

South Korea's leading banks

FY 2023 update



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Key highlights

1. GDP in South Korea grew by 0.5% in Q4-2023, marginally slower than 0.6% in Q3-2023.
2. The current policy rate in South Korea stands at 3.5% (the highest it has been in 15 years).
3. The top 5 banks in South Korea aggregated a 5.9% increase in net revenues from USD 33.2 billion in FY-2022 to USD 35.2 billion in FY-2023.
4. Net profits declined by 1.8% from USD 11.5 billion in FY-2022 to USD 11.3 billion in FY-2023.
5. Fee income increased by 2.2% from USD 3.75 billion in FY-2022 to USD 3.83 billion in FY-2023.
6. Net interest margin (NIM) average increased marginally by 1 bps to 1.68% in FY-2023.
7. Non-performing loans increased by 6 bps from 0.36% in FY-2022 to 0.42% in FY-2023.
8. Cost efficiency improved significantly from an average of 41.89% in FY-2022 to 38.38% in FY-2023.
9. The loan portfolio for the top 5 banks in South Korea increased by 4.9% from USD 851.5 billion to USD 893.6 billion. In contrast, deposits grew by 3.2% from USD 0.99 trillion to USD 1.02 trillion.

Revenue highlights

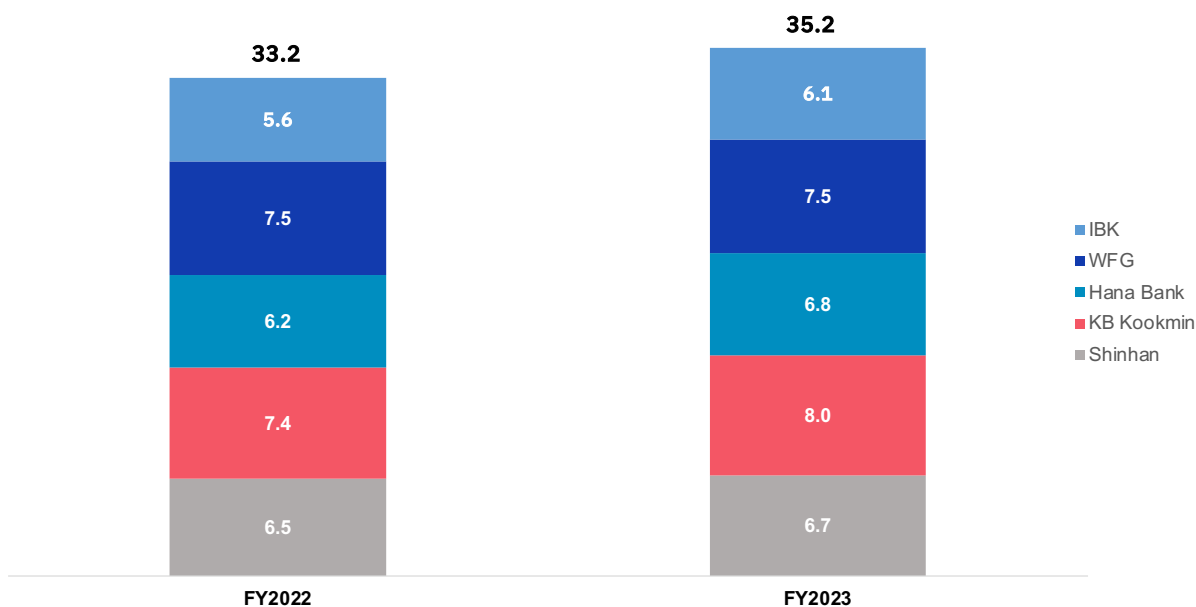
Net revenues for the top 5 banks in South Korea grew by 5.9% YoY

Aggregated net revenues increased from USD 33.2 billion in FY-2022 to USD 35.2 billion in FY-2023 (Exhibit 1). Average net revenues stood at USD 7 billion in FY-2023.

- 3.8% increase in the net interest income from USD 31.3 billion to USD 32.5 billion
- 43.8% increase in the non-interest income from USD 1.9 billion to USD 2.8 billion

Exhibit 1: Net revenues of the top 5 South Korean Banks

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*Figures in USD billion

Source: Bank Financials, Twimbit analysis

Hana Bank

- 10.4% YoY (year-on-year) increase in net revenues from USD 6.2 billion in FY-2022 to USD 6.8 billion in FY-2023
- 4.1% increase in the net interest income from USD 5.8 billion in FY-2022 to USD 6.1 billion in FY-2023
- 116% increase in the non-interest income from USD 0.4 billion in FY-2022 to USD 0.8 billion in FY-2023

The substantial growth in non-interest income was due to improvements in the bank's accumulative fee income and fixed-income investment profits.

