

Media Release

# O-Bank Co. Ltd. Outlook Revised To Stable On Stabilizing Asset Quality, Improved Capitalization; 'twA/twA-1' Ratings Affirmed

June 25, 2021

## Overview

- O-Bank's profitability and asset quality have stabilized over the past year.
- We believe the bank will maintain strong capitalization relative to its risk profile over the coming one to two years.
- We have revised the outlook on O-Bank to stable from negative.
- At the same time, we affirmed the 'twA' long-term and 'twA-1' short-term ratings on O-Bank, as well as the 'twBBB' issue credit rating on the bank's outstanding debt issues.

## Rating Action

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

## Rationale

The outlook revision reflects our view of O-Bank's improving asset quality which has helped to stabilize its capitalization through a more sufficient buffer against operating volatility.

***Asset quality is likely to recover to close to the industry average over the next one to two years.***

O-Bank's asset quality has improved over the past year, given the bank's proactive recovery of previous delinquent cases and more stringent underwriting control over its credit portfolio. The bank's nonperforming loan ratio improved to 42 base points (bps) as of March 2021, compared to 78bps at the same time in 2020. We see opportunity for the ratio to improve further once the bank completes the settlement of one of its nonperforming loans in late 2021. We also believe O-Bank will maintain its risk management and remain prudent in risk taking to maintain its asset quality at a satisfactory level over the next one to two years.

***Strong capitalization with increased buffer supported by capital injection and prudent credit risk growth.*** We forecast O-Bank's capital adequacy will remain strong over the next one to two years with sufficient buffer to support loan growth. The bank is likely to maintain its risk-

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adjusted capitalization (RAC) ratio before diversification solidly above 10% under its prudent capital policies. A capital injection in October 2020 and controlled credit expansion over the past year have helped to improve the bank's previously thin capital buffer. We forecast O-Bank's loan growth to be moderate at a mid-single digit with slightly improving net interest margins over the coming one to two years.

## Outlook

The stable outlook reflects our view that O-Bank will pursue a prudent capital policy to maintain its strong capitalization on a consolidated basis over the next two years. We also believe the bank will keep its asset quality at a satisfactory level. At the same time, the bank is likely to uphold its domestic banking franchise with average profitability compared to similar-scale domestic peers.

### Downward scenario

We may lower the long-term rating on O-Bank if capitalization weakens from our current assessment of strong. A RAC ratio dropping below 10% and remaining so for a sustained period could reflect such weakening. This could result from more aggressive credit growth while failing to sustain sufficient capital buffer with adequate capital enhancement. We may also lower the rating if O-Bank's asset quality deteriorates significantly or if the bank's franchise weakens, including the weakening of its corporate banking competitiveness, or failure to sustainably enhance its retail banking.

### Upward scenario

We may raise the rating if the bank can significantly improve its risk profile or funding structure. Such improvement could include, but is not limited to, a significant improvement in loan diversification for its retail banking exposure with manageable credit risk and to a level comparable with its peers. At the same time, the bank would need to demonstrate a more diversified and sustainable funding profile comparable to the domestic industry average. However, we believe an upgrade to be remote over the next one to two years.

## Related Criteria & Research

### Related Criteria

- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 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: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Group Rating Methodology - July 01, 2019
- 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

## Related Research

– Taiwan Ratings' Ratings Definitions – August 10, 2020

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## Ratings List

### Ratings Affirmed; Outlook Revision

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

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