

KB Financial Group (105560 KS)

FUNDAMENTAL VIEW ¹

As of 07 Mar 2024

- KB Financial Group has grown steadily through the acquisitions of non-bank companies in Korea and small banks in Indonesia and Cambodia. Its banking subsidiary, Kookmin Bank, operates the largest branch network in Korea, with a particularly strong presence in the retail market. This makes it a systemically important bank with strong potential government support if needed.
- The group has a good track record, and its large mass-market franchise gives it a strong customer base. It has a well-diversified business and the highest CET1 ratio among its peers.

RISKS & CATALYSTS

As of 07 Mar 2024

- As one of the "Big Four" financial groups in Korea, we believe that KBFG would likely receive governmental support if needed.
- Credit costs rose 43 bp in FY22 to 67 bp in FY23 - the highest amongst the four FGs, as a result of weakening asset quality and preemptive provisioning. Stripping out one-off factors in 4Q23, the group's credit cost would be around 40 bp, not exceeding our expectations of 50 bp.
- The NIM declined in 4Q23, and for 2024, KBFG intends to manage the NIM to be marginally lower than last year.
- KBFG is expanding by business line, and overseas with a focus on Indonesia and Cambodia - markets with more favourable demographics, growth potential and profit margins than Korea but also more risk. The profit plan of the Indonesian investment has been slower than expected, and significant preemptive provisions were set aside in 4Q22 for it.
- The group is under investigation for mis-selling equity linked products to retail investors; fines and regulatory actions may ensue.

CREDIT QUALITY SCORE (CQS) ²

As of 08 Apr 2024

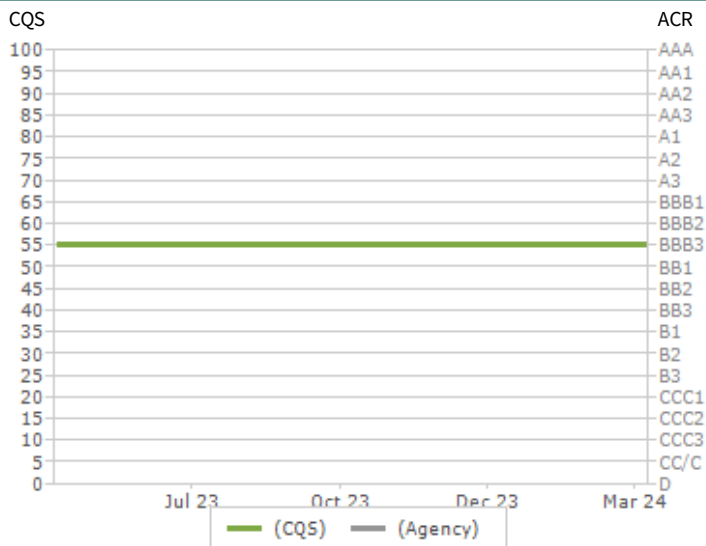
CURRENT CQS

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	1.03%	1.00%	1.14%	1.05%	1.36%
ROA	0.66%	0.61%	0.69%	0.57%	0.65%
ROE	8.9%	8.6%	10.2%	8.8%	9.2%
Provisions/Loans	0.21%	0.30%	0.31%	0.45%	0.73%
NPL ratio	0.49%	0.41%	0.33%	0.34%	0.57%
CET1 Ratio	13.6%	13.3%	13.5%	13.2%	13.6%
Equity/Assets	7.4%	7.1%	7.3%	7.9%	8.2%
Net Interest Margin	1.94%	1.76%	1.83%	1.96%	2.08%

BUSINESS DESCRIPTION

As of 07 Mar 2024

- A well diversified and well run group, KBFG's main subsidiaries in addition to Kookmin Bank (KB) are Kookmin Card, KB Insurance, KB Securities, KB Capital (leasing) and KB Asset Management.
- The result of several mergers after the Asian economic crisis of the late 1990s, KB's main predecessors were Citizen's National Bank and Housing & Commercial Bank, both retail-focused banks that have given it the leading position in Korean retail banking.
- For the near term, the group doesn't expect further M&A opportunities. It has looked for growth overseas, focusing on Indonesia (where it has taken a 67% stake in Bank Bukopin) and Cambodia (it took a 100% shareholding in Prasac, a micro-finance lender, over 2020-21). It also bought Prudential Financial's Korean insurance business in 2020, which was subsequently merged with KB Insurance.

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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