Industrial Bank of Korea (IBK)

- 9.1% YoY increase in net revenues from USD 5.6 billion in FY-2022 to USD 6.1 billion in FY-2023
- 6.1% increase in net interest income from USD 5.4 billion in FY-2022 to USD 5.7 billion in FY-2023
- 92.8% increase in non-interest income from USD 0.2 billion in FY-2022 to USD 0.4 billion in FY-2023

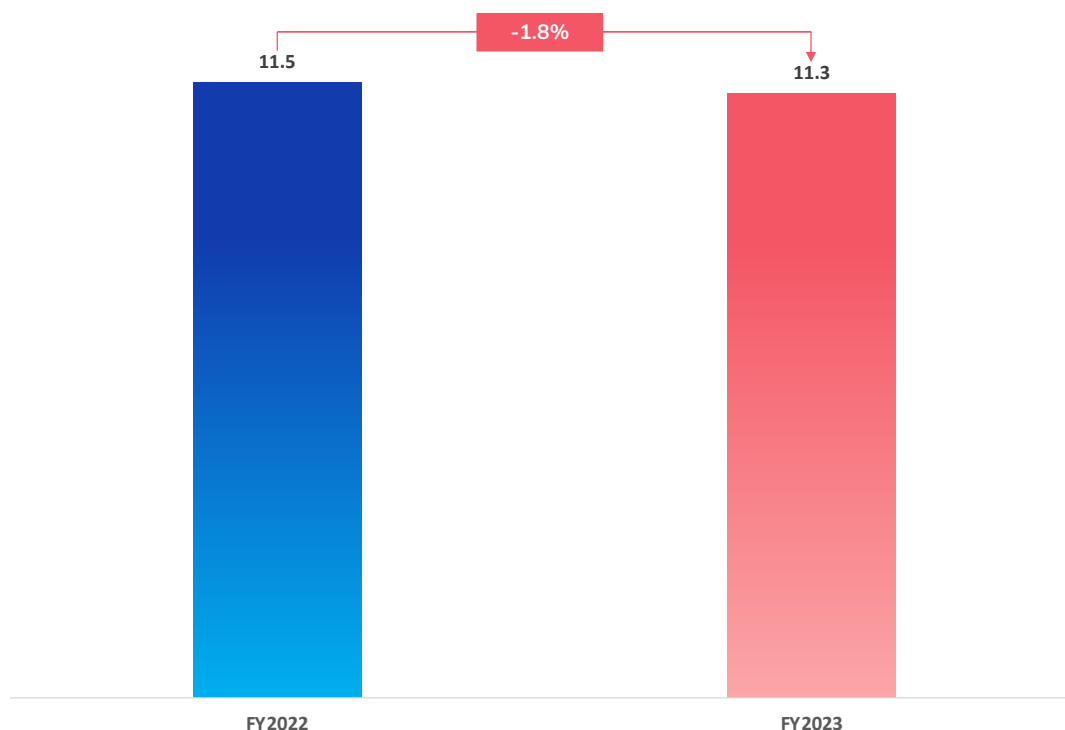
KB Kookmin and Shinhan Bank reported an increase of 8.3% and 3.1% in net revenues, respectively. In contrast, Woori Financial Group did not report any change in net revenues between FY-2022 and FY-2023.

Profitability

Net profit for the top 5 banks in South Korea declined by 1.8% YoY

Aggregated net profits declined from USD 11.5 billion in FY-2022 to USD 11.3 billion in FY-2023 (Exhibit 2). Average net profits declined from USD 2.30 billion in FY-2022 to USD 2.26 billion in FY-2023.

Exhibit 2: Consolidated net profits of the top 5 South Korean Banks



*Figures in USD billion

Source: Bank Financials, Twimbit analysis

Woori Financial Group

- 21.3% YoY decline in net profits from USD 2.6 billion in FY 2022 to USD 2 billion in FY 2023
- Driven by a 100% increase in impairment on credit loss from USD 678 million in FY-2022 to USD 1.4 billion in FY-2023

Hana Bank

- 9.7% YoY increase in net profits from USD 2.4 billion in FY 2022 to USD 2.7 billion in FY 2023
- Driven by a 114.2% increase in the disposition and valuation income from USD 337.6 million to USD 723.1 million

Hana Bank also increased net interest incomes by 4.1% from USD 5.8 billion in FY-2022 to USD 6.1 billion in FY-2023. This increase was driven by a 6% increase in the bank's loan portfolio from USD 209.9 billion to USD 222.5 billion.

