

# Rating Research Services

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## 2012 Ratings Roundup Report

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## Table Of Contents

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Corporate Ratings

Financial Service Ratings

Structured Finance Ratings

Fixed-Income Fund Ratings

Default Experience in the Corporate, Financial, and Structured  
Finance Sectors

# 2012 Ratings Roundup Report

A prolonged weak global economy, unresolved European sovereign debt crisis, and Taiwan's repeatedly downward-revised GDP growth significantly increased the number of negative rating actions (including rating downgrades, negative CreditWatch placements, and negative outlook revisions) in 2012. This led the number of negative rating actions to outpace positive rating actions taken during the year, reversing the result in 2011. [Note: The aforementioned comparison excludes 14 rating adjustments (nine upgrades and five downgrades) taken under Standard & Poor's Ratings Services' revised bank criteria in November and December 2011. Rating actions in 2012 are up to and including Dec. 25, 2012.]

## Overview:

- Corporate ratings experienced downward pressure in 2012, while ratings on financial institutions were relatively stable.
- Negative rating bias increased in 2012 under the effect of a prolonged weak global economy.
- Rated structured finance transactions and fixed-income funds had relatively stable credit profiles.

There was a clear divide between upgrades and downgrades in Taiwan's financial and corporate sectors, respectively, in 2012 (see table 1).

Table 1

### Number Of Long-Term Corporate & Government Rating Changes In Taiwan During The Past Five Years

	2012		2011		2010		2009		2008	
	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade
Corporates	1	5	3	2	3	2	1	10	1	3
Financial institutions	3	0	12	6	5	2	0	17	4	8
Banks*	1	0	9	2	0	0	0	7	2	4
Insurers	1	0	1	1	0	2	0	4	2	3
Securities companies¶	0	0	2	1	4	0	0	4	0	1
Financial holding companies	0	0	0	2	0	0	0	2	0	0
Other financial institutions	1	0	0	0	1	0	0	0	0	0
Total^	4	5	15	8	8	4	1	27	5	11

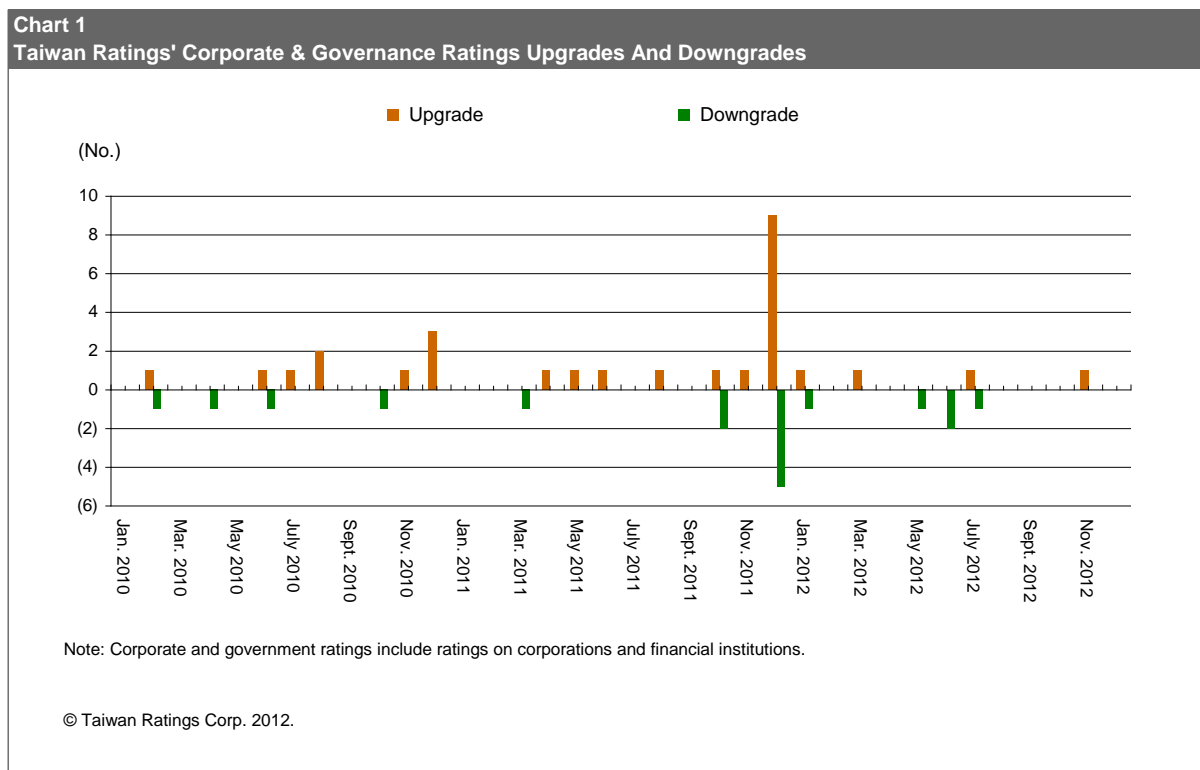
\*Includes bills finance companies and finance companies. ¶Includes securities finance companies.

