

Media Release:

Ratings On Hwatai Bank Affirmed At 'twBBB+/twA-2' On Adequate Capital Buffer; Outlook Stable

November 29, 2021

Overview

- Hwatai Bank's loan base has grown strongly during 2021, which has somewhat lowered its risk-adjusted capitalization on the back of unmatched capital consumption.
- However, we believe that coupled with the bank's responsive capital policy and efforts to manage future growth, Hwatai Bank is likely to maintain an adequate capital buffer over the next one to two years.
- We have affirmed our ratings on Hwatai Bank. Outlook is stable.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twBBB+/twA-2' long- and short-term issuer credit ratings on **Hwatai Bank**. The outlook on the long-term rating is stable.

Rationale

We believe that Hwatai Bank will maintain an above-average growth appetite over the next one to two years, although growth is unlikely to be as high as in 2021. We estimate the bank's loan base will grow by nearly 30% in 2021, primarily from its niche lending business lines including construction lending and secured small and mid-size enterprise loans. Such growth is part of the bank's efforts to recover its earnings with increasing utilization of its loan to deposit ratio. For the first half of 2021, the bank posted a ratio of pre-provision earnings to averaged assets of 0.3%, up from 0.2% in 2020 when the bank's loan base only grew by 0.9%. We believe Hwatai Bank's management efforts to maintain its asset quality coupled with close oversight from the regulator will prevent a recurrence of similar high growth over the next one to two years. Nonetheless, we see the bank maintaining its above-average risk appetite for business from higher-margin, higher-risk lending products and clients.

Hwatai Bank could maintain an adequate capital buffer and a responsive capital policy over the next one to two years. This reflects our view that Hwatai Bank will continue to implement its responsive capital policy, as indicated by the bank's recent new Taiwan dollar NT\$1 billion hybrid capital instrument issuance in September 2021, and earlier capital injection in 2017. We have incorporated this Tier I hybrid capital as qualified capital in our risk-adjusted capital analysis. At the same time, we believe the bank will control its future growth and maintain its regulatory Tier 1 capital ratio with a sufficient buffer above 10%.

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Our ratings on Hwatai Bank continue to reflect our assessment of the bank's adequate funding and liquidity profile, in addition to an adequate capital buffer. The bank's small business scale and higher risk exposure to property related exposures partly offset these strengths.

Outlook

The stable rating outlook on Hwatai Bank reflects our view that the bank's capital management policy as well as adequate credit controls will help to maintain relatively stable asset quality over the coming one to two years. We also believe the bank will sustain its regulatory Tier I capital ratio above 10% with responsive capital plans in place over the same period as it pursues above-average growth from property-related lending business.

Downward scenario

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

Upward scenario

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

Related Criteria & Research

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions - 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
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed

Hwatai Bank Ltd.

Issuer Credit Rating	twBBB+/Stable/twA-2
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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.

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