

Media Release:

O-Bank Co. Ltd. Outlook Revised To Negative As Weakened Asset Quality Pressures Capitalization; 'twA/twA-1' Ratings Affirmed

June 22, 2020

Overview

- We believe Taiwan domiciled O-Bank's asset quality has deteriorated.
- We also assess the bank has a thin buffer to sustain its strong capitalization amid challenging macro-economic conditions from COVID-19 and other headwinds.
- We are revising our rating outlook on O-Bank to negative from stable.
- We are also affirming the 'twA/twA-1' issuer credit ratings on O-Bank along with the issue credit rating on its various debt issues.

Rating Action

Taiwan Ratings Corp. today revised its rating outlook on **O-Bank Co. Ltd.** to negative from stable. At the same time, we affirmed the 'twA' long-term and 'twA-1' short-term ratings on the bank along with the issue credit ratings on the bank's various debt issues (see ratings list).

Rationale

The outlook revision reflects our view that despite O-Bank's ability to retain its strong capitalization during recent market turmoil, the bank now has weakened asset quality and a thinner capital buffer to sustain its capitalization level, which could pressure the ratings over the next few quarters. We see uncertainty over the bank's ability to recover its asset quality to a more satisfactory level over the coming quarters. In addition, the bank faces difficulties to improve its earnings prospects from below the domestic industry average presently, given the stagnant economic outlook for the coming six months.

O-Bank's asset quality has deteriorated and respective losses resulting from a single name default and increased nonperforming loans (NPLs) overseas have pressured the bank's capitalization. As of the end of March 2020, the bank's NPL ratio spiked to 0.78%, well above the domestic average of 0.24% at the same time. In addition, the impact of COVID-19 on Taiwan's and the global economy casts further shadow over the bank's overall credit strength. We now assess O-Bank has a relatively thin buffer to sustain its strong capitalization and profitability to absorb the additional economic volatilities under the weakened macro environment and heightened credit costs ahead.

PRIMARY CREDIT ANALYST

Yuhan Lan

Taipei

+886-2-8722-5810

yuhan.lan

@spglobal.com

yuhan.lan

@taiwanratings.com.tw

SECONDARY CONTACT

Patty Wang

Taipei

+886-2-8722-5823

patty.wang

@spglobal.com

patty.wang

@taiwanratings.com.tw

Nevertheless, we are affirming the ratings on O-Bank because we anticipate the bank shall be able to sustain its capitalization at the current strong level under our base case scenario. The bank's proactive capital policies including capital injections to sustain its capital strength underpin this view. In addition, we expect the bank to execute more stringent underwriting practices to help restore its asset quality over the next few quarters. We expect O-Bank's asset quality to move more in line with the domestic industry average following the bank's proactive efforts to write-off the losses, collateral disposal, and tightening of relevant underwriting standards domestically and overseas.

Outlook

The negative outlook reflects that our ratings on O-Bank could face downward pressure over the next few quarters considering the bank's thin capital buffer to sustain its strong capitalization in 2020-2021 amid higher market volatility and increased credit costs. We also believe there remains uncertainty over the bank's ability to recover its asset quality to a more satisfactory level in light of the weaker economic outlook ahead and the bank's pressured profitability.

Downward scenario

We may lower the long-term rating on O-Bank if the bank is unable to improve its asset quality to at least around the domestic industry average over the next few quarters. We may also lower the rating if O-Bank's capital buffer further narrows. This could result from more aggressive capital plans which fail to sustain a sufficient capital buffer during business growth. We may lower the rating by more than one notch if O-Bank fails to sustain its strong capitalization, as measured by a risk-adjusted capital ratio before diversification of 10% on a consolidated basis over the next two years.

Upward scenario

We may revise the outlook back to stable if O-Bank can improve its profitability and asset quality to about the domestic peer average while maintaining a sufficient capital buffer. We may also revise the outlook back to stable if the bank's funding capability improves to be about the domestic industry average, including material growth in retail deposits in proportion to the bank's total deposit base without deterioration in its earnings or capital.

Related Criteria

- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook Action

	To	From
O-Bank Co. Ltd.		
Issuer Credit Rating	twA/Negative /twA-1	twA/Stable /twA-1
Subordinated unsecured Issue Rating	twA-	
Subordinated unsecured Issue Rating	twBBB	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

Copyright © by Taiwan Ratings Corp. All rights reserved.

Media Release: O-Bank Co. Ltd. Outlook Revised To Negative As Weakened Asset Quality Pressures Capitalization; 'twA/twA-1' Ratings Affirmed

Copyright © 2020 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, www.taiwanratings.com (free of charge), and rrs.taiwanratings.com.tw (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.