Table 1 (cont'd)

### Rating adjustments excluding those under the revised bank criteria in December 2011

	2011	
	Upgrade	Downgrade
Corporates	3	2
Financial institutions	3	1
Banks*	1	0
Insurers	1	1
Securities companies¶	1	0
Financial holding companies	0	0
Other financial institutions	0	0
Total	6	3

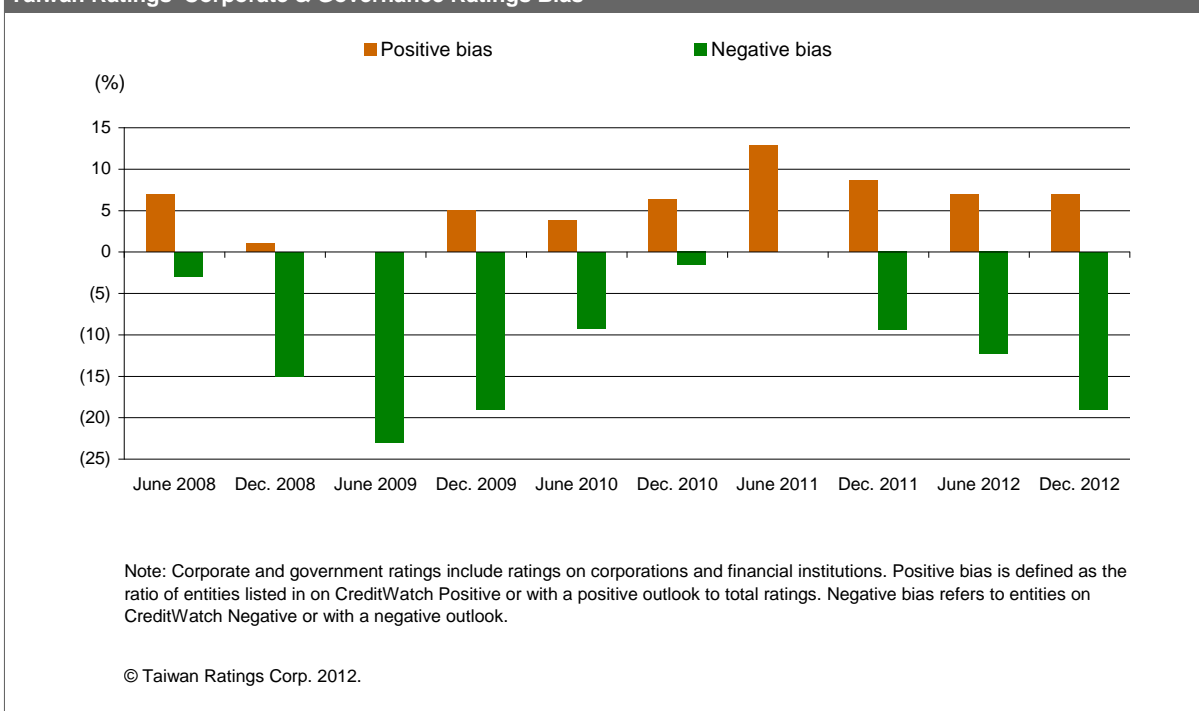
However, the evolution in overall rating actions was negative when compared to the six upgrades and three downgrades that took place in 2011 (excluding adjustments related to the aforementioned bank criteria). The majority of the rating changes occurred in the first half of 2012, due to the continuing influence of the weak global economy on the creditworthiness of some export-oriented and shipping issuers (see chart 1)



