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S&P Global

China Ratings

Credit Rating Report

Kookmin Bank (China) Limited

Issuer Credit Rating*: AA_{spc}+; Outlook: Stable

Rating Date: September 6, 2023

Date of Expiry: September 5, 2024

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* This rating is an Issuer Credit Rating (ICR). An ICR typically reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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Tear Sheet

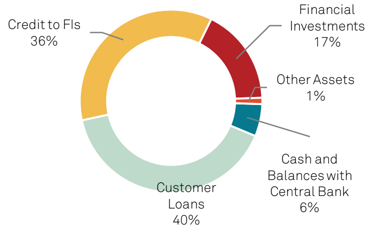
Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
Kookmin Bank (China) Limited	Issuer Credit Rating	$AA_{spc}+$	September 6, 2023	Stable

Industry Classification: Commercial Bank

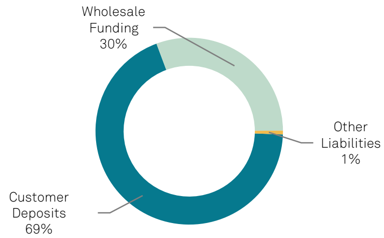
Company Overview: Established in 2012, Kookmin Bank (China) Limited ("Kookmin Bank (China)") is a fully owned subsidiary of Kookmin Bank. Kookmin Bank is a core member of KB Financial Group, one of the largest financial institutions in Korea, providing diversified financial services including banking, securities and insurance. Kookmin Bank (China) is an integral part of KB Financial Group's Asia-Pacific banking network.

Kookmin Bank (China)'s business is very small. As of the end of 2022, it reported total assets of 20 billion RMB, gross loans of 8.26 billion RMB and customer deposits of 11.87 billion RMB. It is headquartered in Beijing with five branches across China.

Asset Breakdown as of End of 2022



Liability Breakdown as of End of 2022



Economy and Industry Trends: We expect China's 2023 GDP growth to recover significantly from 2022. We believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality, and our baseline includes some of these dynamics.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support and economic recovery. However, banks' stand-alone credit quality is diverging. China's mega banks, joint-stock banks and foreign bank subsidiaries have maintained sufficient capitalization and stable asset quality, while some regional banks face growing capital and asset quality pressure. Compared to domestic banks, most foreign bank subsidiaries maintain lower risk appetite. Given their strong capital, we expect foreign bank subsidiaries to maintain stable stand-alone credit quality.

Foreign bank subsidiaries are typically fully owned and tightly controlled by their parents, sharing parents' brands, actively engaging in cross-selling activities across borders, and enjoying on-going parental support in terms of capital injection and liquidity support. Despite the banking turmoil in the US and European markets in the first half of 2023, international banking groups have generally maintained good credit quality. Strong and stable group support continue to play an important role in foreign bank subsidiaries' issuer credit quality.

Key Metrics:

	2018	2019	2020	2021	2022
Total assets (bil.)	15.99	18.22	19.86	20.27	20.00
Customer loans (bil.)	5.01	5.70	6.45	7.52	8.26
Customer deposits (bil.)	7.10	8.15	9.07	9.56	11.87
Net income (bil.)	0.09	0.07	0.07	0.06	0.01
Reported regulatory capital adequacy ratio (%)	37.96	26.94	25.59	21.37	21.28
Return on average equity (%)	3.47	2.58	2.64	2.34	0.51
Non-performing loan ratio (%)	1.91	1.47	0.36	0.73	1.33
Reserve coverage ratio (%)	151.00	171.30	425.34	213.44	191.15
Customer deposits/total funding (%)	53.44	52.83	54.01	54.95	69.21

Source: Kookmin Bank (China), collected and adjusted by S&P Global (China) Ratings

Rating Snapshot

Anchor	bbb+
Business Position	-2
Capital and Earnings	+2
Risk Position	+1
Funding and Liquidity	0
Holistic Adjustment	0
Stand-alone Credit Profile	$a_{spc}-$
Group Support	+5
Issuer Credit Rating	$AA_{spc}+$
Outlook/Credit Watch	Stable

Business Position: Kookmin Bank (China) has a small commercial banking operation in China with a selective client base mostly composed of financial institutions, Korean corporations, and domestic industrial leaders.

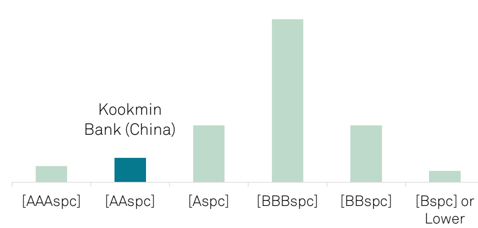
Capital and Earnings: Its capital adequacy is very strong. However, profitability remains weak due to scale disadvantages, relatively low NIM and unstable credit cost. Given that the bank didn't suffer loss in the past five years, its weak profitability does not have a significantly negative impact on its capital position.

Risk Position: Its risk appetite is lower than the industry average. Its NPL ratio is on the rise in recent years as a result of growing credit risks among some of its Chinese corporate clients, but we expect its medium and long-term credit cost to remain lower than the industry average.

Funding and Liquidity: Because of its small and concentrated deposit client base, its corporate deposit base is smaller and more volatile than the industry average. Nonetheless, it has stable and reliable access to funding and liquidity support from its parent.

External Support: Kookmin Bank has extremely high credit quality. Kookmin Bank (China) is extremely likely to receive extraordinary support from its parent in times of need as its parent has made a written commitment that it will provide capital and liquidity support to the bank when necessary.

Kookmin Bank (China)'s Issuer Credit Rating Position Among Financial Institutions In China



Note: This chart serves as a hypothetical example of S&P Global (China) Ratings' rating distribution of financial institutions. Ratings below [AAA_{spc}] can be adjusted by "+" and "-".

Peer Comparison

	2021			2022		
	Kookmin Bank (China)	**Commercial Bank Average**	**Foreign Bank Subsidiary Average**	**Kookmin Bank (China)**	**Commercial Bank Average**	**Foreign Bank Subsidiary Average**
Total assets (bil.)	20.27	158.13	76.06	20.00	174.48	76.48
Net income (bil.)	0.06	1.20	0.52	0.01	1.26	0.54
Reported capital adequacy ratio (%)	21.37	15.13	18.03	21.28	15.17	19.29
Return on average assets (%)	0.31	0.79	0.56	0.07	0.76	0.59
Non-performing loan ratio (%)	0.73	1.73	0.56	1.33	1.63	0.72
Reserve coverage ratio (%)	213.44	196.91	362.75	191.15	205.85	301.97

Source: Kookmin Bank (China), NAFR, Wind, collected and adjusted by S&P Global (China) Ratings.

