Media Release:

Selected Taiwan-Based Bank Ratings Affirmed Under Revised Criteria

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- We have reviewed our ratings on several Taiwan-based banks and their respective holding companies under our revised criteria.
- We have affirmed the ratings on these banks, and the outlooks are unchanged. We have also affirmed the respective issue ratings on the banks' debts.

Taiwan Ratings Corp. said today that it has affirmed its issuer and issue credit ratings on the following banks and their holding companies. Our outlooks on these financial institutions remain unchanged.

- Bank of Panhsin (twBBB/Stable/twA-2)
- Bank SinoPac (twAA-/Stable/twA-1+)
- SinoPac Holdings (twA+/Stable/twA-1)
- Hwatai Bank (twBBB+/Stable/twA-2)
- KGI Bank (twAA/Stable/twA-1+)
- O-Bank Co. Ltd. (twA/Stable/twA-1)
- Taiwan Shin Kong Commercial Bank Co. Ltd. (twAA-/Negative/twA-1+)
- Union Bank of Taiwan (twA+/Stable/twA-1)

The affirmations follow a revision to our criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Rating Methodology," published Dec. 9, 2021 and "Banking Industry Country Risk Assessment Methodology And Assumptions," published Dec. 9, 2021).

Our assessments of economic risk and industry risk in Taiwan also remain unchanged at '3' and '5', respectively. These scores determine the BICRA and the anchor, or starting point, for our ratings on financial institutions that operate primarily in that country. The trends we see for both economic risk and industry risk in Taiwan remain stable.

The BICRA criteria changes also don't alter the fundamentals of the existing analytical framework. They remove quantitative limits on the frequency of the use of adjustments and replace the multiple subfactor-specific individual adjustments within each of the economic and industry risk factors with an initial score for each factor with a single adjustment applied to arrive at the final score. The changes also reduce some mechanistic links with sovereign rating scores and allow for a wider range of metrics and economic indicators to be used to reflect the specifics of economic structures.

In addition, the group stand-alone credit profiles of the Taiwan-based banks, and our assessment of the likelihood of extraordinary external support remain unchanged under our revised criteria.

Bank of Panhsin

The ratings on **Bank of Panhsin** reflect the bank's adequate funding and liquidity profile, partly offset by its small business scale, below average capitalization, and higher-than-average risk appetite.

Outlook

The stable rating outlook reflects our view that Bank of Panhsin will maintain its financial profile with a risk-adjusted capital ratio (RAC) ranging from 6%-7% over the next one to two years. The level is lower than the domestic industry average and provides a limited buffer to absorb unexpected operating losses, particularly from potential property price volatility. The outlook also reflects our view that Bank of Panhsin will control its loan growth and exercise prudent capital policies to sustain its capital strength over the next one to two years while maintaining comparable asset quality to similarly rated domestic peers.

Downward scenario

We may lower the rating if the bank cannot sustain its capitalization or if its asset quality deteriorates drastically compared with similarly rated peers. Such weakening could result from overly aggressive risk asset growth, worsening of profitability, or loosened underwriting controls over the next two years.

Upward scenario

We may raise the rating if the bank could strengthen its capitalization with a risk-adjusted capital ratio firmly above 7% over the coming two years.

Bank SinoPac

The ratings on **Bank SinoPac** reflect the bank's satisfactory revenue stability, strong capitalization relative to its risk profile, average asset quality, and stable and diversified funding profile with adequate liquidity. Counterbalancing these strengths are Bank SinoPac's moderate profitability by global standards and scale disadvantage relative to that of its international peers.

Outlook

The stable rating outlook reflects our view that Bank SinoPac will maintain strong capitalization over the next two years, considering the bank's prudent growth strategy and capital policy. In addition, we believe that Bank SinoPac will likely maintain its current market position in Taiwan. We also believe that the bank will remain prudent in its asset quality management.

Downward scenario

We may lower the rating if Bank SinoPac fails to maintain its strong capitalization as indicated by a RAC ratio consistently below 10% over the coming two years.

Upward scenario

We believe the likelihood of an upgrade is remote over the rating horizon, given Bank SinoPac is unlikely to make significant changes to the strategies for its business and financial profiles.

