSI's) bank index** becoming the leading financial firm in the category and included in the World Index
- **MSCI ESG rating** improved over two consecutive years achieving '**AA**' rating in 2022

MEMBER OF  
**Dow Jones Sustainability Indices**  
In collaboration with 

**MSCI**  
ESG RATINGS



## 4. Risk Oversight and Response to the Ongoing Legal Proceedings Involving CEO

### Board's take on the CEO's on-going legal issues

#### Criminal Charges on Hiring Practices

- **BACKGROUND**

In 2018, the Group CEO Mr. Ham was prosecuted on charges of 'influence-peddling and violation' of the *Equal Employment Act* during his tenure as the CEO of Hana Bank in 2015 and 2016

- **UPDATES**

The lower court acquitted him of all charges against him in Mar 2022, after which the prosecution appealed to the higher court

##### CASE STUDY

#### Shinhan Financial Group

CEO of Shinhan Financial Group was **acquitted of all charges** in June 2022 in the Supreme Court

#### Boardroom Discussions

- To identify potential material risks that may undermine corporate governance
- BoD will exert all possible efforts to minimize the risks involved and protect the managerial continuity so that the alignment between management and shareholders interests can continue to be reinforced

#### 2022 CEO Nomination Committee Meetings

- Evaluated and developed a list of potential CEO candidates following the steps in the Contingency Plan
- Reviewed the progress of legal cases and relevant risks
- Reviewed results of similar cases of peer companies as references
- Discussed the results of external legal advices
- Analyzed peer companies' cases where the final court announced to acquit defendants w/ similar charges as Mr. Ham

#### DLF Scandal – Administrative Suit

- **BACKGROUND**

An administrative suit was filed against the FSS to cancel a reprimand imposed on the group CEO over Hana Bank's establishment of internal control standard regarding the sales of high-risk derivative-linked funds (DLFs)

- **UPDATES**

The Seoul Administrative Court ruled against the case in March 2022 but it agreed to temporarily suspend the enforcement of the regulatory measure appealed to the higher court

##### CASE STUDY

#### Woori Financial Group

Supreme Court has recently **ruled in favor of** the CEO of Woori Financial Group, revoking regulatory sanctions imposed by FSS

#### CONCLUSION

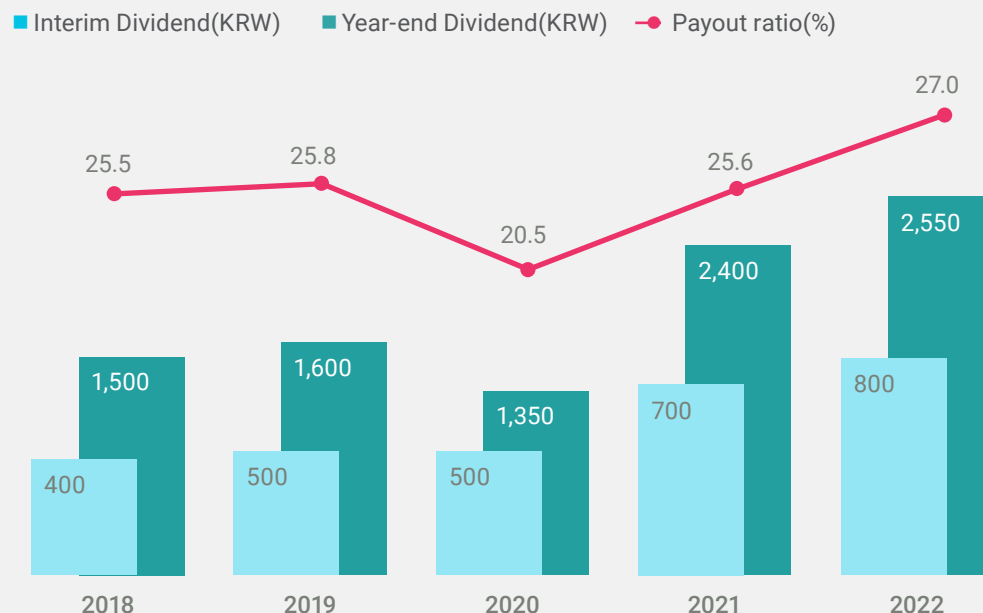
- Based on the analysis of similar cases of other companies, the Board is expecting *positive* outcomes
- Considering the final rulings of the Supreme Court on the two cases are expected to take additional time, the board believes the current CEO Mr. Ham is fit to serve its current position until the final verdict

