

Media Release:

# SinoPac Securities Corp. Ratings Affirmed At 'twAA-/twA-1+'; Outlook Stable

April 21, 2022

## Overview

- We assess SinoPac Securities' capitalization to have weakened slightly, due to the company's increased risk-weighted assets under a favorable market environment.
- At the same time, we assess SinoPac Securities' risk position as adequate, improving from moderate previously considering its seasoned loss experience and the broker's adequate risk framework relative to peers'. The company's overall stand-alone credit profile remains unchanged.
- We affirmed our 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on SinoPac Securities.
- The stable rating outlook reflects our expectation that the company will maintain its core role as the securities services provider for the SinoPac Holdings group over the next one to two years.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **SinoPac Securities Corp.** The outlook on the long-term rating remains stable.

## Rationale

The rating affirmation reflects our view that SinoPac Securities' parent, **SinoPac Holdings**, will provide timely financial support to the company, if needed. We base this on our assessment that the securities subsidiary plays a core role within the group's long-term business strategy. Although the company's capital strength has been eroded by its business expansion, we believe its capitalization remains strong relative to the company's risk exposure and in line with the capital strength of other group affiliates. Considering the ample capital buffer and improved loss experience, we believe SinoPac Securities will maintain its stand-alone credit profile at the current level for at least the next two years, despite its slightly higher risk appetite.

We lowered our capital and earnings assessment of SinoPac Securities to strong from very strong due to the company's rapid business expansion in 2021. The company's total assets grew 45% in 2021, higher than our expectation. The growth stemmed from SinoPac Securities' expanded trading position and booming brokerage business. The company's capital strength,

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as measured by our risk-adjusted capital ratio, weakened to 12.6% as of end-2021, from 13.4% in 2020 and 17.8% in 2019. We believe the management team will maintain its risk appetite to enhance earnings over the next one to two years. This will make it difficult for SinoPac Securities to improve its adjusted capital ratio back above 15%, which is the level we define as very strong capitalization, despite the company's higher earnings in 2021, amid more favorable stock trading sentiment in Taiwan. In our assessment, the company's use of earnings to enhance its capital is moderate because of a likely high dividend payout ratio of 70%-75%.

SinoPac Securities' risk framework and risk management of the company are generally in line with peers'. We previously assessed the company's risk position at moderate mainly due to its higher risk appetite and worse loss experience back in 2017 and 2018. From our observation, the company's loss experience improved and did not deviate far from the industry average over the past three years. Despite the company's high unrealized loss in the first quarter of 2020 when the COVID-19 outbreak triggered capital market volatility, the company did not report net loss.

Although SinoPac Securities' growth in 2021 was higher than domestic peers', which we have captured in our capital and earnings assessment, we believe it is unlikely SinoPac Securities will repeat that in 2022. Considering the company's current capital buffer, we do not see a possibility that SinoPac Securities' capital base will erode any further. Therefore, we assess the company's risk position as adequate.

## Outlook

The stable rating outlook on SinoPac Securities reflects our expectation that the company will maintain its core role as the securities service provider for the SinoPac Holdings group over the next one to two years. Hence, the ratings on SinoPac Securities will move in tandem with the group's overall credit profile, which highly correlates to the capital strength of the group's banking unit, **Bank SinoPac**. In our assessment, Bank SinoPac plays a dominant role in the group's overall risk profile.

### Downward scenario

We may lower the long-term issuer credit rating on SinoPac Securities if either of the following occurs:

- We lower the long-term rating on SinoPac Holdings as well as its key subsidiaries if Bank SinoPac fails to maintain strong capitalization. A drop in the bank's risk-adjusted capital ratio to consistently below 10% over the coming two years would indicate such a deterioration.
- SinoPac Securities' importance to the group significantly declines, which could be due to the subsidiary's weakening capital contribution to the group or significant deterioration in its market position.

### Upward scenario

We believe the probability of an upgrade is remote over the next two years, given Bank SinoPac's strategies will unlikely change its business and financial profile significantly during the period.

## Related Criteria & Research

### Related Criteria

- 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
- 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
- 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
- General Criteria: Principles Of Credit Ratings - February 16, 2011

### Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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## Ratings List

### Ratings Affirmed

#### SinoPac Securities Corp.

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