

KB Financial Group (105560 KS)

FUNDAMENTAL VIEW ¹

As of 22 Aug 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 the four major financial groups.

RISKS & CATALYSTS

As of 22 Aug 2024

- As one of Korea's "Big Four" financial groups, we believe that KBFG would likely receive governmental support if needed.
- Credit costs have significantly lowered from 73 bp in FY23 to 44 bp in 1H24 - a level more consistent with peers now, mainly due to significant preemptive provisions set aside in FY23. The trust subsidiary's trusts with a completion guarantee have become a new concern related to real estate project financing, resulting in additional provisions in Q2. The bank's asset quality has been relatively stable.
- The potential policy rate cut in 2H will impact the NIM, but the card's funding costs is stabilizing, and the group plans to maintain a flat NIM on a FY basis.
- 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 for the Indonesian investment has been slower than expected, and significant provisions have been set aside since 4Q22 for non-viable assets.

KEY METRICS

As of 22 Aug 2024

KRW BN	FY20	FY21	FY22	FY23	1H24
Pre-Provision Profit ROA	1.00%	1.14%	1.05%	1.36%	1.55%
ROA	0.61%	0.69%	0.57%	0.65%	0.76%
ROE	8.6%	10.2%	8.8%	9.2%	10.8%
Provisions/Loans	0.30%	0.31%	0.45%	0.73%	0.44%
NPL ratio	0.41%	0.33%	0.34%	0.57%	0.68%
CET1 Ratio	13.3%	13.5%	13.2%	13.6%	13.6%
Equity/Assets	7.1%	7.3%	7.9%	8.2%	8.1%
Net Interest Margin	1.76%	1.83%	1.96%	2.08%	2.10%

BUSINESS DESCRIPTION

As of 22 Aug 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.
- KB was the result of several mergers after the Asian economic crisis of the late 1990s. Its 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. 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.
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 - 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.

CREDIT QUALITY SCORE (CQS) ²

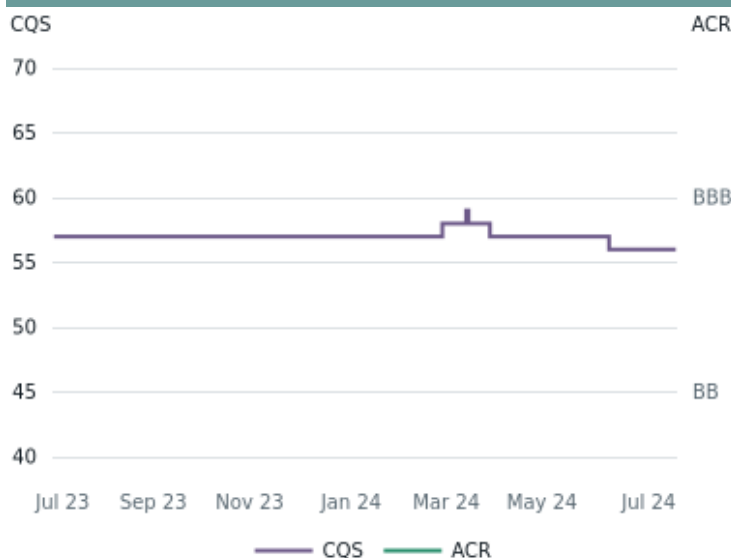
As of 04 Jul 2024

CURRENT CQS

CQS OUTLOOK ³



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



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