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
Kookmin Bank (China) Limited	Issuer Credit Rating	$AA_{spc}+$	September 6, 2023	Stable

Stand-alone Credit Profile (SACP)	$a_{spc}-$
Anchor	bbb+
Business Position	-2
Capital & Earnings	+2
Risk Position	+1
Funding & Liquidity	0
Holistic Adjustment	0

+

External Support	+5
Group Support	+5

Issuer Credit Rating (ICR)
$AA_{spc}+$/ Stable

Credit Highlights

Key Strengths	Key Risks
— In times of need, it is extremely likely to receive support from its parent, which has extremely high credit quality.	— Its stand-alone business size is very small in China and highly concentrated.
— It has very strong capitalization.	— It has weak revenue stability and low profitability.
— It has prudent risk management.	

Rating Outlook

The stable outlook reflects our expectation that Kookmin Bank (China)'s business operations and financial strength will remain stable over the next two years or beyond. We also anticipate that its critical importance to its parent, Kookmin Bank, will remain unchanged.

Downside Scenario: We may consider lowering its issuer credit rating (ICR) if we believe that its parent's issuer credit quality deteriorates significantly, or its importance to its parent declines. We may consider lowering its SACP if the bank significantly raises its risk appetite or its capital adequacy deteriorates by a large margin.

Upside Scenario: We may consider raising its ICR if its market share in China increases significantly and its profitability and business stability improve considerably, leading to a substantial increase in its net income contribution to its parent.

Related Methodologies, Models & Research

Methodology Applied:

— S&P Global (China) Ratings Financial Institutions Methodology.

— S&P Global (China) Ratings General Considerations on Rating Modifiers and Relative Ranking.

Model Applied: None.

Anchor

Macro-Economic and Industry Trends

Considering the economic risk and industry risk faced by China's commercial banking industry, we typically apply an anchor of "bbb+" to commercial banks operating in China.

We expect China's 2023 GDP growth to recover significantly from 2022. We believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality so our baseline includes some of these dynamics.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support and economic recovery. While capital and asset quality performance indicators have remained stable, we expect pressure to continue on credit cost and profitability. State-owned mega banks are expected to maintain stable capitalization and resilient profitability. Regional banks on the other hand face more pressure on asset quality and capital.

Foreign bank subsidiaries in the Chinese banking sector are small in terms of market share and scale. They are typically fully owned and tightly controlled by their parents, sharing parents' brand, actively engaging in cross-selling activities, and enjoying on-going support in terms of capital injection and liquidity support. We expect strong support from the parent banks should the subsidiaries come under pressure. International banking groups generally maintain good credit quality, and strong and stable group support continue to play an important role in foreign bank subsidiaries' overall credit quality.

While Chinese banks have enjoyed rapid growth in the past decade, most foreign bank subsidiaries have seen modest loan book growth. There are 41 foreign bank subsidiaries in total and they only have a market share of less than 1% in the Chinese commercial banking industry. The mainstream Chinese banks have clear scale and pricing advantages in their loan business. Furthermore, China's mega banks are becoming increasingly adept at meeting the cross-border financing needs of domestic corporate clients. The fierce industry competition has led to growth challenges for foreign bank subsidiaries.

In recent years, many foreign bank subsidiaries' loan books shrank as they adhered to their low-risk growth strategies and the industry competition intensified. While they are smaller than domestic banks in terms of business scale, foreign bank subsidiaries have unique advantages in cross-border and global banking services and play an indispensable role in China's commercial banking industry.

Foreign bank subsidiaries have the highest capital adequacy ratios in China. By the end of 2022, their average capital adequacy ratio was 19.29%, 4.1 percentage points higher than the industry average. In recent years, shrinking loan business and decreased capital consumption led to an increase in capital adequacy for many foreign bank subsidiaries. For 2023, we expect their capital adequacy to remain at a high level.

At present, the downward trend in market interest rates results in a decline in foreign bank subsidiaries' net interest margins ("NIMs") and profitability. However, thanks to their good asset quality, their credit cost remains controllable, with profit quality still at a good and solid level. For 2023, NIM compression, high operating costs and revenue growth challenges will keep foreign bank subsidiaries' average profitability at a low level.

Most foreign bank subsidiaries maintain lower risk appetite compared to their Chinese peers. The slowdown in Chinese economic growth have not had a significant impact on their asset quality performance. Furthermore, compared with their Chinese peers, many foreign bank subsidiaries have less exposure to risky real estate assets or high-risk LGFVs.

In addition, international banking groups have maintained good credit quality in recent years. Stable and strong group support plays an important role in ensuring the very good issuer credit quality of these China subsidiaries. The first half of 2023 saw banking turmoil in the US and Europe. Except for SPD Silicon Valley Bank which suffered direct impact, most foreign bank subsidiaries operating in China are not negatively affected by the incidents of Silicon Valley Bank and Credit Suisse.

We usually expect foreign bank subsidiaries to receive parental support in times of stress. Foreign bank subsidiaries are typically fully owned and tightly controlled by their parents, sharing parents' brands and receiving effective parental support in terms of cross-selling activities, capital injection and liquidity support. Although most of these subsidiaries' contribution to their parents' income and assets is limited, considering China's very important position in the world economy, we believe that the commitment of international banks in the Chinese market is long-term. In addition, the China subsidiaries also recommend overseas business of Chinese customers to their parent banks, and their actual contribution to parents is higher than what is reflected on their balance sheets.

Considering the economic risk and industry risk faced by China's commercial banking industry, we apply an anchor of bbb+ for Kookmin Bank (China).

Stand-alone Credit Profile

The bank has a very small client base with Korean corporations representing a significant portion. It has made efforts to attract more Chinese corporate clients in recent years.

We apply a two-notch downward adjustment to its business position to reflect its very small business size in China.

Established in 2012, Kookmin Bank (China) Limited ("Kookmin Bank (China)") is a fully owned subsidiary of Kookmin Bank. Kookmin Bank is a core member of KB Financial Group, one of the largest financial institutions in Korea providing diversified financial services covering banking, securities and insurance. Kookmin Bank (China) is an integral part of KB Financial Group's Asia-Pacific banking network.

Kookmin Bank (China)'s business is very small. As of the end of 2022, it reported total assets of 20 billion RMB, gross loans of 8.26 billion RMB and customer deposits of 11.87 billion RMB. It is headquartered in Beijing with five branches across China (Beijing, Shanghai, Suzhou, Guangzhou and Harbin).