In addition, downgrade pressure on Taiwan Ratings' rated pool persisted in 2012. The growing negative bias, equally for both corporate and financial institutions, reflects the rising pressure on life insurers' credit profiles amid prolonged capital and earnings volatility and the effect of a weak global economy extending cyclical downturns in some corporate sectors (see chart 2). The negative rating bias increased significantly to 19% as of Dec. 25, 2012, up from 12% at the end of June 2012 and 9% at the end of December 2011. Conversely, positive rating bias slightly dipped from the 2011 level, but remained stable in 2012 at about 7%, reflecting the credit prospects of individual issuers with the potential for capital or business profile enhancement, as well as the benefits from China's growing domestic consumption.

Chart 2

## Taiwan Ratings' Corporate &amp; Government Ratings Bias\*



Outlook revisions reflect the persistence of negative prospects across different economic sectors. The number of downward outlook revisions and negative CreditWatch placements increased to 18 in 2012 from 15 in 2011, which considerably outweighed the five upward outlook revisions in 2012. The weak global economy shrank external demand and dampened the outlook on Taiwan's corporate sector over the past year, leading Taiwan Ratings to make two downward outlook adjustments in the year compared to zero upward outlook adjustments over the same period. Similarly, the higher year-on-year number of downward outlook revisions on financial institutions mainly reflected our negative outlook on the capital and earnings of life insurance companies, and correspondingly, to these issuers' related group members.

Table 2

## Outlook Revisions On Corporate &amp; Government Ratings Over The Past Five Years

	2012		2011		2010		2009		2008	
	Upward	Downward	Upward	Downward	Upward	Downward	Upward	Downward	Upward	Downward
Corporates	0	2	2	12	10	1	3	3	4	5
Financial institutions	5	16	10	3	19	1	12	19	1	17
Banks*	3	4	3	1	9	0	5	9	1	8
Insurers	0	6	1	0	3	1	1	3	0	4
Securities companies <sup>†</sup>	1	2	4	1	3	0	5	3	0	3
Financial holding companies	1	4	2	1	3	0	1	4	0	2
Other financial institutions	0	0	0	0	1	0	0	0	0	0
Total	5	18	12	15	29	2	15	22	5	22

\*Includes bills finance companies and finance companies. †Includes securities finance companies. Note: Data do not include revisions from CreditWatch Positive to Positive or CreditWatch Negative to Negative, or CreditWatch Developing to Stable.

Bucking this trend, rated structured finance securities demonstrated rather stable credit profiles in 2012. Taiwan Ratings upgraded ten classes of securitization notes amid transactions' continued credit enhancement accumulation and stable underlying asset performance. The one downgrade we made reflected the downgrade on the dependent party rather than asset deterioration.

Table 3

**Structured Finance New Issue Ratings And Ratings Changes In 2012**

Asset type	Withdrawn		Upgrade	Downgrade	Watch Pos	Watch Neg
	New	due to Full Paydown				
RMBS	0	0	2	0	0	0
ABS	0	0	0	0	0	0
CBO	0	7	8	1	0	0
CLO	0	0	0	0	0	0
Ground lease	0	0	0	0	0	0
REAT (Real estate asset trust)	0	6	0	0	0	0
Total	0	13	10	1	0	0

**Structured Finance New Issue Ratings And Ratings Changes In 2011**

Asset type	Withdrawn		Upgrade	Downgrade	Watch Pos	Watch Neg
	New	due to Full Paydown				
RMBS	0	1	0	0	0	0
ABS	2	3	0	0	0	0
CBO	0	6	2	2	0	0
CLO	0	0	0	0	0	0
Ground lease	0	0	0	0	0	0
REAT (Real estate asset trust)	0	0	4	0	0	0
Total	2	10	6	2	0	0

Note: Numbers for Watch Pos and Watch Neg refer to the actions taken to place the ratings on CreditWatch with positive or negative implications.