Changes in net profits of other South Korean banks:

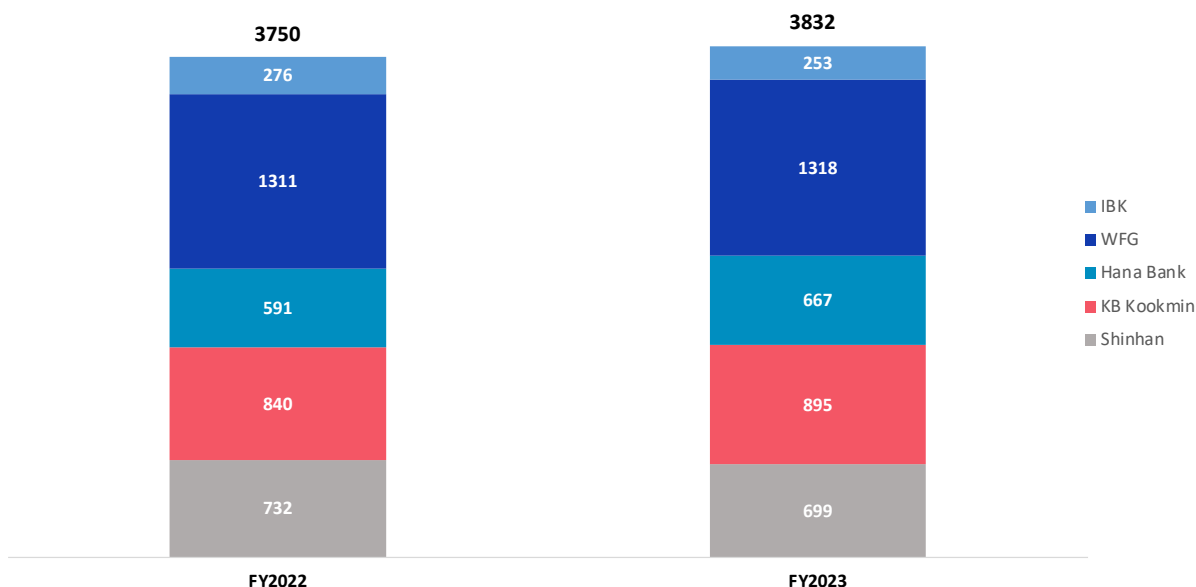
- Shinhan Bank – 2.9% decline
- IBK – 1.8% decline
- KB Kookmin – 8.9% increase

Fee-based income

Fee income for the top 5 banks in South Korea grew by 2.2%

Fee income grew from USD 3.75 billion in FY-2022 to USD 3.83 billion in FY-2023 (Exhibit 3).

Exhibit 3: Fee incomes of the top 5 South Korean banks



*Figures in USD Mn

Source: Bank Financials, Twimbit analysis

Hana Bank

- 12.9% increase in fee income from USD 591 million in FY-2022 to USD 667 million in FY-2023
- Strong performance in fee items related to loans, bancassurance, and operating leases

KB Kookmin

- 6.5% increase in fee income from USD 840 million in FY-2022 to USD 895 million in FY-2023
- 19.9% increase in trust income from USD 154 million to USD 184.62 million
- 23.51% increase in forex income from USD 244.4 million to USD 301.8 million

Industrial Bank of Korea

- 8.2% decline in fee income from USD 276 million in FY-2022 to USD 253 million in FY-2023

Compared to its APAC peers, fee income is low in South Korea due to tighter rules and consumer behaviour.

- Banks in South Korea cannot impose account-related fees such as monthly charges and commission fees due to government pressure and consumer backlash.