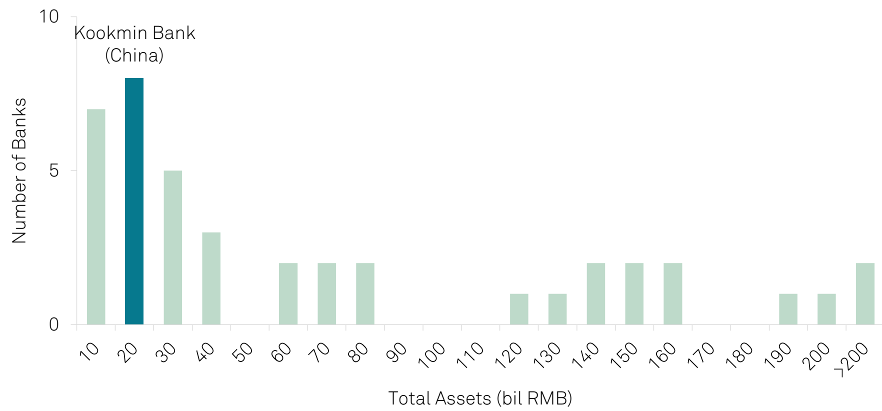
Business Position

Kookmin Bank (China) focus on traditional commercial banking business such as lending and deposit taking and treasury services. Similar to other foreign bank subsidiaries, Kookmin Bank (China) has a very small market share in China. By the end of 2022, its market share for loans and deposits was 0.005% and 0.004% in China, respectively; and its total assets decreased 1.33% YoY to 20 billion RMB and gross loans increased 9.72% YoY to 8.26 billion RMB.

Chart 1

Kookmin Bank (China) has a very small business size in China

Peer Comparison: Distribution of Total Assets of Major Foreign Bank Subsidiaries as of End of 2022



Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Table 1

Kookmin Bank (China) -- Market Share

(%)	2019	2020	2021	2022
Total assets /total assets of China's commercial banking industry	0.008	0.007	0.007	0.006
Gross customer loans/total loans of China's commercial banking industry	0.004	0.004	0.005	0.005
Customer deposits/total deposits of China's commercial banking industry	0.004	0.004	0.004	0.004

Source: Kookmin Bank (China), PBOC, NAFR, collected and adjusted by S&P Global (China) Ratings.

Kookmin Bank (China)'s loan size has maintained rapid growth in recent years. From 2020 to 2022, its total assets registered a three-year CAGR of 0.34%, while gross loans recorded a much stronger growth of 13.18%. Its net loans/total assets ratio rose from 37% at the end of 2021 to 40% at the end of 2022. In 2023, as it reduced its exposure to clients with potential high risks, demand in the credit market weakens, and industry competition intensifies, its loan size didn't increase significantly in the first half of 2023. As of the end of June 2023, its gross loans was 8.17 billion RMB.

Kookmin Bank (China) non-lending business is simple and straightforward, which makes only modest contribution to its operating income. Net fee and commission income, mostly generated from remittance, payment and credit facilities, accounted for about 9% of its operating income.

Kookmin Bank (China) primarily focuses on corporate banking business. As of the end of 2022, corporate loans accounted for 91% of its gross loans and retail loans accounted for the remaining 9%. Despite its small scale in the loan book, retail loans saw fast growth in the recent two years as the bank developed its internet lending business. By the end of 2022, its total retail loans surged 311% YoY to 772 million RMB. The growth was mainly attributable to online consumer loans through the collaboration with JD Finance, which accounted for 71% of its total retail loan book.

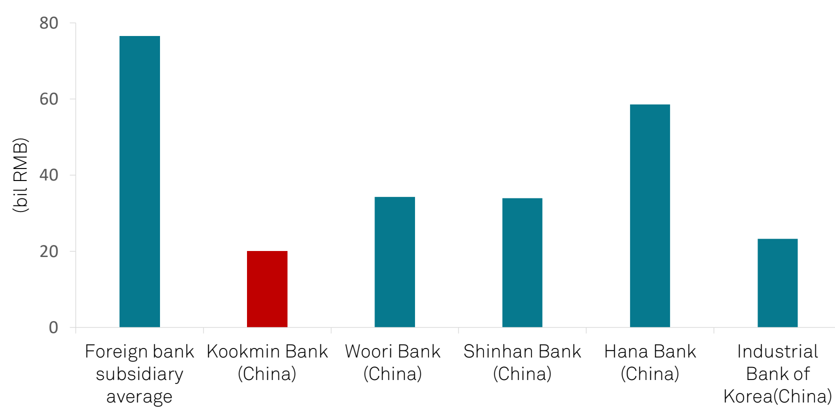
Kookmin Bank (China) has a small and selective corporate client base, mostly composed of Korean corporations and other foreign companies served by Kookmin Bank in its global network, and Chinese corporations acquired through its expansion efforts in China. As of the end of 2022, Korean and other foreign corporate clients contributed nearly half of total corporate loans, and Korean corporations contributed about 90% of its deposits.

As an integral part of KB Financial Group's Asia-Pacific banking network, Kookmin Bank (China) provides financial services to Korean corporations' business operations in China. Its foreign corporate clients have access to currency swaps and forwards, and credit commitments including letters of guarantee, letters of credit, loan commitments and bill acceptance. At present, five Korean financial groups have established their banking subsidiaries in China. These Korean banking subsidiaries compete intensely within the market. Among them, Kookmin Bank (China) was the last one to set up and is the smallest in terms of asset size.

Chart 2

Kookmin Bank (China) is smaller than other Korean banking subsidiaries

Peer Comparison: Total Assets of Major Korean Banking Subsidiaries as of End of 2022



Source: Public information of banks, NAFR, collected and adjusted by S&P Global (China) Ratings.

Capital and Earnings

Kookmin Bank (China) has very strong capitalization, with its capital adequacy ratio well above 20% for many years. Its reported regulatory tier 1 capital adequacy ratio was 20.50% as of the end of 2022, down by 0.37 percentage point from previous year but still much higher than the industry average of 12.30%. In 2023, it increased interbank discounting business, which has a smaller credit risk weight compared to loans. As a result, its capital adequacy ratio rose further. As of the end of June 2023, its tier 1 capital adequacy ratio rose to 27%. We expect its tier 1 capital adequacy ratio to stay above 20% in the next two years.

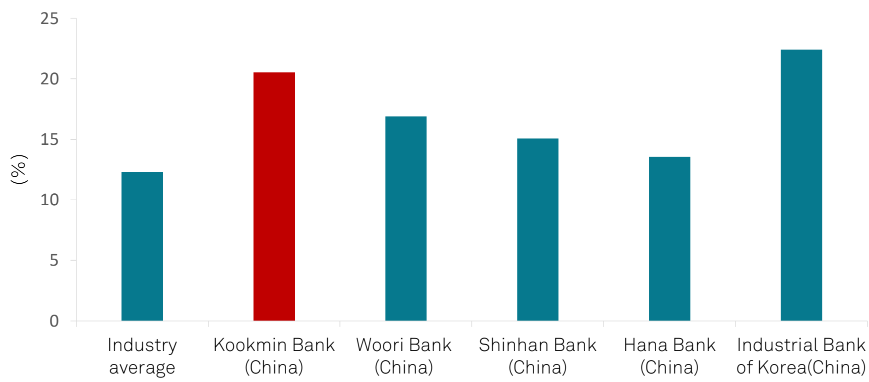
We apply a two-notch uplift to its capital and earnings to reflect its very strong capitalization. We expect it to maintain a very high capital adequacy ratio in the next two years.