Lastly, rated fixed-income funds maintained stable credit profiles throughout 2012. We made no rating alterations during the year.

## Corporate Ratings

### Negative rating actions and outlook revisions dominated the sector's ratings performance

We downgraded five credits and made downward adjustments to the rating outlook on two corporate issuers, versus only one upgrade in 2012 (see table 4). The negative rating trend mainly reflects the heightened industry risk, intense market competition, or weak market demand across multiple corporate sectors including shipping, steel, light emitting diode (LED), and chemical sectors. The six-notch downgrade on **Chimei Innolux Corp.** also reflected the company's weakened liquidity and financial flexibility following its request for debt restructuring. The sole upgrade in 2012 reflected the issuer's enhanced competitive position in Taiwan's relatively stable Real Estate Investment Trust (REIT) market.

Table 4

<b>Corporate Sector Upgrades</b>			
<b>Issuer</b>	<b>To</b>	<b>From</b>	<b>Date</b>
Gallop Number One Real Estate Investment Trust	twA/Stable/twA-1	twA-/Positive/twA-2	3/8/2012
<b>Corporate Sector Downgrades</b>			
Chimei Innolux Corp.	twB/Watch Neg/twB	twBBB/Negative/twA-3	1/12/2012
Wan Hai Lines Ltd.	twA-/Stable/twA-2	twA/Stable/twA-1	5/3/2012
China Steel Corp.	twAA/Negative/twA-1+	twAA+/Negative/twA-1+	6/18/2012
Dragon Steel Corp.	twAA-/Negative/twA-1+	twAA/Negative/twA-1+	6/18/2012
Everlight Electronics Co. Ltd.	twBBB+/Stable/twA-2	twA-/Stable/twA-2	7/20/2012
<b>Corporate Sector Outlook Revisions</b>			
Taiwan Mobile Co. Ltd.	twAA/Stable/twA-1+	twAA/Positive/twA-1+	5/22/2012
Chi Mei Corp.	twA+/Negative/twA-1	twA+/Stable/twA-1	9/25/2012

### No new issuer credit ratings were assigned while eight rating withdrawals were made

Taiwan Ratings withdrew eight existing ratings on corporates in 2012 and assigned no new credit ratings.

Table 5

<b>Corporate Sector Ratings Withdrawn</b>		
<b>Issuer</b>	<b>Ratings prior to withdrawal</b>	<b>Date</b>
Kee Tai Star Real Estate Investment Trust	twBBB / Stable / twA-3	2/10/2012
Qisda Corp.	twBB+ / Stable / twB	2/20/2012
Chimei Innolux Corp.	twB / Negative / twB	3/2/2012
Godex International Co. Ltd.	twBB- / Stable / twB	3/23/2012
Trident Real Estate Investment Trust	twA / Stable / twA-1	4/9/2012
VTC Electronics Corp.	twBB+ / Stable / twB	11/7/2012
Nanya Technology Corp.	twBBB+ / Negative / twA-3	11/30/2012
Inotera Memories Inc.	twBBB+ / Negative / twA-3	11/30/2012

## Financial Service Ratings

### Credit profiles largely remained stable due to low credit charges, but poor macroeconomic prospects cast a strong shadow on ratings

Taiwan's financial institutions, including banks, insurers, securities companies, and financial holding companies experienced negative credit evolution in 2012, largely due to our negative outlook on the life insurance sector amid prolonged capital volatility and low earnings. As a result, we made negative outlook revisions on several life insurance-centric groups. Mergers and acquisition and changes in capitalization also contributed to some of the outlook revisions. Nonetheless, we observed stable credit profiles across the remaining financial sectors, supported by still-low credit charges and adequate capitalization. Taiwan Ratings made three rating upgrades and no downgrades in 2012, due to changes in issuers' group status or improvements in bank's capitalization as defined under Standard & Poor's criteria (see table 6).

