

Seoul Guarantee Insurance Company

Fitch Affirms Seoul Guarantee Insurance's IFS at 'AA-'; Outlook Stable

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Fitch Ratings - Hong Kong/Seoul - [publication date will be automatically inserted]

Fitch Ratings has affirmed Seoul Guarantee Insurance Company's (SGI) Insurer Financial Strength (IFS) Rating at 'AA-' (Very Strong). The Outlook is Stable.

The rating reflects SGI's 'Strong' capitalisation, 'Favourable' company profile, and satisfactory financial performance. SGI benefits from a one-notch uplift from its standalone credit quality due to the potential support from the government via Korea Deposit Insurance Corporation (KDIC).

Key Rating Drivers

Ratings Reflect Government Support: Fitch believes the South Korean government would provide support to SGI, if needed, given SGI's important policy role in providing guarantee insurance to a wide range of economic entities. SGI contributes to domestic economic stability and primarily serves small and medium-sized enterprises and individuals, which together comprise about 88% of its policyholders.

KDIC holds an 83.85% stake in SGI, following the sale of 10% of KDIC's existing shares through an IPO in March 2025. We believe SGI will continue to benefit from parental support and expect SGI to maintain a dominant market position in the short to medium term, although the government intends to gradually reduce its stake.

Solid Capitalisation: We believe SGI has a sufficient capital buffer to withstand shocks from increased claims. Its capital position, measured by the Fitch Prism Global Model, was 'Strong' in 1H25 (2024: Very Strong). The regulatory solvency ratio under the Korean Insurance Capital Standard (K-ICS) improved to 427.5% in 1H25 (2024: 416.3%), well above the 100% minimum regulatory requirement. This provides a cushion against potential volatility in the business portfolio, particularly amid economic and operating environment challenges.

Cyclical Profit Pressures: SGI's underwriting performance remains susceptible to economic downturns given the nature of its business. Profitability declined in 2023 to 1H25 due to rising claim frequency amid a slowdown in the market, which was mitigated by sound investment returns. The combined ratio rose to 94% in 1H25 (2024: 93.6%, 2023: 81.5%). Return on equity (ROE) declined to 3.3% in 1H25 (2024: 4.1%, 2023: 8.3%). We expect underwriting performance to normalise gradually from 2H25, supported by a gradual interest-rate cut and stabilising claims experience.

'Favourable' Company Profile: SGI's company profile ranking reflects its crucial role in supporting economic activities nationwide. The company offers a broad range of guarantee and credit insurance products across various sectors and consistently maintains a market share of over 23% by guarantee exposure despite competitive pressures. SGI is the country's second-largest domestic guarantee provider by total exposure. Overseas expansion remains measured, accounting for around 2% of total guarantee exposure with limited losses in the last three years.

Low Risky-Asset Exposure: SGI maintains a prudent strategy in managing its investments. Investment-grade bonds comprise around 75% of total invested assets. SGI is likely to increase its exposure to alternative investments in diverse sectors and regions to enhance its overall financial performance and resilience against market fluctuations. That said, the risky-asset ratio remained manageable at 36.4% in 1H25, lower than our criteria guideline for IFS 'AA-' rated insurers.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of Korea's Long-Term Local-Currency Issuer Default Rating (AA-/Stable).
- A reduction in government support via KDIC, such as a significant cut in the government's stake in KDIC or the sale of the government's shares to a financially weaker acquirer.
- A worsening in standalone credit quality, reflecting a deterioration in capitalisation, measured by the Prism score, below well into 'Strong', or weakening in profitability with ROE below 6%, over a prolonged period.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A significant enhancement in standalone credit quality, including a substantial improvement in the company profile, increased geographical diversification and operating scale, strengthened capital adequacy, measured by the Prism score, well into 'Very Strong', and improved underlying profitability with ROE above 12%, over a prolonged period.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY

RATING

PRIOR

ENTITY	RATING			PRIOR
Seoul Guarantee Insurance Company	LT IFS	AA- ●	Affirmed	AA- ●

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Applicable Criteria

Insurance Rating Criteria (pub.04-Mar-2024)(includes rating assumption sensitivity)

Applicable Models

Prism Global (ex-U.S.) Model, v1.8.2 (1)

Additional Disclosures

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