Its weak profitability does not negatively affect its capital adequacy in any material way.

Chart 3

Kookmin Bank (China)'s capital adequacy ratio is slightly higher than its peers

Peer Comparison: Reported Regulatory Tier 1 Capital Adequacy Ratios of Major Korean Bank Subsidiaries as of End of 2022

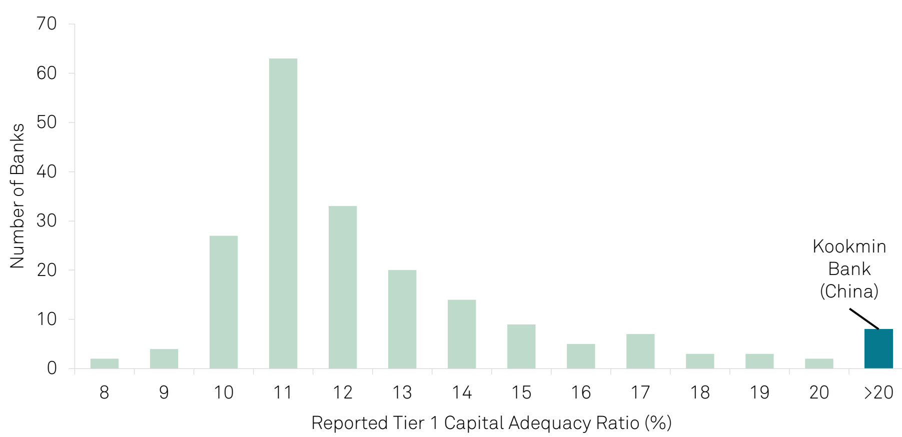


Source: Public information of banks, NAFR, collected and adjusted by S&P Global (China) Ratings.

Chart 4

Kookmin Bank (China)'s capitalization is much stronger than the industry average

Industry Comparison: Distribution of Reported Regulatory Tier 1 Capital Adequacy Ratio of 200 Major Commercial Banks in China as of End of 2022



Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings

Table 2

Kookmin Bank (China) -- Capital Adequacy Forecast by S&P Global (China) Ratings

(Bil. RMB)	2023F		2024F		Base case assumptions
	Amount	YoY Change	Amount	YoY Change	
Risk-weighted assets	11.88	-9%	12.59	6%	Due to weakening demand in the lending business and intensified competition among banks in 2023, we expect its loan book to contract in 2023 and recover to some extent in 2024.
Tier 1 capital	2.82	5%	2.93	4%	1. Its NIM will be in the range of 1.4%-1.5%, and its cost-to-income ratio will be around 50%. 2. ROE is expected to be around 3%-5% in 2023 and 2024. 3. We assume there is no dividend payout. Because of its small business size, any occurrence of new non-performing loans or recovery of legacy bad debts in great amount would significantly impact the credit cost in the year, making our profitability forecast less accurate. Nevertheless, in our view, its profitability would not have a significantly negative impact on its capital given its conservative stance on risk-taking.
Tier 1 capital adequacy ratio forecast	>23%		>20%		Its small business scale makes its capital adequacy ratio highly sensitive to business size changes, especially the expansion and contraction of its lending business. This could lead to less accurate capital forecast for the bank compared to larger banks. Nevertheless, despite the volatility in RWA, we expect its tier 1 capital adequacy ratio to stay above 20% in the next 24 months considering its business growth rate and risk appetite.

Note: F – forecast.

Source: S&P Global (China) Ratings.

Kookmin Bank (China) enjoys adequate capital support from its parent for the purpose of business expansion. It received a capital injection of 2.5 billion RMB from Kookmin Bank upon its establishment in 2012 and hasn't paid any dividends since then. All realized profits through the years have been booked as general reserve or surplus reserve to enhance its capital base. As of the end of 2022, its total equity was 2.73 billion RMB.

The operating income of Kookmin Bank (China) has recorded continued increase in recent years, with a CAGR of 13.20% from 2020 to 2022. In 2022, its operating income totaled 309 million RMB, up 6.76% YoY. Net interest income constituted the main source of its operating income, accounting for 102% of operating income. The operating income was lower than net interest income because its income sensitive to market risk (including investment income, profit/loss on changes in fair value, and profit/loss on foreign exchange) suffered a loss of 34 million RMB in 2022. In our opinion, its revenue stability is weaker than the industry average due to its scale disadvantages. In the first half of 2023, its operating income remained stable, equivalent to around 47% of its operating income in 2022.

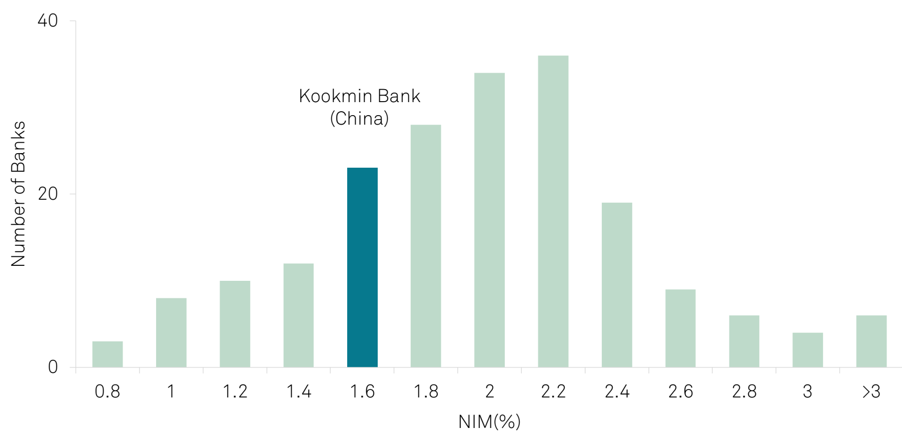
The net interest margin ("NIM") of Kookmin Bank (China) is below the industry average due to the low credit risk premium of its high credit quality interest-bearing assets. The bank holds large amount of low-risk bonds and interbank assets. In 2022, it had a NIM of 1.57%, 0.08 percentage point lower than the industry average of 1.91%. The NIM decline was due to the drop of the loan prime rate ("LPR").