## 5. Board Initiatives to Enhance Shareholder Value

# Delivering long-term sustainable shareholder returns

### Shareholder Returns

- Consistency of dividend and shareholder returns have been the highest priority of the Board
- HFG is the only financial group in Korean to keep delivering interim dividend every year since the foundation of the holding company except for the 2009 GFC



- Dividend yield remained at industry top-tier level
- Conducted reviews and discussion on the provision of quarterly dividends

### Raising the Voice

- The chairman met with the head of FSS in November 2022 and argued for the need to increase the autonomy of financial groups in determining shareholder return policies.
- Accordingly, FSS released an official press release stating that the FSS will ensure the autonomy of financial groups and minimize regulatory intervention on shareholder returns

### Shareholder Engagement

- The Board has made continuous efforts to actively communicate with shareholders
- Carried out BoD's 1-on-1 meetings with major shareholders in May 2022 for the first time in the Group's history
- The efforts materialized into the roundtable discussion held in November 2022 with 19 investors

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## **III. Future Direction and Priorities for Board Actions**



## Stepping up efforts to deliver strong and sustainable returns

The Board is ready to continue the execution of the 2022 initiatives

OBJECTIVES	TASK
Preparing new shareholder return policy	<ul style="list-style-type: none"> <li>The board is prepared to <b>examine concrete plans to improve dividend predictability and ultimately shareholder values</b> amid the expectation that regulators will give financial groups <b>more autonomy in shareholder return policies</b></li> </ul>
Expanding in BoD's stakeholder outreach efforts	<ul style="list-style-type: none"> <li>In 2023, the Board is planning to <b>expand the scope of its engagement with various stakeholders</b>, including investors, proxy advisory firms and ESG rating agencies</li> <li><b>Direct engagement</b> such as group meetings or roundtable discussions would be employed <b>more frequently</b> in addition to the traditional communication channels such as reports or shareholder letters</li> </ul>
Achieving higher standards in ESG management (refer to Appendix)	<ul style="list-style-type: none"> <li>The Group is planning to invest in <b>developing the system to measure the group-wide asset portfolio carbon emissions (scope 3 emissions)</b> to prepare the advanced standards for the ESG reporting system</li> <li><b>Improvements in ESG frameworks and systems to deliver better results and to prevent possible issues</b> such as greenwashing</li> <li><b>Additional policies or guidelines</b> would be established to tackle imminent climate and environmental risks</li> </ul>

## Board has rigorous plans for ESG priorities

OBJECTIVES	TASK
<b>Advanced ESG Reporting</b>	<ul style="list-style-type: none"> <li>• HFG has been making <b>consistent investments to reinforce climate-related reporting capabilities</b>. The scope of investment ranges from a pilot test on climate risk analysis in 2021 to a scenario-based analysis of group-wide carbon emissions from the asset portfolio in 2022</li> <li>• Group is planning to <b>invest in developing the system required to measure the group-wide asset portfolio carbon emissions</b> (scope 3 emissions) in 2023</li> </ul>
<b>Refining ESG Frameworks and Systems</b>	<ul style="list-style-type: none"> <li>• In order to facilitate the group's ESG management, a new working-level consultative group will be formed in 2023 to discuss and share information on ESG initiatives</li> <li>• HFG's sustainability performance will be supervised based on the "Sustainable Financing Framework" to <b>prevent greenwashing</b></li> <li>• In 2023, <b>K-Taxonomy</b>, the guideline for the classification of green economic activities published by the Korean government, <b>will be incorporated into the IT system to apply to corporate loans screening</b></li> </ul>
<b>Climate and Environmental Risks</b>	<ul style="list-style-type: none"> <li>• For the purpose of consolidating ESG management, <b>policies for industrial sectors related to fossil fuels will be specified</b>. One example would be setting a limit on the ratio of the amount of loan offered to those sectors relative to operating profits</li> <li>• A new guideline for managing group exposures to agricultural, forestry, and fishery industries is planned to be established in 2023 <b>reflecting biological diversity standards</b></li> </ul>



#### **Disclaimer**

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