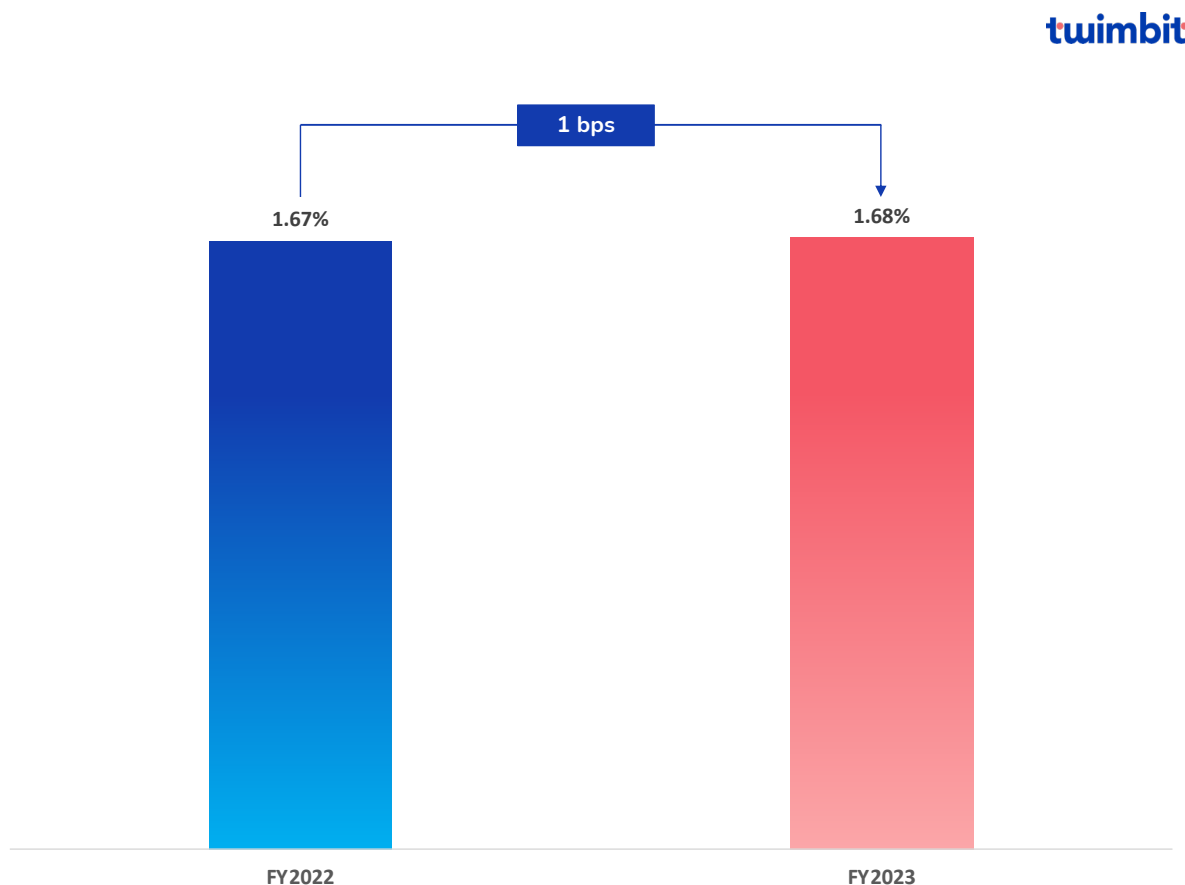
Net interest margins (NIM)

NIM for the top 5 banks in South Korea increased by 1 basis point

The average NIM (net interest margin) increased from 1.67% in FY-2022 to 1.68% in FY-2023 (Exhibit 4).

- KB Kookmin – 10 bps increase
- IBK – 2 bps increase
- Shinhan Bank – no change
- Hana Bank – 2 bps decline
- WFG – 3 bps decline

Exhibit 4: Average NIM of the top 5 South Korean banks



Source: Bank Financials, Twimbit analysis

South Korean banks have low interest margins due to the following:

1. Low interest rates

Maintaining low interest rates to spur economic growth has posed challenges for banks in generating interest income from loans, thereby exerting pressure on their profit margins.

2. High reliance on retail banking

The heavy dependence on retail banking (which generally yields lower profits) has contributed to the diminished interest margins of Korean banks. Credit growth in South Korea has been slow, with an average growth of 6.3% to USD 1.1 trillion in Q3-2023.

