

Media Release:

Yuanta Commercial Bank 'twAA/twA-1+' Ratings Affirmed On Seasoned Asset Quality, Adequate Capitalization; Outlook Stable

January 16, 2023

Overview

- We believe Yuanta Commercial Bank's (Yuanta Bank) asset quality has seasoned and is comparable with its peers'. We have revised upward our assessment of the bank's risk position, to adequate from moderate.
- Meanwhile, the bank's higher market risk, with an increased equity portfolio under its banking book over the past few quarters, has weakened its capitalization. We have revised downward our assessment of the bank's capital and earnings to adequate from strong.
- We are affirming our 'twAA/twA-1+' issuer credit ratings on the Taiwan-based bank.
- The stable outlook reflects our view of the credit profile of the parent entity **Yuanta Financial Holding Co. Ltd.** (Yuanta FHC). Our ratings on Yuanta Bank will move in tandem with the parent group credit profile, given the bank's core group status.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Yuanta Commercial Bank. The outlook on the long-term rating is stable. We also affirmed the bank's outstanding issue credit ratings (see Ratings List).

Rationale

The rating affirmation reflects our view of Yuanta FHC's credit profile and the core group status of Taiwan-based Yuanta Bank, both of which are unchanged. Our assessment of Yuanta Bank's stand-alone credit profile remains 'bbb' on S&P Global Ratings' global rating scale, supported by our view of the bank's improved risk position. We upwardly revised our risk assessment for the bank to adequate from moderate. The bank's asset quality has improved despite above-average business growth and is in line with most banking peers in Taiwan.

At the same time, we lowered our assessment of the bank's capital and earning to adequate from strong, to reflect the bank's expansion of risk-weighted assets under market risk in 2022. In our view, this expansion has weakened the bank's capitalization.

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Yuanta Bank has demonstrated good risk control on asset quality while pursuing business growth. The bank's ratio of nonperforming loans and other substandard loans has improved substantially. The ratio stood at 0.85% as of Sept. 30, 2022, compared with 1.27% at the end of 2020, although the bank was pursuing higher than banking industry average loans over the period. We now view the asset quality of Yuanta Bank as comparable with its domestic peers. The average ratio of nonperforming loans plus other substandard loans was about 1.0% as of September 2022. We believe the bank will continue to manage its overall risk profile with a more cautious growth appetite over the next two years. Therefore, we believe that our capital and earnings assessment adequately captures the potential risk for Yuanta Bank.

Capitalization is weaker amid higher exposures on equity investment. The bank continued to acquire equity investments in its banking book over the past two years. This has pushed up its overall market risk and eroded S&P Global Ratings' risk-adjusted capital (RAC) ratio for the bank (before diversification) to 9.8% as of Sept. 30, 2022, from 10.7% as of Dec. 31, 2020. Most of the equity exposure is to blue chip stocks with good cash dividend yields, and we expect the level of such investments to decline slightly. However, we now assess the bank's capital and earnings as adequate, from strong previously. Under our base-case assumptions, we forecast the RAC ratio will be 9.5%--10.0% over the next two years, with mid-single digit loan growth and stable operating results.

Yuanta Bank will remain the core entity in the wider Yuanta FHC group. The bank plays an integral role in providing bank-related products as well as distribution channels to serve group clients. Its group status is unlikely to change over the next two to three years. The bank is a significant contributor to the group. It is the second largest entity, with a 56% weighting for total assets, 40% for total equity, and about 29% profit contribution, as of September 2022 on a pro forma basis.

Our ratings on Yuanta Bank are based on our 'bbb' anchor for banks operating mostly in Taiwan, as well as on Yuanta Bank's adequate capitalization. Counterbalancing these are the bank's moderate profitability. The ratings also reflect our view of almost certain support from the Yuanta FHC group, given the bank's core group status.

Outlook

The stable rating outlook on Yuanta Bank reflects our view on the direction of Yuanta FHC's group consolidated credit profile, given the bank's core group status. The outlook also reflects our expectation that Yuanta FHC group's consolidated capitalization will remain strong in 2023-2024. That's based on our view of the group's prudent growth strategy and capital management over the same period. We also expect the group to remain securities-centric over the next two years, with a strong market position and franchise in the domestic securities industry.

Downward scenario

We may lower the long-term rating on Yuanta Bank if:

- The parent group embarks on an aggressive growth strategy that is beyond our base-case assumption for 2023-2024, either organically or via mergers and acquisitions and without adequate business and financial risk controls;
- Yuanta FHC group adopts more aggressive capital policies as indicated by the group's inability to sustain its capital and earnings at a strong level;
- The group's flagship company, Yuanta Securities Co. Ltd., fails to maintain its leading market position in major product lines or maintain above-average profitability; or

- We assess the bank's strategic importance to the group has materially weakened, although we consider this to be remote over the next one to two years.

Upward scenario

We may raise the long-term rating on Yuanta Bank if the parent group is able to improve its RAC ratio sustainably above 15%, though we view such an event as unlikely in the next two years.

Rating Score Snapshot

Yuanta Commercial Bank

	To	From
Issuer Credit Rating	twAA/Stable/twA-1+	twAA/Stable/twA-1+
SACP	bbb	bbb
Anchor	bbb	bbb
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Adequate (0)	Strong (+1)
Risk position	Adequate (0)	Moderate (-1)
Funding and liquidity	Adequate and Adequate (0)	Adequate and Adequate (0)
Comparable rating analysis	0	0
Support	+1	+1
ALAC support	0	0
GRE support	0	0
Group support	+1	+1
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

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

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
- 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
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019

Related Research

– Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed

Yuanta Commercial Bank

Issuer Credit Rating	twAA/Stable/twA-1+
Unsecured Subordinated debentures	twA+

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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