

## Media Release

# Bank of Panhsin Outlook Revised To Positive On Improved Capitalization And Asset Quality; 'twBBB-/twA-3' Ratings Affirmed

October 28, 2019

## Overview

- Bank of Panhsin's capital strength has improved over the course of the past year which we expect it to sustain over the coming one to two years supposed by moderate loan growth and profit retention.
- We also assess that the bank's asset quality has stabilized and is likely to remain so over the next 18 months.
- We are revising the outlook on the long-term rating to positive from stable.
- We are also affirming our 'twBBB-' long term and 'twA-3' issuer credit ratings on Bank of Panhsin as well as the 'twBB' issue credit rating on the bank's financial debentures.

## Rating Action

Taiwan Ratings Corp. today revised its outlook on the long-term rating on **Bank of Panhsin** to positive from stable. At the same time, we affirmed the 'twBBB-' long-term and 'twA-3' short-term issuer credit ratings, as well as the 'twBB' issue rating on the bank's unsecured subordinated debentures.

## Rationale

The outlook revision reflects our view that Bank of Panhsin's asset quality and capitalization have improved slightly over the past one year, which we expect the bank to sustain over the coming one to two years. We continue to assess the bank's capital as moderate, as reflected by a risk adjusted capital (RAC) ratio of 6.91% in the first half of 2019. This compares with 6.86% at the end of 2018 and 6.55% at the end of 2017. Several factors drove this improvement, including capital injections of New Taiwan dollar (NT\$) 450 million at the end of 2018, full earnings retention, and moderate growth in risk assets. We expect the bank's capital to range from 6%-7% over the next one to two years through controlled growth in risk assets and prudent capital management.

Meanwhile, we also believe that the bank's asset quality matrix has improved in recently quarters following the bank's efforts to tighten its underwriting controls, write off nonperforming loans, quicken the clean-up of foreclosed assets, and increase nonperforming loan coverage. The bank's adjusted nonperforming assets ratio has been on a declining trend over the past one and a half years, including adjustments for the inclusion of substandard loans, the write off of nonperforming assets, and the disposal to Asset Management Company. As of the end of September 2019, the bank's nonperforming

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asset ratio, nonperforming loan plus substandard loan ratio, and nonperforming asset coverage have materially improved. We believe the bank can sustain its asset quality without material deterioration over the next one to two years, if it is able to execute good underwriting discipline with adequate risk controls.

## Outlook

The positive outlook reflects our expectation that Bank of Panhsin's credit profile could strengthen if the bank can sustain its improved capitalization over the next one to two years. At the same time, we expect Bank of Panhsin to maintain its asset quality supported by prudent underwriting and risk control.

### Upward scenario

We may raise the rating if the bank maintains its capital strength, potentially through profit retention, the control of risk asset growth, and the exercise prudent capital policies over the next one to two years. At the same time, we would expect the bank should to tighten its underwriting controls and at least maintain its asset quality.

### Downward scenario

We may revise the outlook back to stable if the bank's capitalization and asset quality do not sustain recent improvement, which could be due to overly aggressive risk asset growth, worsening of profitability or loosened underwriting controls over the next one to two years.

## Related Criteria

- TRC Financial Services Issue Credit Rating Criteria, [www.taiwanratings.com](http://www.taiwanratings.com) - July 31, 2019
- General Criteria: Group Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, [www.taiwanratings.com](http://www.taiwanratings.com) - June 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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## Ratings List

### Ratings Affirmed, Outlook Action

	To	From
<b>Bank of Panhsin</b>		
Issuer Credit Rating	twBBB-/Positive/twA-3	twBBB-/Stable/twA-3
Unsecured subordinated debentures	twBB	

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