Ratings Score Snapshot
Issuer Credit Rating: twAA-/Stable/twA-1+
Stand-alone credit profile: bbb+

- Anchor: bbb
- Business Position: Adequate (0)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

SinoPac Holdings

The ratings on **SinoPac Holdings** largely reflect the stand-alone credit profile of Bank SinoPac, the flagship and dominating subsidiary of the group. In our view, Bank SinoPac has strong capitalization relative to its risk profile, and an adequate funding and liquidity profile. Counterbalancing these strengths are the bank's moderate profitability by global standards and scale disadvantage relative to its international peers. The ratings on SinoPac Holdings also reflect its structural subordination to its core operating entities.

Outlook

The stable rating outlook on SinoPac Holdings reflects the stable credit trend for the stand-alone credit profile of the group's banking arm, Bank SinoPac. We see the bank as the core operating unit of the SinoPac group and believe it dominates the group credit profile.

In addition, we anticipate Bank SinoPac will maintain strong capitalization over the next two years, considering the bank's prudent growth strategy and capital policy. In addition, we believe the bank will maintain its current market position in Taiwan. The bank's asset quality is also likely to remain stable, in our view, with adequate risk monitoring over its domestic and overseas loan portfolios.

Downside scenario

We may lower the rating on SinoPac Holdings if we assess that Bank SinoPac has failed to maintain its strong capitalization. A RAC ratio consistently below 10% over the next two years would indicate such weakening.

Upside scenario

We see an upgrade as remote over the next two years, considering Bank SinoPac's business strategy and capital policy.

Hwatai Bank

The ratings on **Hwatai Bank** reflect the bank's adequate capitalization and funding and liquidity profile. 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 improved credit controls will help to maintain relatively stable asset quality over the coming one to two years. We also forecast the bank will maintain its regulatory RAC ratio with a sufficient buffer against volatility, which should help to underpin the bank's risk-adjusted capitalization at an adequate level over the same period.

Downward scenario

We may lower the rating if: 1) the bank's capitalization weakens significantly, which would be indicated by a RAC ratio below 7% due to overly aggressive business growth, particularly in property related corporate lending, 2) the bank experiences material deterioration in asset quality as a result of unexpected unfavourable developments in the real estate market or looser underwriting controls over the bank's new lending exposures, 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 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.

KGI Bank

The ratings on **KGI Bank** reflect our view that the bank is a core member of the **China Development Financial Holding Corp.** (CDFHC) group. The ratings on KGI Bank also reflect the bank's strong capital strength, adequate funding and liquidity profile, and established franchise in Taiwan's corporate banking business. However, KGI Bank's moderate level of profitability by international standards and above-average risk appetite offset these strengths.

Outlook

As a core entity of the CDFHC group, the stable rating outlook on KGI Bank reflects our view that fellow core operating unit, **China Life Insurance Co. Ltd.,** will dominate the overall group credit profile group. Therefore, the ratings on KGI Bank will move in tandem with the ratings on China Life. We expect the life insurer's credit profile will remain stable with satisfactory capital and earnings over the next one to two years. At the same time, we believe the CDFHC group will record an industry average operating performance and its key subsidiaries will maintain their current capitalization over the same period.

Downward scenario

We may lower the rating on KGI Bank if we downgrade China Life. We could also downgrade KGI Bank if CDFHC group's operating performance weakens to materially below that of similar rated peer financial holding groups in Taiwan.

Upward scenario

We consider the likelihood of an upgrade for KGI Bank to be relatively limited over the next one to two years.

Ratings Score Snapshot

Issuer Credit Rating: twAA/Stable/twA-1+

Stand-alone credit profile: bbb

- Anchor: bbb
- Business Position: Adequate (0)
- Capital and Earnings: Strong (+1)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: 1

- ALAC Support: 0
- GRE Support: 0
- Group Support: +1
- Sovereign Support: 0

Additional Factors: 0

O-Bank Co. Ltd.

The ratings on **O-Bank** reflect the bank's strong capitalization on a consolidated basis. Counterbalancing factors include O-Bank's limited market position and moderate revenue stability considering the development stage of its retail banking business, as well as the bank's below-average risk position with somewhat more concentrated credit exposure.