Kookmin Bank (China) has relatively large exposures to US dollar-denominated assets and liabilities. Amid the dollar interest rate hike cycle in recent years, the bank continues to reduce its US dollar-denominated debt size in to lower its debt cost. As of the end of 2022, its US dollar-denominated assets were equivalent to 3.85 billion RMB, accounting for 19% of total assets, and its US dollar-denominated liabilities were 4.56 billion RMB, accounting for 26% of total liabilities. Net US dollar exposure was equivalent to 713 million RMB in liabilities, representing a decline of 52.10% from 2021.

Chart 5

Kookmin Bank (China)'s NIM is below the industry average

Industry Comparison: Distribution of NIM of 200 Major Commercial Banks in China in 2022



Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings

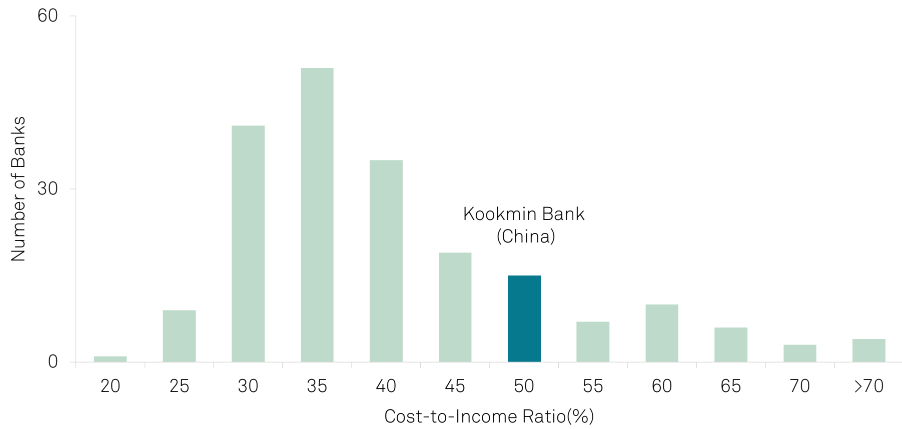
Because of continued growth in operating income and effective control on operating expenses, Kookmin Bank (China) has seen its cost-to-income ratio declining in recent years. In 2022, its cost-to-income ratio stood at 46.63%, down 2.68

percentage points from previous year, but still higher than the industry average of 33.97%.

Chart 6

Similar to its peers, Kookmin Bank (China) has a high cost-to-income ratio

Industry Distribution: Cost-to-Income Ratio of 200 Major Commercial Banks in China in 2022



Source: Public information of banks, collected and adjusted by S&P Global (China) Ratings

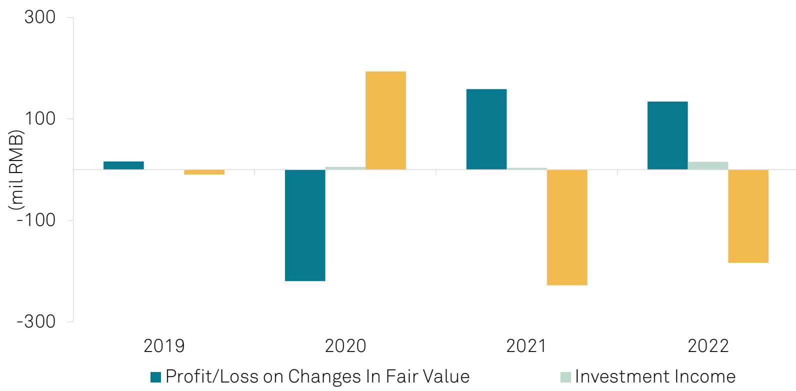
Due to a decline in loan asset quality in 2022, its credit cost increased significantly as regulators raised loan loss reserve-to-loan requirement for the bank. As of end of 2022, its non-performing loans totaled 110 million RMB, nearly doubling the amount from previous year. Consequently, regulatory requirements on the minimum reserve-to-loan ratio rose from 1.5% to 2.5%, leading to a surge in credit impairment loss from 45 million RMB in 2021 to 162 million RMB in 2022. In 2022, the banks' credit cost (loan provisioning/average gross customer loans) was 1.85%, up by 1.27 percentage points YoY. Nevertheless, the bank maintains low risk appetite in general, so we believe its long-term credit cost remains at a lower-than-average level. Its average credit cost from 2018 to 2022 was only 0.57%.

The bank's large US dollar exposure could escalate its market risk in the context of great volatility in US dollar exchange rate and interest rates. In 2022, its income sensitive to market suffered a loss of 34 million RMB, following a loss of 66 million RMB in 2021. We expect such income to become less volatile as the bank reduces its US dollar exposure.

Chart 7

Fluctuations in its income sensitive to market mainly caused by its US dollar-related business

Kookmin Bank (China): Income Sensitive to Market Risk



Source: Kookmin Bank (China), collected and adjusted by S&P Global (China) Ratings

The surge in its credit cost led to a drop of 77.70% in its net income in 2022. Its asset provisioning to pre-provision operating profits ratio was close to 100%, pushing down pre-tax profit to a mere 95 thousand RMB. In 2022, it achieved net income of 14.04 million RMB, most of which came from tax rebates.

Given its small revenue scale, relatively low NIM, high cost-to-income ratio and great volatility in credit cost, the bank shows weak profitability. From 2020 to 2022, its net profit was 69 million RMB, 63 million RMB and 14 million RMB, respectively. Its return on average equity was 0.51% in 2022, and its five-year average ROE was 2.31% from 2018 to 2022. In the first half of 2023, it achieved net income of 113 million RMB due to credit impairment reversal. In spite of weak profitability, the bank avoided making any material loss in recent years thanks to its prudent operating strategy. In addition, the capital consumed by its business growth is small, and thus its weakness in profitability would not negatively impact its capital adequacy in any significant way.

Risk Position

We apply a one-notch uplift adjustment to its risk position to reflect its lower-than-industry-average risk appetite.

Kookmin Bank (China) has low risk appetite and better asset quality compared to the industry average. Loans for Korean corporations with business operations in China presents a significant portion of its loan book, which underpins the overall good asset quality of the bank. As of the end of 2022, loans for Korean corporations, primarily large Korean enterprise groups and their subsidiaries in China, accounted for nearly 50% of its total corporate loans. There has been no bad debts in this Korean portfolio in recent years.

