

Korea Development Bank (KDBZ KS)

FUNDAMENTAL VIEW ¹

As of 16 Oct 2023

- KDB was established in 1954 to finance the reconstruction of South Korea after the Korean war; it financed the rapid industrialization of Korea from the 1960s.
- In 2009, KDB was restructured, spinning out Korea Finance Corp. KDB was due to be privatized but the next government scrapped the plan and revised the KDB Act to re-merge KDB and KoFC which was done at the end of 2014.
- Its policy role has been re-affirmed and, as such, KDB remains a quasi-sovereign bank. Its credit standing is based on the strong likelihood of government backing.

RISKS & CATALYSTS

As of 16 Oct 2023

- The KDB Act continues to include a solvency guarantee from the government which is committed to supporting the bank and to keep its stake above 50%.
- KDB is therefore viewed as a Korean quasi-sovereign entity and its ratings of Aa2/AA/AA- are in line with Korea's sovereign ratings.
- KDB has regularly incurred bad debts due to both poor risk management and its role of helping corporate Korea through difficult times, and in 2020 it stepped up to help businesses hit by the COVID-19 downturn.
- The profitability of its banking business is low, and it regularly needs and receives capital injections from the government.

KEY METRICS

As of 16 Oct 2023

KRW BN	FY18	FY19	FY20	FY21	FY22
PPOP / Average Assets	0.68%	0.39%	0.71%	0.97%	0.37%
ROAA	0.84%	0.11%	0.67%	0.74%	(1.91%)
ROAE	6.3%	0.8%	4.7%	5.1%	(18.3%)
Provisions/Average Loans	0.07%	(0.11%)	0.84%	0.29%	(0.03%)
NPL Ratio	4.23%	2.71%	2.48%	1.71%	0.73%
CET1 Ratio	12.7%	12.1%	14.3%	13.7%	12.3%
Total Equity/Total Assets	13.27%	13.05%	13.44%	13.82%	10.14%
NIM	0.83%	0.52%	0.55%	0.68%	0.63%

BUSINESS DESCRIPTION

As of 16 Oct 2023

- In 2009, KDB was restructured and the aim of the government at the time was to eventually privatise KDB, which was seen to have long outgrown its policy role and to be competing with the commercial banks.
- The Park Geun-hye government subsequently reversed this plan which was opposed by KDB. This was impractical given KDB's poor returns and non-commercial management approach.
- KDB's new policy role is to support start-ups and SMEs, as well as large-scale overseas projects. Its vision is summed up as: "An advanced policy bank, at the forefront of Korea's sustainable growth". It also acts as a "market safety net", helping with the restructuring of troubled industries.
- KDB is 100% owned by the Korean government. Under Article 32 of the KDB Act is required to offset any annual losses that exceed the banks' reserves. This is a solvency guarantee and the government has in practice always undertaken proactive moves to ensure the bank remains not only solvent but also adequately capitalised.

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