Outlook

The stable rating 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 over the same time and maintain its domestic banking franchise with average profitability compared to similarly sized domestic peers.

Downward scenario

We may lower the rating on O-Bank if the bank's capitalization weakens from our current assessment of strong. A RAC ratio dropping and remaining below 10% could reflect such weakening. This could result from more aggressive credit growth while failing to sustain a 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, which is comparable to the domestic industry average. However, we believe the chance of an upgrade is remote over the next one to two years.

Taiwan Shin Kong Commercial Bank Co. Ltd. (Shin Kong Bank)

The ratings on **Taiwan Shin Kong Commercial Bank Co. Ltd.** reflect our view that the parent **Shin Kong Financial Holding Co. Ltd.** (Shin Kong FHC) group would provide the bank with support when needed, as well as the bank's strong capitalization relative to its risk profile. Counterbalancing factors including Shin Kong Bank's relatively small scale with less geographical diversification than domestic peers' and lower profit margins compared to regional peers'.

Outlook

As a core entity of the Shin Kong FHC group, the negative rating outlook on Shin Kong Bank mirrors the negative rating outlook for the group's flagship entity, **Shin Kong Life Insurance Co. Ltd.** The outlook reflects the potential earnings volatility associated with Shin Kong Life's investments that could negatively affect the insurer's overall financial strength. That's given our view of the thin buffer in the insurer's funding structure, above-average foreign-exchange volatility, and thin capital buffer over the next one to two years.

Under our group rating methodology, the ratings and outlook on Shin Kong Bank, as a core entity, will move in tandem with the direction of the group credit profile. We believe that Shin Kong Bank's stand-alone credit profile and operating performance will remain stable over the next one to two years.

Downward scenario

We may lower the rating on Shin Kong Bank if the group credit profile deteriorates significantly from our base-case assumptions over the next one to two years. This could result from: (1) significant weakening in risk management at the group level and at Shin Kong Life than we previously expected, particularly in terms of foreign-exchange risk exposure or investment-risk concentration; or (2) Shin Kong Life's funding structure or risk-adjusted capitalization weaken due to poor earnings, slower growth of value of in-force, or unexpected market volatility. Either of these factors could negatively affect our assessment of Shin Kong Life's financial risk profile or lead us to select a lower anchor for the insurer.

Upward scenario

We may revise the rating outlook on Shin Kong Bank to stable if Shin Kong Life demonstrates persistent control over its foreign-exchange risk while also maintaining stable capitalization. This would have to be accompanied by the insurer's stable investment allocation, a strong competitive position compared with its domestic peers', and a stable credit profile at Shin Kong Bank.

Ratings Score Snapshot

Issuer Credit Rating: twAA-/Negative/twA-1+
Stand-alone credit profile: bbb-

- Anchor: bbb
- Business Position: Moderate (-1)
- Capital and Earnings: Strong (+1)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: 1

- ALAC Support: 0
- GRE Support: 0
- Group Support: +1
- Sovereign Support: 0

Additional Factors: 0

Union Bank of Taiwan

Our ratings on **Union Bank of Taiwan** reflect the bank's strong capital base relative to its risk profile, good asset quality, and adequate funding and liquidity profile. However, Union Bank's relatively small presence in the domestic market and above-average business growth appetite somewhat offset these strengths.

Outlook

The stable rating outlook reflects our view that Union Bank's strong capital, prudent capital policies, and adequate risk controls will support the bank's stable credit profile on a consolidated basis over the next two years. We also forecast Union Bank will maintain its established retail franchise, good asset quality, and adequate funding and liquidity profile over the same period.

Downward scenario

We could lower the rating if Union Bank's consolidated capitalization deteriorates due to aggressive business growth, high dividend payouts, or a significant increase in credit costs that are beyond our current forecast. A RAC ratio before diversification below 10% would indicate such deterioration.

Upward scenario

We believe an upgrade is remote over the next one to two years, given the bank's business growth strategy and capital policy.

Ratings Score Snapshot

Issuer Credit Rating: twA+/Stable/twA-1

Stand-alone credit profile: bbb

- Anchor: bbb
- Business Position: Moderate (-1)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019

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