

Media Release:

# COTA Commercial Bank Outlook Revised To Positive From Stable On Improving Capitalization; 'twBBB+/twA-2' Ratings Affirmed

December 18, 2024

## Overview

- **COTA Commercial Bank Ltd.'s** (COTA Bank) capitalization continues to improve through capital injections and retained earnings. We believe there is a one in three likelihood that we would revise our assessment of COTA Bank's capital and earnings to strong from adequate over the next one to two years to reflect further improvement in the bank's financial profile with strong capitalization and stable asset quality over the period.
- We have therefore revised our rating outlook on COTA Bank to positive from stable to reflect the bank's strengthening capitalization.
- At the same time, we affirmed the 'twBBB+' long-term and 'twA-2' short-term issuer credit ratings on COTA Bank.

## Rating Action

Taiwan Ratings Corp. today affirmed the 'twBBB+' long-term and 'twA-2' short-term issuer credit ratings on COTA Bank. The outlook on the long-term rating is positive.

## Rationale

*The outlook revision reflects the bank's improved capitalization through capital injections and earnings retention.* COTA Bank's capitalization has strengthened over the past year through controlled risk asset growth, accumulated earnings, and recent capital injections. This is reflected in the bank's risk-adjusted capital (RAC) ratio before diversification which has increased to slightly above 10.0%, the threshold for our assessment of strong capitalization. The ratio was 10.47% at the end of 2023 and 10.26% as of June 30, 2024, compared with from 9.77% at the end of 2022.

We now forecast COTA Bank's capitalization is likely to improve to within our definition of strong capitalization over the next two years from adequate currently. We base this view on our assumptions that the bank will maintain moderate credit risk-weighted asset growth and retain moderately high earnings over the same period. These projections factor in a capital injection of new Taiwan dollar (NT\$) 1 billion completed earlier December 2024. In our view, Cota Bank's major shareholders are supportive towards meeting the bank's capital needs via capital injections and moderately high earnings retention based on track records.

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***NPL ratio has weakened but remains absorbable.*** Cota Bank's nonperforming loan (NPL) ratio jumped to 0.74% as of June 30, 2024, which is above its historical level of 0.2% and the industry average of 0.16% at the same time. This was mainly due to the bank's exposure to one single business group that failed to maintain its capital turnover after business operations slowed down during the recent pandemic. However, we believe the bank can manage this risk, given the loans were backed by adequate collateral and the bank's expected profit can absorb the total expected loss amount. We also believe Cota Bank's management team will actively work to stabilize the bank's asset quality by increasing credit loss provisions and write-offs over the next few quarters.

In our view, COTA Bank's risk appetite remains relatively high compared with the domestic banking average. The bank's top group exposures are largely related to real estate lending. However, COTA Bank has reduced concentration in real estate lending business and there is no significant single-name concentration in the bank's loan portfolio.

## Outlook

The positive rating outlook reflects the likelihood that COTA Bank will improve its financial profile and maintain a RAC ratio above 10% over the next one to two years. We forecast the bank will retain its capital strength while at the same time resume its asset quality to a level comparable to similarly rated domestic peers over the next one to two years.

### Upside scenario

We may raise the long-term rating on COTA Bank if the bank maintains improved capitalization with a RAC ratio sustainably above 10% over the next one to two years. At the same time, the bank would need to demonstrate improvement in its asset quality metrics including the NPL ratio, impaired asset ratio, reserve coverage ratio, and earnings capacity to a level comparable to its similarly rated peers.

### Downside scenario

We may revise the outlook back to stable if COTA Bank fails to maintain the RAC ratio above 10%, or if the bank's asset quality deteriorates or fails to maintain continuous improvement.

## Related Criteria & Research

### Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- 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
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - April 30, 2024
- 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 – Nov. 11, 2021

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## Ratings List

### Ratings Affirmed; Outlook Revision

#### COTA Commercial Bank Ltd.

	To	From
Issuer Credit Rating	twBBB+/Positive/twA-2	twBBB+/Stable/twA-2

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