

Media Release:

# Bank of Panhsin Ratings Affirmed At 'twBBB/twA-2' On Improving Capitalization; Outlook Positive

October 19, 2023

## Overview

- Bank of Panhsin's capitalization continues to improve amid earnings retention, although it remains below the average for domestic banks.
- We have revised our capital and earnings assessment for Bank of Panhsin to adequate from moderate to reflect the bank's improving capitalization.
- We affirmed the 'twBBB' long-term and 'twA-2' short-term issuer credit ratings on the bank.
- The positive outlook reflects the one-third likelihood that Bank of Panhsin will maintain its financial profile with improvement in its asset quality over the next one to two years.

## Rating Action

Taiwan Ratings Corp. today we affirmed the 'twBBB' long-term and 'twA-2' short-term issuer credit ratings on **Bank of Panhsin**. The outlook on the long-term rating remains positive.

## Rationale

**Capitalization continues to strengthen through earnings retention but remains below the domestic average.** We have raised our capital and earnings assessment for Bank of Panhsin to adequate from moderate to reflect our view of the bank's improving capitalization. It has achieved this through accumulated earnings. This is reflected in the bank's RAC (risk adjusted capital) ratio which has remained above 7.0%, the threshold for our assessment of adequate capitalization, since 2021. The ratio was 7.7% at the end of June 2023 and 7.3% at the end of 2022. We forecast the RAC ratio will remain close to 7.3% by the end of 2025. Tightening government controls over banks' property related lending could limit Bank of Panhsin's loan growth, given its concentrated loan profile on the property sector. We therefore forecast the bank's RAC will stay at the borderline of adequate capitalization.

**Asset quality has improved gradually but remains slightly weaker than the domestic average.** The bank's nonperforming loan (NPL) ratio remains on an improving trend and stands at 0.19% as of June 30, 2023. This is only slightly higher than the industry average of 0.18% at the same time. Meanwhile, Bank of Panhsin's reserve coverage ratio is also rising and stands at 680% as of June 30, 2023, up from 637% at the end of 2022 and 567% at the end of 2021. Nonetheless, this remains below the industry average of 892% in mid-2023. The reserve coverage ratio measures the ratio of loan loss reserves to adjusted nonperforming assets. Bank of Panhsin's impaired asset ratio (the proportion of total loans represented by NPLs plus other substandard loans) is 1.9% on

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June 30, 2023, compared with 2.0% at the end of 2022 and 1.9% at the end of 2021. The ratios are higher than the industry average of 1.0%-1.1% over the same period.

The ratings on Bank of Panhsin continue to 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 positive rating outlook reflects our expectation that Bank of Panhsin will maintain its financial profile with a RAC ratio above 7.0% over the next one to two years. We forecast the bank will retain its capital strength over the next one to two years while at the same time improving its asset quality comparable to similarly rated domestic peers.

### Upside scenario

We may raise the long-term rating on Bank of Panhsin if the bank maintains its capitalization with a RAC ratio firmly above 7.0% over the next one to two years. At the same time, the bank would need to improve its asset quality metrics including the NPL ratio, impaired asset ratio, and reserve coverage ratio, as well as earnings capacity comparable to its similarly rated peers.

### Downside scenario

We may revise the outlook back to stable if Bank of Panhsin fails to maintain its RAC ratio firmly above 7.0%, or if the bank's asset or earnings quality fails to sustain continuous improvement.

## Rating Score Snapshot

Issuer credit rating: twBBB/Positive/twA-2

Anchor: bbb

Business Position: Constrained (-2)

Capital and Earnings: Adequate (0)

Risk Position: Moderate (-1)

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 & 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: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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

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## Ratings List

### Ratings Affirmed

#### Bank of Panhsin

Issuer Credit Rating	twBBB/Positive/twA-2
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