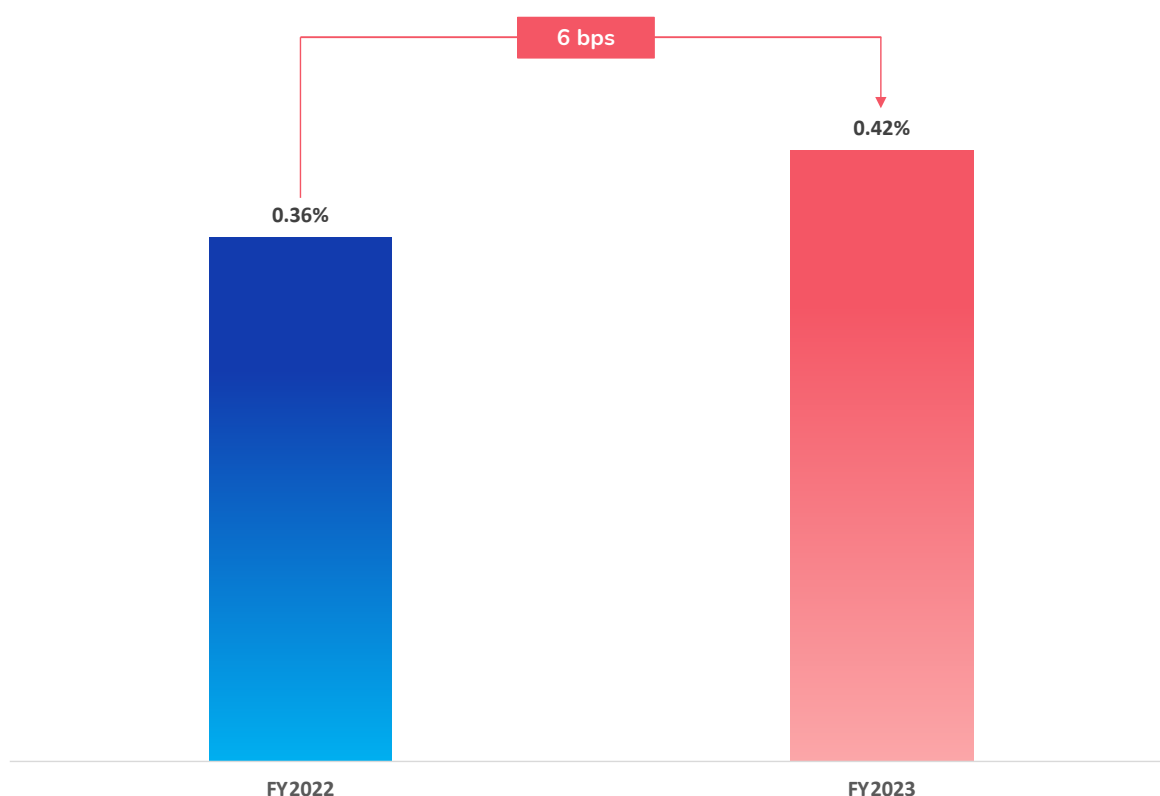
Non-performing loans (NPL)

NPL for the top 5 banks in South Korea increased by 6 basis points

The average NPL increased from 0.36% in FY-2022 to 0.42% in FY-2023 (Exhibit 5). All banks reported an increase in NPL, with 3 of 5 reporting double-digit growths.

Exhibit 5: Average NPL of the top 5 South Korean banks

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Source: Bank Financials, Twimbit analysis

Typically, banks in South Korea have the lowest NPLs among APAC regions. This is due to:

1. Strict lending standards

The stringent lending standards prevent loan extension to borrowers with doubtful repayment capabilities.

2. Conservative provisioning

South Korea's mandate to allocate substantial provisions for potential loan losses is vital because it allows banks to prepare the necessary funding required in case

of non-repayment. This conservative strategy contributes to maintaining low Non-Performing Loan (NPL) ratios, even amid economic downturns.

3. Effective debt collection

Banks in South Korea have leveraged the support of the country's robust legal system to recover defaulting loans.

However, the recent increase in NPL among banks in South Korea is due to:

