

Media Release

Hwatai Bank Outlook Revised To Stable From Negative On Stabilizing Asset Quality; 'twBBB+/twA-2' Ratings Affirmed

November 28, 2019

Overview

- Hwatai Bank's asset quality has improved following the bank's efforts to strengthen underwriting controls on new business and enhance the quality of its loan portfolio, along with continuous clean-up measures.
- We believe the bank's capital strength is likely to sustain at an adequate level over the next one to two years.
- We are revising the outlook on the long-term rating to stable from negative.
- At the same time, we are affirming our 'twBBB+' long-term and 'twA-2' short-term issuer credit ratings on Hwatai Bank.

Rating Action

Taiwan Ratings Corp. today revised its outlook on the long-term rating on **Hwatai Bank** to stable from negative. At the same time, we affirmed the 'twBBB+' long-term and 'twA-2' short-term issue credit ratings.

Rationale

The outlook revision reflects our view that Hwatai Bank's asset quality has improved over the past two years. The bank's official non-performing loan ratio was 0.7% as of September 2019, and has steadily improved from 1.2% at the end of 2018, and 1.8% at the end of 2017. While the impaired asset level remains somewhat weaker than the domestic industry average, we expect the bank's asset quality to remain stable, given close regulatory oversight as well as the management's efforts to strengthen underwriting control on new business and enhance the quality of its loan portfolio.

Meanwhile, we also believe Hwatai Bank's capitalization will remain adequate and with a risk adjusted capital (RAC) ratio above 7%, despite the ratio's downward trend over the coming one to two years. This reflects our view of the bank's capital policy to maintain its regulatory capital ratios with sufficient buffer above the minimum requirement level. Hwatai Bank's regulatory Tier I capital ratio was 10.2% as of June 2019 and 10.6% in 2018. The bank's RAC ratio before diversification was 8.4% as of June 2019, and 9% as of 2018. Under our base case expectation, we believe the bank will post loan growth of 2%-4% with relatively higher risk-adjusted credit growth over the next one to two years. That's because of Hwatai

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Bank's focus on real estate related lending, while the bank's below-average earning ability is likely to constrain its capital accumulation somewhat.

Overall, the ratings on Hwatai Bank continue to reflect the bank's adequate capitalization and funding and liquidity profile. The bank's small business scale and below industry average asset quality with higher risk appetite partly offset these strengths.

Outlook

The stable outlook on Hwatai Bank reflects our view that the bank's capital management policy as well as improved credit controls to maintain relatively stable asset quality. We also expect the bank to sustain its regulatory capital ratio with sufficient buffer against volatility, which should help underpin its risk-adjusted capitalization at an adequate level over the next one to two years.

Downward scenario

We may lower the long-term rating if: 1) the bank experiences material deterioration in asset quality as a result of unexpected unfavorable development in the real estate market or loosen underwriting controls over the bank's new lending exposures, 2) the bank's capitalization weakens significantly, which would be indicated by the RAC ratio dipping below 7%, due to overly aggressive business growth, particularly in property related corporate lending, or 3) the bank fails to maintain stable and profitable earnings compared with local peers with a similar operating scale.

Upward scenario

We may raise the long-term rating if the bank could substantially improve its capitalization to strong via a sizeable capital inflow. However, we consider such likelihood as relatively limited over the next one to two years.

Related Criteria & Research

Related Criteria

- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- 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
- General Criteria: Group Rating Methodology - July 01, 2019

Related Research

- Media Release: Hwatai Bank 'twBBB+/twA-2' Ratings Affirmed On Stabilizing Asset Quality; Outlook Remains Negative, www.taiwanratings.com, November 28, 2018

(Unless otherwise stated, these articles are published on www.standardandpoors.com, access to which requires a registered account)

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Hwatai Bank		
Issuer Credit Rating	twBBB+/Stable/twA-2	twBBB+/Negative/twA-2

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