

Media Release:

Outlook On Bank of Panhsin Revised To Positive From Stable; 'twBBB/twA-2' Ratings Affirmed

October 28, 2022

Overview

- Bank of Panhsin's capitalization continues to improve amid earnings retention and controlled risk asset growth, although it remains below average among domestic banks.
- We see a one-third likelihood that Bank of Panhsin will maintain its financial profile with a risk-adjusted capital (RAC) ratio above 7% over the next one to two years.
- We have therefore revised our rating outlook on Bank of Panhsin to positive from stable to reflect the bank's improving capitalization.
- At the same time, we affirmed our 'twBBB' long-term and 'twA-2' short-term issuer credit ratings on Bank of Panhsin.

Rating Action

Taiwan Ratings Corp. today revised the outlook on its long-term rating on **Bank of Panhsin** to positive to reflect the bank's improving capitalization. At the same time, we affirmed the 'twBBB' long-term and 'twA-2' short-term issuer credit ratings.

Rationale

The upward outlook revision reflects our view of Bank of Panhsin's improving capitalization achieved through accumulated earnings and controlled risk asset growth. The bank's RAC ratio improved to 7.7 % at the end of 2021 and 7.8% as of June 30, 2022, up from 6.95% at the end of 2019 and 6.83% at the end of 2020. The improvement followed the bank's adoption of the loan-to-value method in its Basel regulatory reporting with loan classification. However, we regard this adjustment to be neutral in our credit analysis.

Our assessment of Bank of Panhsin's capital and earnings remains moderate and we see a one-third likelihood that the bank's capital and earnings could consistently remain above our assessment of adequate level, as reflected by a RAC ratio of 7%.

We forecast the RAC ratio will gradually decline to 7.1% at the end of 2024 from 7.8% at the end of June 2022. This lower level reflects the border line for our assessment of adequate capitalization amid an increasingly bearish macroeconomic outlook and the bank's relatively weak earning capacity. Bank of Panhsin's normalized operating income has been negative for the last five years, and we expect it to remain negative over the next two years.

PRIMARY CREDIT ANALYST

Josephine Ho
Taipei
+886-2-2175-6822
josephine.ho
@spglobal.com
josephine.ho
@taiwanratings.com.tw

SECONDARY CONTACT

Yuhan Lan
Taipei
+886-2-2175-6810
yuhan.lan
@spglobal.com
yuhan.lan
@taiwanratings.com.tw

Bank of Panhsin's credit metrics remain stable. The bank's nonperforming loan ratio has been improving and stood at 0.23% at the end of June 2022, down from 0.85% at the end of 2018. Meanwhile, Bank of Panhsin's reserve coverage ratio has also been rising and stood at 529% at the end of June 2022, up from 128% at the end of 2018. Nonetheless, this remains below the industry average of 864%. The reserve coverage ratio measures the ratio of loan loss reserves to adjusted nonperforming assets.

Bank of Panhsin has also maintained a stable funding ratio at around 130% over the last five years. The bank's return on average assets has also been on an upward trend, improving to 0.47% as of June 30, 2022, from 0.16% at the end of 2018.

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% over the next one to two years. We forecast the bank will sustain its capital strength over the next one to two years while at the same time maintaining its asset quality comparable to similarly rated domestic peers.

Upside scenario

We may raise the rating on Bank of Panhsin if the bank sustains its capitalization with a RAC ratio firmly above 7% over the next one to two years term and at the same time improves its asset quality metrics including the nonperforming loan 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 sustain its RAC ratio firmly above 7%, or if the bank's asset or earnings quality deteriorates.

Rating Score Snapshot

Anchor: bbb

Business Position: Constrained (-2)

Capital and Earnings: Moderate (-1)

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

ESG Credit Indicators: E-2, S-2, G-2

Related Criteria & Research

Related Criteria

- 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
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed

	To	From
Bank of Panhsin		
Issuer Credit Rating	twBBB/Positive/twA-2	twBBB/Stable/twA-2

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.

Copyright © 2022 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, www.taiwanratings.com (free of charge), and rrs.taiwanratings.com.tw (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.