However, the asset quality of some Chinese corporate clients declined over the past two years, leading to an increase in its NPL ratio. Since 2023, the bank has strengthened underwriting criteria for its Chinese corporate clients and cut exposure to some clients with weak credit quality. We expect limited downside for its asset quality going forward. As of the end of 2022, its NPL ratio was 1.33%, up 0.61 percentage point YoY, and its SML ratio came to 0.27%, down 0.26 percentage point

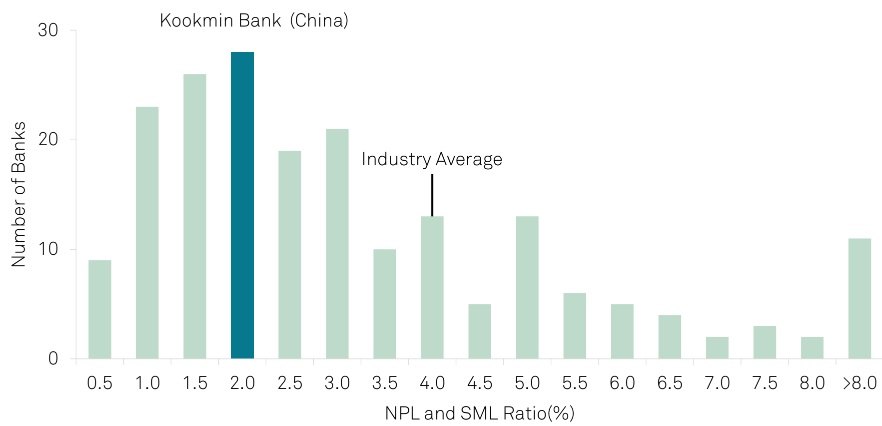
YoY. As of the end of June 2023, its NPL ratio rose to around 2%. By the end of 2022, its loan delinquency ratio increased by 0.08 percentage point YoY to 1.35%. The average ratio of overdue loan to gross customer loans from 2018 to 2022 was 1.27%. Net write-off ratio (net write-offs/average gross customer loans) recorded 0.69% in 2022 and its average net write-off ratio from 2018 to 2022 was 0.61%.

Kookmin Bank (China) has sufficient provisioning. As of the end of 2022, there were four corporate loans classified as non-performing, each with an amount below 50 million RMB and covered by sufficient reserve in a timely manner. As of the end of 2022, its reserve coverage ratio reached 191.15%, and its reserve coverage of NPL and SML was 159.85%. Its reserve-to-loan ratio was 2.55%.

Chart 8

Kookmin Bank (China) has better asset quality than the industry average

Industry Distribution: NPL + SML Ratio of Major Banks in China as of End of 2022

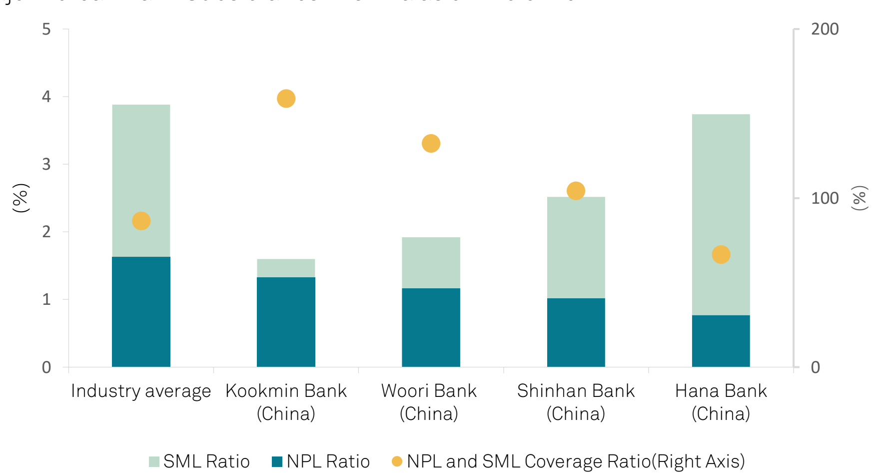


Source: Public information of banks, NAFR, collected and adjusted by S&P Global (China) Ratings.

Chart 9

Kookmin Bank (China) has smaller problem loans compared to its peers

Peer Comparison: Distribution of NPL + SML Ratio and Problem Loan Coverage of Major Korean Bank Subsidiaries in China as of End of 2022



Source: Public information of banks, NAFR, collected and adjusted by S&P Global (China) Ratings.

Since 2022, Kookmin Bank (China) has been expanding its internet consumer lending business, and the asset quality performance of such loan deserve attention going forward. As of the end of 2022, its outstanding internet consumer loans was 547 million RMB, accounting for 6.6% of its gross loan. The bank typically collaborates with internet platform companies such as JD Finance and offers consumer loans each within a limit of 10 thousand RMB. The impact of this new business line on its overall risk position is controllable at present, as this business makes up a relatively small share of its overall businesses. We will closely monitor the changes in the overall scale and asset quality of such loans.

Manufacturing and financial sectors have the highest weights in its loan book. As of the end of 2022, outstanding manufacturing sector loans totaled 3.96 billion RMB, up 4.6% from 2021 and accounting for 53% of its corporate loans. Key areas in its manufacturing exposure include automobile manufacturing, semiconductors, new energy, and steel; its outstanding financial sector loans were 1.50 billion RMB, up 41.47% YoY and accounting for 20% of its total corporate loans. Financial sector exposure mainly includes exposure to financial companies such as commercial leasing companies.

We expect little direct impact of real estate market fluctuation and local governments' hidden debts on Kookmin Bank (China). The bank has limited exposure to the real estate related sector, with less than 1% of corporate loans made for construction companies. The bank has no significant exposure to LGFVs, but its leasing company clients have some LGFV exposures. Its asset quality could be influenced indirectly if these leasing company borrowers are greatly affected by LGFV-related risks. For now, we think such indirect potential risks remain under control.

We view the bank's geographical concentration risk as controllable. By the end of 2022, around 46% of its total loans were distributed in East China, around 22% in North China, and roughly 8% in South China, Northeast China and Central China, respectively.

The bank maintains very high asset quality for its investment business. As of the end of 2022, its investment assets reached 3.43 billion RMB, accounting for 17% of its total assets. In particular, 75% of its investment portfolio were government bonds and policy bank bonds, and 15% bank and other financial institution bonds. Investment in corporate bonds totaled 351 million RMB, accounting for 10% of its investment assets and mainly composed of central government SOE bonds with extremely good credit quality.

It has small market risk exposure. By the end of 2022, its market risk-weighted assets only accounted for 0.64% of its total risk-weighted assets. Its bond investment, foreign exchange settlement and sales, and derivatives businesses are exposed to foreign exchange rate and interest rate risks. The bank applies VaR model (Historic Simulation Approach) to measure market risks, and has put in place effective risk limit management.

Kookmin Bank (China) has low interbank credit risk. As the end of 2022, its interbank assets were 7.14 billion RMB, accounting for 36% of its total assets. Its counterparties are mostly medium and large-sized A-share listed commercial banks with controllable credit risk.

