

Media Release:

E.SUN Commercial Bank Ltd. Ratings Affirmed At 'twAA+/twA-1+'; Outlook Stable

June 29, 2022

Overview

- Taiwan-domiciled **E.SUN Commercial Bank Ltd.'s** (E.SUN Bank) capitalization has weakened over the past few quarters due to high growth in loans and market risk exposure from the bank's treasury businesses.
- We expect E.SUN Bank to sustain its strong capitalization, given the bank's intention to mitigate its increasing risk exposure through proactive capital management.
- We affirmed our 'twAA+/twA-1+' issuer credit ratings on E.SUN Bank as well as our issue ratings on the bank's unsecured subordinated debentures.
- The rating outlook remains stable to reflect our view that the bank will receive financial support from the Taiwan government, if needed.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings on E.SUN Bank, as well as our issue credit ratings on the bank's unsecured subordinated bonds (see Ratings List). The outlook on the long-term rating is stable.

Rationale

Capitalization has trended downward amid higher-than-average business growth and market risk exposure. E.SUN Bank's loans and investment portfolio have grown faster than the domestic industry average over the past three years. In addition, growth in the bank's off-balance sheet treasury business over the past year has pushed up growth in its market risk-weighted asset beyond its already above-average growth in credit risk-weighted assets.

Proactive capital planning and market risk management should support continued strong capitalization over the next one to two years. The recent spike in E.SUN Bank's risk-weighted assets has weakened the bank's capital base and lowered the risk-adjusted capital (RAC) ratio to 10.0% at the end of 2021, from 11.4% at the end of 2020. Consequently, the management team has indicated its intention to reduce and control the bank's risk exposure. We believe E.SUN Bank will take a series of actions to control its growth in risk-weighted assets and proactively optimize its risk structure to better balance business growth and risk return. We believe this will help maintain the bank's strong capitalization over the next one to two years, as reflected by a RAC ratio above 10%. We also believe the bank will adopt proactive capital management to sustain its capitalization.

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Outlook: Stable

The stable rating outlook reflects our view of a moderately high likelihood that E.SUN Bank will receive support from the government of Taiwan in times of financial distress. We also believe the bank will maintain strong capitalization with a RAC ratio above 10% over the next two years, backed by its prudent capital policy. Moreover, the outlook reflects our believe that the bank will maintain sound asset quality and profitability despite above-average business growth in recent years. In addition, we believe E.SUN Bank will continue to play a dominant role in the overall risk profile of its parent, **E.SUN Financial Holding Co. Ltd.** group.

Downside scenario:

We view the likelihood of a downgrade to be remote over the next two years.

Upside scenario:

Similarly, we view the likelihood of an upgrade to be remote over the same period.

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: 2

ALAC Support: 0

GRE Support: 0

Group Support: 0

Sovereign Support: 2

Additional Factors: 0

ESG credit indicators: E-2, S-2, G-2

Related Criteria & Research

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- 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
- 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
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed

E.SUN Commercial Bank Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
Subordinated Unsecured (legacy, without non viability)	twAA
Subordinated Unsecured (with nonviability)	twA+

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