

Industrial Bank of Korea (024110 KS)

FUNDAMENTAL VIEW ¹

As of 06 Sep 2024

- IBK benefits from a legally binding solvency guarantee from the Korean government and is viewed as a Korean quasi-sovereign issuer. The bank is listed, but remains majority state-owned. Previous governments had proposed privatizing it, but subsequent governments scrapped these plans. The government intends to keep its stake above 50%, and wants IBK to focus on lending to SMEs and provide earlier stage investment capital.
- IBK manages the difficult feat of combining its policy role to support Korean SMEs with performance that compares creditably with Korean commercial banks.

RISKS & CATALYSTS

As of 06 Sep 2024

- The bank's ratings (Aa2/AA-/AA-) are closely tied to the Korean sovereign's ratings (Aa2/AA-/AA-) due to its quasi-sovereign status.
- Its ratings and its default risk should therefore not be impacted by any deterioration in its financials, provided the government continues to inject new capital when needed, which it is expected to.
- Its policy mandate requires it to use at least 70% of its funding for SMEs. Risks are mitigated by its granular SME exposures which are more than 80% secured, including guarantee from state-owned credit guarantee agencies. Korean governments have also always been quick to provide support including capital injections to IBK when needed, with the most recent injection of KRW 1.3 tn during the COVID.

CREDIT QUALITY SCORE (CQS)²

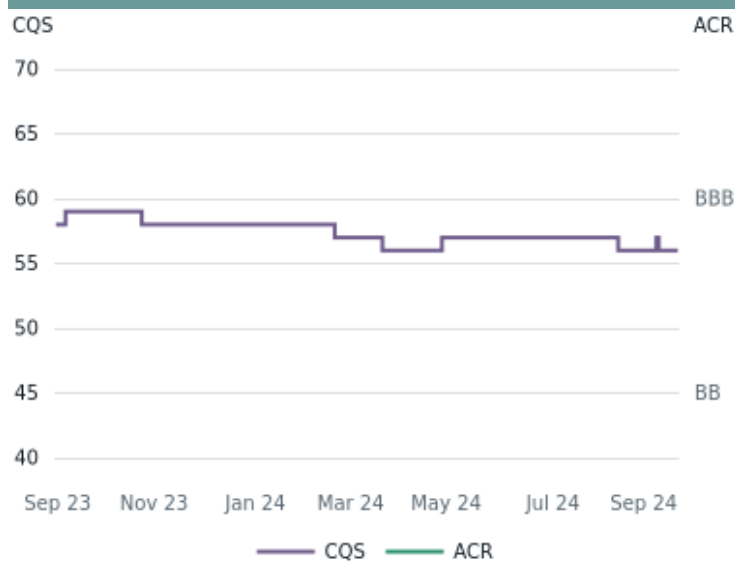
As of 06 Sep 2024

CURRENT CQS

56

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

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

KEY METRICS

As of 04 Sep 2024

KRW BN	FY20	FY21	FY22	FY23	1H24
Pre-Provision Operating Profit / Average Assets	1.33%	1.30%	1.49%	1.59%	2.78%
ROAA	0.5%	0.6%	0.6%	0.6%	0.6%
ROAE	6.4%	9.2%	9.5%	8.8%	8.7%
Provisions/Average Loans	0.60%	0.34%	0.50%	0.67%	1.03%
Nonperforming Loans/Total Loans	1.08%	0.85%	0.85%	1.05%	1.30%
CET1 Ratio	11.1%	11.3%	11.1%	11.3%	11.6%
Total Equity/Total Assets	6.95%	6.92%	6.79%	7.10%	7.06%
NIM	1.55%	1.51%	1.78%	1.79%	1.73%

BUSINESS DESCRIPTION

As of 04 Sep 2024

- IBK was established under its own Act in 1961 to assist the development of Korea's small business sector. It claims a 23% market share in SME lending.
- It was listed in the early 1990s, but was re-nationalised following heavy losses in the Asian economic crisis of the late 1990s. It was re-listed in 2003, and is majority owned by the government which holds 59.5%; the National Pension Scheme holds 5.6%, and other policy banks have small stakes (7.2% by Korea Development Bank and 1.8% by the Export-Import Bank of Korea).
- Under Article 43 of the IBK Act, if the bank incurs losses they should be set against its reserves and "if the reserves are not sufficient the Government shall assume the remaining loss". Although this is a solvency guarantee and not an explicit guarantee for the timely payment of debts, we believe the Korean government will ensure IBK is in a position to make such timely payments.

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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