Funding and Liquidity

Kookmin Bank (China) has a very concentrated customer deposit base due to its small customer base, leading to limited stability of its deposits. As of the end of 2022, its total customer deposits grew by 24% YoY to 11.87 billion RMB. Its largest deposit customer contributed nearly 25% of its total customer deposits and its ten largest customers contributed around 50%. As of the end of June 2023, its total customer deposits were 9.63 billion RMB, down about 19% YoY.

The bank has a stable funding base and adequate liquidity thanks to ongoing liquidity support from its parent and sound liquidity of its assets.

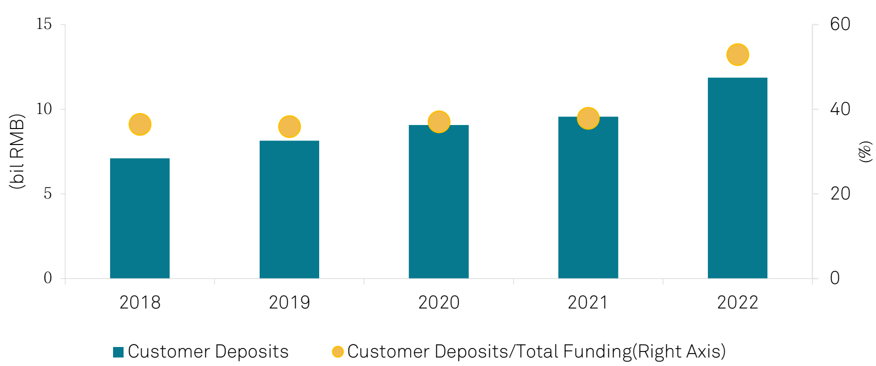
Therefore, there is no notching adjustment for its funding and liquidity.

Its deposits are mostly composed of time deposits from corporate clients. By the end of 2022, corporate deposits accounted for 99.8% of its total deposits. Time deposits accounted for 93% of its deposit base, mostly with a maturity of one year or below. Corporate deposits mainly come from Korean corporations. The close ties between KB and its Korean clients help stabilize its deposit base. Its retail deposits are very small, and they are mainly deposits generated from lending business and staff deposits.

Chart 10

The bank's customer deposits kept growing through the years, but still has high volatility

Kookmin Bank (China): Customer Deposits and Proportion of Customer Deposits in Total Funding



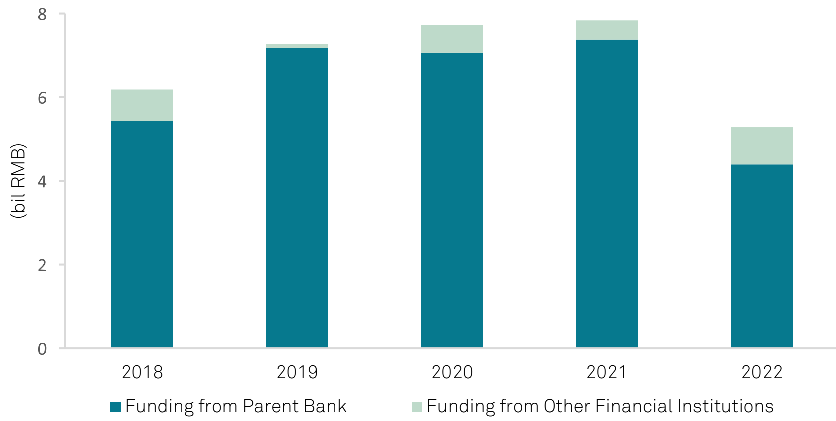
Source: Kookmin Bank (China), collected and adjusted by S&P Global (China) Ratings

The bank's access to reliable funding support from its parent offsets the volatility of its deposit base. By the end of 2022, its customer deposits accounted for 69% of its total funding and wholesale funding contributed the remaining 31%; it raised 5.28 billion RMB in wholesale funding, 83% of which from its parent bank.

Chart 11

The parent provides ongoing and reliable wholesale funding to Kookmin Bank (China)

Kookmin Bank (China): Interbank Market Funding Structure



Source: Kookmin Bank (China), collected and adjusted by S&P Global (China) Ratings

The liquidity of its assets is high. As of the end of 2022, 80% of its assets (including non-interest-bearing assets) had a maturity within one year. Since its loan book is smaller than mainstream Chinese banks, it allocates a greater portion of funds to interbank and investment businesses, which are less risky and more liquid compared to lending exposure. As of the end of 2022, 40% of its assets were loans, 36% interbank assets, 17% investment portfolio, and 6% cash and deposits with the central bank. Government bonds and policy bank bonds constitute the majority of its investment portfolio and are highly liquid. It typically has a net lending position in its interbank business.

The bank has a stand-alone credit profile of a_{spc}- , which reflects its very strong capitalization and prudent risk management, but very small business scale in China.

In our view, the liquidity management of Kookmin Bank (China) is very prudent. As of the end of 2022, its liquidity ratio stood at 101.35%, its liquidity matching rate 107.35%, and high-quality liquidity asset adequacy ratio 113.15%, all well above the minimum regulatory requirements.

Issuer Credit Rating

External Support

Kookmin Bank (China) is a fully owned subsidiary of Kookmin Bank, a core banking subsidiary of KB Financial Group. KB Financial Group is the largest comprehensive financial group in Korea. As of the end of 2022, Kookmin Bank ranked first among all banks in Korean in terms of deposit size, number of branches and client base.

As of the date of this report, S&P Global Ratings has assigned an issuer credit rating of “A+” with a “Stable” outlook to Kookmin Bank. Based on the broad relationship observed between the credit opinions of S&P Global Ratings and S&P Global (China) Ratings, S&P Global (China) Ratings views the issuer credit quality of Kookmin Bank as extremely high, equivalent to the issuer credit rating of “AAA_{spc}” in our national scale.

Table 3

Credit Highlights of KB Financial Group

Key Strengths	Key Risks
Strong market position as one of the leading banking groups in Korea.	Weaker overseas performance relative to domestic operations.
Well-diversified revenue contribution from nonbanking businesses.	Potential pressure on asset quality from high household leverage in Korea amid rising domestic interest rates
Adequate credit risk management.	

Source: S&P Global Ratings, collected by S&P Global (China) Ratings

In our view, Kookmin Bank has extremely high issuer credit quality.

Kookmin Bank (China) is an integral part of its group's Asia-Pacific banking network. It receives stable support from its parent in terms of business development, capital injection and liquidity.