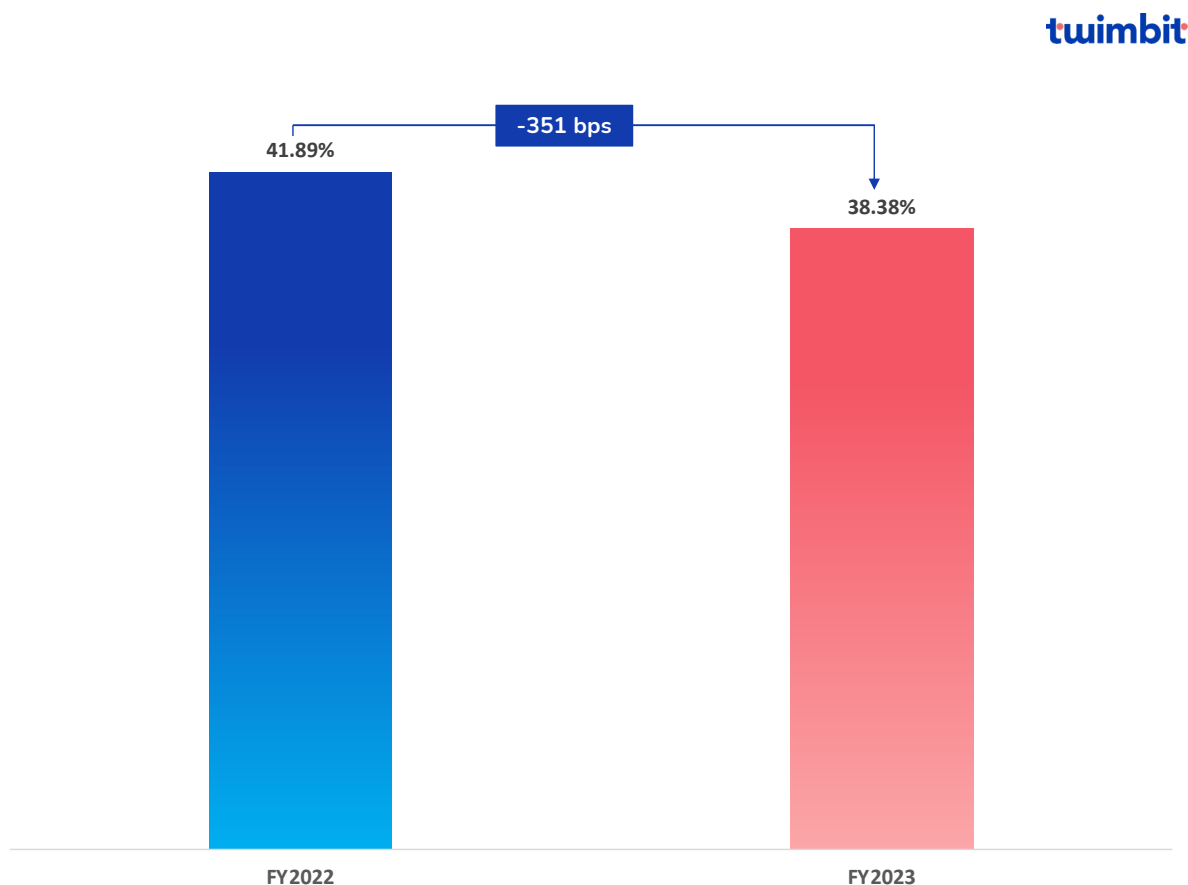
- Economic slowdown led to an increase in bankruptcies and loan defaults
- Rising interest rates increased the difficulty for businesses and individuals to repay their loans

Cost efficiency (CE)

Cost efficiency for the top 5 banks in South Korea improved by 351 basis points

The CE ratio significantly improved from 41.89% in FY-2022 to 38.38% in FY-2023 (Exhibit 6).

Exhibit 6: Average CE ratio of the top 5 South Korean banks



Source: Bank Financials, Twimbit analysis

- KB Kookmin – 670 bps improvement
- Hana Bank – 605 bps improvement
- IBK – 478 bps improvement
- WFG – 20 bps improvement
- Shinhan Bank – 17 bps decline

KB Kookmin

- Highest improvement in cost efficiency from 46.90% in FY-2022 to 40.20% in FY-2023
- Driven by a 3.8% decline in the bank's operating expenses from 3.6 billion to USD 3.5 billion

Outlook for 2024

The current high-interest rate environment is expected to suppress domestic activity, with the policy rate at its peak since 2008. Anticipated monetary easing in H2-2024 may mitigate the impact, but sectors reliant on interest rates, like consumption and investment, may still struggle. Retail trade volumes dropped, reflecting subdued consumer sentiment and persistent weakness in domestic demand. The Bank of Korea is expected to commence interest rate cuts from Q3-2024, assessing the impact of the rate hike cycle.

Research methodology and assumptions

- Data collection has been done based on secondary research about the information provided by the respective banks through their investor presentation and quarterly financial statements. Twimbit follows the calendar year approach for the analysis in this report (meaning Q1 is equivalent to the period of January to March of the year).
- For fair representation and analysis, we have considered a constant currency rate for conversion from local currency to USD value. The USD conversion rate is the average calculated value from January to December 2023.
- The report analyses net revenue, net profit and fee income, net interest margin, non-performing loan and cost efficiency for 5 banks.
- The revenue figures for all the banks analysed are net of interest and non-interest expenses.