

Media Release:

Next Commercial Bank Co. Ltd. 'twA+/twA-1' Ratings Affirmed On Continuing Parent Support; Outlook Stable

March 29, 2023

Overview

- We believe Next Commercial Bank Co. Ltd.'s (Next Bank) business scale will continue to grow with more diversified product lines over the next two to three years. The expanded scale, coupled with potential resource sharing with major shareholders, will support the Taiwan-based new virtual bank's business stability amid market volatility.
- We now assess Next Bank's capitalization as strong, from very strong earlier. The bank will gradually consume its initial capital with strong business growth over the next two to three years.
- We continue to view Next Bank as a strategically important entity of the **Chunghwa Telecom Co. Ltd.** group, which is the largest shareholder in Next Bank. This is given the bank's importance to the group's long-term strategy to broaden the scope of its technology business.
- We are affirming our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Next Bank.
- The stable rating outlook reflects our view that Next Bank will remain a strategic important part of Chunghwa Telecom group. We expect the bank to maintain strong capitalization and adequate liquidity in its growing phase over the next two to three years.

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Rating Action

Taiwan Ratings Corp. today affirmed its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Next Bank. The outlook on the long-term rating is stable.

Rationale

Next Bank plans to expand and diversify its business operations over the next two to three years. We believe the bank's business stability will then be comparable with that of other small regional banks in Taiwan. We also see Next Bank effectively executing its business plan, with potential resource support from major shareholders. We have therefore revised our assessment of the bank's business position to the upper level of the constrained score.

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Next Bank's expanded scale and more diversified business scope, coupled with potential resource sharing from major shareholders, will enhance the bank's business stability amid market volatility. Next Bank has launched deposits and payments, unsecured consumer lending, and insurance brokerage businesses, and will gradually roll out more lending types and other fee-based businesses in the coming years. Its major shareholders, Chunghwa Telecom and Taiwan-based supermarket chain PX Mart, have a very strong retail client base in Taiwan.

We forecast Next Bank's risk-adjusted capital (RAC) ratio before diversification will gradually decrease to less than 15%, our threshold for a very strong capital assessment, in 2025. We have therefore revised down our assessment of the bank's capital and earnings to strong from very strong. Next Bank's RAC ratio was very high at 48.9% in December 2022, as the bank had just commenced operations. Our forecast factors in high asset growth and operating losses during the bank's initial years of operations. We also factor in a capital injection in 2023 to make up for the accumulated losses on the accounting book.

The ratings on Next Bank reflect the bank's strong capitalization relative to its risk profile, adequate liquidity backed by sizeable highly liquid assets, as well as potential technical support from Chunghwa Telecom and **Mega International Bank Co. Ltd.** The ratings also reflect our view of a very high likelihood that Chunghwa Telecom would support Next Bank, given our assessment of the bank's strategic importance to the group. These strengths are tempered by Next Bank's small, albeit improving, market presence and developing deposit franchise in Taiwan's highly competitive banking sector, as well as the bank's unseasoned risk exposure during high expansion.

Outlook

The stable rating outlook reflects our view that Next Bank will maintain its strategic importance to Chunghwa Telecom over the next two to three years.

We forecast the bank will maintain strong capitalization despite strong business growth and operating losses during its early years of operating and expansion. Next Bank will likely maintain adequate liquidity, and leverage the resources of its major shareholders to support its growing business operations and risk controls.

Downward scenario

We may lower the long-term rating if:

- The bank's RAC ratio drops below 10%, possibly due to overly aggressive business expansion or unexpected operating losses over the next two to three years;
- Next Bank's asset quality weakens to become significantly worse than the industry average, or if the bank encounters cyber risks that result in significant financial losses or franchise damage; or
- Chunghwa Telecom demonstrates its intention to reduce its shareholding in the bank or lessen its commitment to support the bank's operations.

Upward scenario

We may raise the rating if:

- Next Bank can materially enhance its market presence, or demonstrate stability in business operations and deposit profile over the next two to three years. At the same time, the bank would need to maintain its capitalization at a strong level; or

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- Next Bank becomes a highly strategic entity of the Chunghwa Telecom group. We view the likelihood of this to be low for the next two years. That's because the bank will need more time to demonstrate business integration with its shareholders or make a meaningful contribution to the Chunghwa Telecom group during its early operating stage.

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 – November 11, 2021

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

Ratings List

Ratings Affirmed

Next Commercial Bank Co. Ltd.

Issuer Credit Rating	twA+/Stable/twA-1
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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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