

# KB Financial Group (105560 KS)

## FUNDAMENTAL VIEW <sup>1</sup>

As of 22 Dec 2022

- Kookmin FG (KBFG) has grown steadily through the acquisitions of non-bank companies in Korea and small banks outside Korea. 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. It had the highest CET1 ratio amongst peers but is now broadly flat to Shinhan and Hana. We view KBFG as the strongest credit among the Korean financial groups.

## RISKS & CATALYSTS

As of 22 Dec 2022

- Credit costs are expected to rise from very low levels due to rising interest rates, but this is likely to be mitigated by government support for SMEs. Increasing NIMs will help too, though the extent of NIM increase may be capped by government intervention.
- Korean banks have turned to Jeonse and SME loans for growth following regulatory curbs on mortgages and personal unsecured lending since 2021. Large corporate loans growth is likely too if capital markets are constrained.
- 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. It acquired Prudential's Korean insurance business in 2020, which has boosted its insurance income and also offered cross sell-opportunities for the bank's wealth management business.

## CREDIT QUALITY SCORE (CQS) <sup>2</sup>

As of 27 Feb 2023

### CURRENT CQS

55

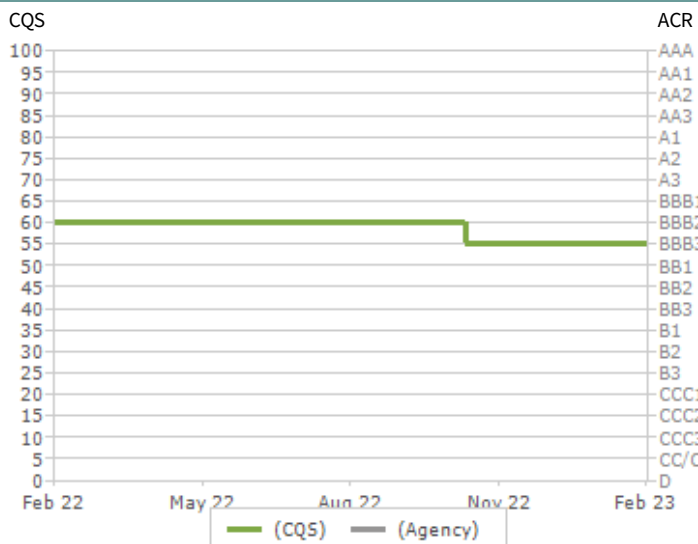
### CQS OUTLOOK <sup>3</sup>

NEGATIVE

STABLE

POSITIVE

### HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) <sup>4</sup> VS CQS



## KEY METRICS

As of 22 Dec 2022

| KRW BN                   | 3Q22  | FY21  | FY20  | FY19  | FY18  |
|--------------------------|-------|-------|-------|-------|-------|
| Pre-Provision Profit ROA | 1.08% | 1.14% | 1.00% | 1.03% | 1.07% |
| ROA                      | 0.71% | 0.69% | 0.61% | 0.66% | 0.66% |
| ROE                      | 11.4% | 10.2% | 8.6%  | 8.9%  | 8.8%  |
| Provisions/Loans         | 0.30% | 0.31% | 0.30% | 0.21% | 0.22% |
| NPL ratio                | 0.32% | 0.33% | 0.41% | 0.49% | 0.61% |
| CET1 Ratio               | 12.6% | 13.5% | 13.3% | 13.6% | 14.0% |
| Equity/Assets            | 6.8%  | 7.3%  | 7.1%  | 7.4%  | 7.4%  |
| Net Interest Margin      | 1.98% | 1.83% | 1.76% | 1.94% | 1.99% |

## BUSINESS DESCRIPTION

As of 22 Dec 2022

- A well diversified and well run group, KBFG's main subsidiaries in addition to Kookmin Bank (KB) are Kookmin Card, Prudential Insurance (the KB insurance business is to merge into it from Jan-23), 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 Korea's retail banking market.
- For the near term the group doesn't expect further M&A opportunities. It has looked for growth overseas with a focus 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.

## GLOSSARY

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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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