

Media Release:

O-Bank 'twA/twA-1' Ratings Affirmed On Satisfactory Asset Quality, Improved Deposit Structure; Outlook Stable

June 21, 2024

Overview

- **O-Bank Co. Ltd.'s** strengthened underwriting policies and consistent management have carefully controlled its asset quality over the past few years, and to a level comparable with its domestic banking peers. The bank's non-performing loan (NPL) ratio was even lower than the domestic average in 2023.
- The bank's efforts to diversify its funding structure have continued to improve over the period, with higher growth in individual deposits. Nonetheless, it remains more concentrated on corporate deposits than its peers, given its limited consumer banking businesses.
- We apply a one notch upward adjustment to the bank's comparable rating analysis when we assess its stand-alone credit profile.
- We affirmed our 'twA' long-term and 'twA-1' short-term issuer credit ratings on O-Bank, after a comparison with the credit profiles of other domestic banks.
- The stable rating outlook reflects our view that O-Bank will pursue a prudent capital policy to maintain strong capitalization on a consolidated basis, as well as satisfactory asset quality with prudent underwriting policies over the next two 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 O-Bank. The outlook on the long-term rating is stable.

Rationale

The ratings remain unchanged on a consolidated basis with a stable rating outlook. The ratings on O-Bank benefit from the bank's strong capitalization on a consolidated basis. O-Bank's consolidated profiles includes several subsidiaries, including China Bills Finance Corp., EverTrust Bank in the United States, and IBT VII Venture Capital Co. Ltd. in Taiwan. The ratings also recognize O-Bank's continuous improvements to manage its asset quality and funding structure through increasing retail deposits. Counterbalancing these rating strengths are the bank's moderate revenue stability as its retail banking division remains under development. In addition, the bank still has higher concentration on both corporate lending and its funding structure than domestic commercial banking peers.

Asset quality remains well controlled despite higher loan expansion and the impact of the recent COVID-19 pandemic. O-Bank has strengthened its underwriting policies following asset quality deterioration in 2019, with the management team maintaining satisfactory asset quality over the past few years. The NPL ratio and other substandard loan ratio improved to 0.09% and 0.72% as of Mar. 31, 2024, respectively. This compares closely with its domestic banking peers' ratios. The average NPL ratio and other substandard loan ratio for banks operating in Taiwan is about 0.13% and 1.01% as of Mar. 31, 2024, respectively.

In addition, the bank has reported no significant loss experience in recent years, even during and after the pandemic, when the government loan moratorium scheme came to an end in 2023. We believe the bank could continue to maintain its asset quality at the domestic bank average through consistent management over the next one to two years.

Deposit diversification is improving with higher growth in individual deposits, albeit still weaker than its domestic peers. O-Bank has improved its ratio of individual consumer deposits among total deposits to 20.3% at the end of March 2024 from 13.0% at the end of 2022. The concentration of deposits from financial institutional counterparties and government-related social funds has also declined to 27.0% from 41.7% over the same period. These indicate how O-Bank's deposit portfolio has gradually diversified over the past two years. However, we believe the bank's funding profile remains moderate and reflects the comparatively lower funding diversification than its close domestic commercial banking peers, which have around 40% or higher deposits from individual depositors.

Stand-alone credit profile benefits from one notch uplift for its positive comparable rating analysis. We now factor in a one notch adjustment in our assessment of the bank's stand-alone credit profile which reflects our positive view of its comparable rating analysis. Through the bank's continuous improvement to its asset quality and funding structure, it has strengthened the stand-alone credit profile on a consolidated basis, compared to its peers that we similarly assess have moderate risk positions and funding structures.

We reflect this holistic assessment through a one notch adjustment in our comparable rating analysis for the bank. This is despite the bank's concentration risk for its loan portfolio and funding structure remains higher than its peers that we assess have adequate risk profile and funding structures. However, when we compare O-Bank with other peers that we rate as 'twA', we believe the overall credit profile of O-Bank is similar. O-Bank's scale and franchise are still slightly behind those of its 'twA+' rated peers.

Outlook

The stable rating outlook reflects our view that O-Bank will pursue a prudent capital policy to maintain strong capitalization over the next two years on a consolidated basis, including China Bills Finance Corp. We also believe the bank will maintain its satisfactory asset quality, which is comparable with our assessment for most banking peers over the same period. At the same time, we believe the bank will maintain its domestic banking franchise with good corporate banking competitiveness while continuing to develop its retail banking business.

Downward scenario

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

- The bank's capitalization weakens from our current assessment of strong. A risk-adjusted capital ratio deteriorating and remaining below 10% could reflect such weakening. This could result from more aggressive growth in credit or equity investment under the banking book along with a failure to sustain a sufficient capital buffer; or
- The bank's asset quality deteriorates significantly, or its franchise weakens, including the weakening of its corporate banking competitiveness, or through a failure to sustainably enhance its retail banking.

Upward scenario

We may raise the rating if O-Bank could significantly improve its concentration risk or funding structure. Such improvement could include, but is not limited to, a significant improvement in loan diversification for its retail banking exposure with consistent asset quality. At the same time, the bank would need to demonstrate a more diversified and sustainable funding profile, which is comparable to the domestic industry average. However, we believe the chance of an upgrade is remote over the next one to two years.

Rating Score Snapshot

O-Bank Co. Ltd.

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

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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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
- 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

O-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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