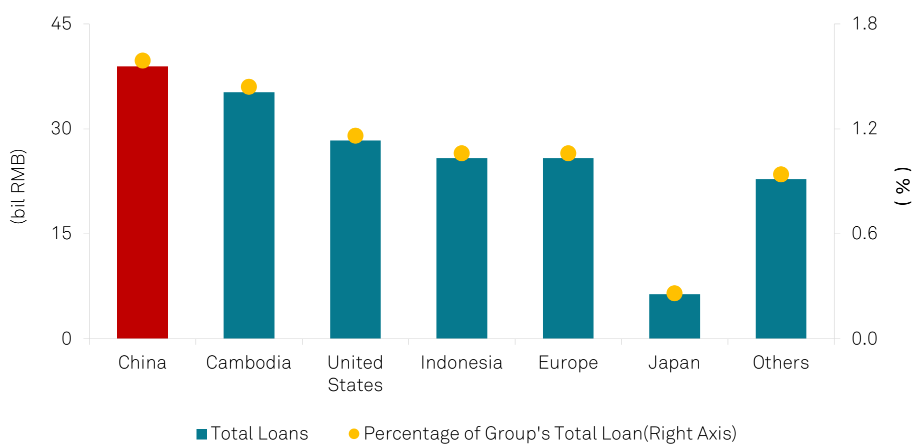
We believe that Kookmin Bank (China) has critical importance to its parent. Therefore, we assign an ICR of "AA$_{spc}$+" to Kookmin Bank (China).

KB Financial Group's businesses are mainly concentrated in Korea's domestic market, with China being one of its largest overseas markets. As of the end of 2022, 92.5% of the group's total loans were originated in Korea. The Chinese market contributed 1.59% of its total loans, making it the largest loan contributor outside Korea. That being said, Kookmin Bank (China) makes a very small revenue contribution to its parent bank. In 2022, Kookmin Bank (China)'s operating income accounted for only 0.56% of that of Kookmin Bank.

Chart 12

China is one of the most important overseas markets for KB Financial Group

KB Financial Group: Loans in Overseas Markets as of End of 2022



Source: KB Financial Group, collected by S&P Global (China) Ratings.

Kookmin Bank (China) is an integral part of Kookmin Bank's Asia-Pacific banking network and shares its parent bank's brand. Kookmin Bank provides ongoing and reliable support to Kookmin Bank (China) in terms of business operation, capital injection, risk management, and funding and liquidity.

Kookmin Bank has made written commitments to confirm its support for Kookmin Bank (China). The commitment letter issued in 2021 shows that it will replenish capital of Kookmin Bank (China) when necessary and will not withdraw capital from it in the event of liquidity challenges and provide liquidity support in its best efforts.

Therefore, we believe that Kookmin Bank (China) has critical importance to its parent. We assign an Issuer Credit Rating of "AA_{spc}+" to Kookmin Bank (China), five notches higher than its stand-alone credit profile of "a_{spc}-". The rating considers both its close ties with its parent and its limited contribution to its parent's income.

Appendix

Appendix 1: Key Financial Data

Kookmin Bank (China) -- Key Financial Data	2018	2019	2020	2021	2022
Business Position					
Total assets (bil)	15.99	18.22	19.86	20.27	20.00
Year-over-year growth of total assets (%)	30.49	13.93	9.03	2.03	(1.33)
Gross customer loans (bil)	5.01	5.70	6.45	7.52	8.26
Year-over-year growth of gross customer loans (%)	19.91	13.87	13.00	16.74	9.72
Customer deposits (bil)	7.10	8.15	9.07	9.56	11.87
Year-over-year growth of customer deposits (%)	13.68	14.79	11.34	5.42	24.13
Net income (bil)	0.09	0.07	0.07	0.06	0.01
Year-over-year growth of net income (%)	1,557.55	(23.04)	4.70	(9.18)	(77.70)
Net fee and commission income/operating income (%)	7.07	10.70	9.79	9.01	9.31
Capital and Earnings					
Reported regulatory capital adequacy ratio (%)	38.0	26.94	25.59	21.37	21.28
Reported regulatory Tier 1 capital adequacy ratio (%)	37.2	26.33	24.86	20.87	20.50
NIM adjusted by S&P Global (China) Ratings (%)	1.48	1.15	1.26	1.65	1.57
Cost-to-income ratio (%)	40.16	59.78	54.25	49.31	46.63
Asset provisioning/pre-provision operating profits (%)	4.71	0.50	15.77	31.21	100.00
Loan provisioning/average gross customer loans (%)	0.09	0.05	0.29	0.59	1.85
Return on average assets (%)	0.61	0.39	0.36	0.31	0.07
Return on average equity (%)	3.47	2.58	2.64	2.34	0.51
Risk Position					
Non-performing loan ratio (%)	1.91	1.47	0.36	0.73	1.33
(Non-performing loans + special mention loans)/gross customer loans (%)	1.91	1.47	0.36	1.26	1.61
Overdue loans/gross customer loans (%)	1.89	1.47	0.36	1.26	1.35
Loan loss reserves/gross customer loans (%)	2.88	2.52	1.55	1.55	2.55
Reserve coverage ratio (%)	151.00	171.30	425.34	213.44	191.15
Loan loss reserves/ (non-performing loans + special mention loans) (%)	151.00	171.30	425.34	125.91	159.85
Net write-offs/average gross customer loans (%)	1.02	0.03	0.99	0.31	0.69
Funding and Liquidity					
Customer loans/customer deposits (%)	70.57	70.01	71.05	78.67	69.55
Customer deposits/total funding (%)	53.44	52.83	54.01	54.95	69.21
Wholesale funding/total funding (%)	46.56	47.17	45.99	45.05	30.79
Retail deposits/customer deposits (%)	0.28	0.37	0.32	0.24	0.21
Regulatory high quality liquidity asset adequacy ratio (%)	140.69	220.84	240.84	353.83	113.15
Regulatory liquidity matching ratio (%)	N/A	115.45	133.58	112.83	107.35

Note 1: In our view, Kookmin Bank (China) has a clear business model and sound financial management. Therefore, we haven't conducted any material adjustments to its financial data.

Note 2: Kookmin Bank (China)'s annual financial report of 2018 was audited by Ruihua Certified Public Accountants, and its annual financial reports from 2019 to 2022 were audited by KPMG China. All these financial reports were assigned with standard unqualified opinions.

Note 3: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(total interest-bearing assets at the beginning of the year + total interest-bearing assets at the end of the year)/2].

Note 4: Wholesale funding=borrowing from central government + borrowing and deposits from other financial institutions + financial assets sold for repurchase + transactional monetary liabilities + bonds payable.

Source: Kookmin Bank(China), collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Rating History of Kookmin Bank (China)

Ratings	Outlook	Rating Date	Analysts	Related Reports
$AA_{spc}+$	Stable	2023-09-06	Xuefei Zou, Yanyu Wang, Qiwei Chen	Current Report

Note: These ratings are conducted based on S&P Global (China) Ratings Financial Institutions Methodology, and no quantitative model is used.