Table 6

<b>Financial Institutions Upgrades</b>			
<b>Issuer</b>	<b>To</b>	<b>From</b>	<b>Date</b>
Chinatrust Life Insurance Co. Ltd.	twAA-/Stable/--	twA/Positive/--	1/6/2012
Global Securities Finance Corp.	twBBB+/Stable/twA-2	twBBB/Stable/twA-3	7/2/2012
Ta Chong Bank Ltd.	twA/Stable/twA-1	twA-/Positive/twA-2	11/21/2012
<b>Financial Institutions Outlook Revisions</b>			
China Development Industrial Bank	twAA-/Watch Neg/twA-1+	twAA-/Stable/twA-1+	4/9/2012
Grand Cathay Securities Corp.	twAA-/Watch Neg/twA-1+	twAA-/Stable/twA-1+	4/9/2012
China Development Financial Holding Corp.	twA+/Watch Neg/twA-1	twA+/Stable/twA-1	4/9/2012
Ta Chong Bank Ltd.	twA-/Positive/twA-2	twA-/Stable/twA-2	6/6/2012
China Development Industrial Bank	twAA-/Stable/twA-1+	twAA-/Watch Neg/twA-1+	7/9/2012
Grand Cathay Securities Corp.	twAA-/Stable/twA-1+	twAA-/Watch Neg/twA-1+	7/9/2012
China Development Financial Holding Corp.	twA+/Stable/twA-1	twA+/Watch Neg/twA-1	7/9/2012
Taiwan Shin Kong Commercial Bank Co. Ltd.	twAA-/Negative/twA-1+	twAA-/Stable/twA-1+	8/24/2012
Fubon Securities Co. Ltd.	twAA+/Negative/twA-1+	twAA+/Stable/twA-1+	8/24/2012
Cathay Century Insurance Co. Ltd.	twAA+/Negative/--	twAA+/Stable/--	8/24/2012
Fubon Insurance Co. Ltd.	twAA+/Negative/--	twAA+/Stable/--	8/24/2012
Cathay Life Insurance Co. Ltd.	twAA+/Negative/--	twAA+/Stable/--	8/24/2012
Taiwan Life Insurance Co. Ltd.	twA+/Negative/--	twA+/Stable/--	8/24/2012
Shin Kong Life Insurance Co. Ltd.	twAA-/Negative/--	twAA-/Stable/--	8/24/2012
Fubon Life Insurance Co. Ltd.	twAA+/Negative/--	twAA+/Stable/--	8/24/2012
Fubon Financial Holding Co. Ltd	twAA/Negative/twA-1+	twAA/Stable/twA-1+	8/24/2012
Cathay Financial Holding Co. Ltd.	twAA/Negative/twA-1+	twAA/Stable/twA-1+	8/24/2012
Shin Kong Financial Holding Co. Ltd.	twA+/Negative/twA-1	twA+/Stable/twA-1	8/24/2012
Sunny Bank	twBBB+/Negative/twA-2	twBBB+/Stable/twA-2	9/10/2012
Cosmos Bank	twBBB-/Positive/twA-3	twBBB-/Stable/twA-3	9/24/2012
Standard Chartered Bank (Taiwan) Ltd.	twAAA/Negative/twA-1+	twAAA/Stable/twA-1+	12/18/2012

#### Four new issuer ratings were assigned with five rating withdrawals

Taiwan Ratings assigned four new ratings and withdrew five existing ratings on financial institutions in 2012 (see table 7).

Table 7

<b>Financial Institutions New Issuer Ratings</b>		
<b>Issuer</b>	<b>Ratings assigned</b>	<b>Date</b>
BankTaiwan Securities Co. Ltd.	twAA+/Stable/twA-1+	2012/6/26
China Life Insurance Co. Ltd.	twAA-/Stable/--	2012/7/23
Nan Shan Life Insurance Co. Ltd.	twAA+/Stable/--	2012/10/8
Mercuries Life Insurance Co. Ltd.	twA+/Stable/--	2012/11/21
<b>Financial Institutions Ratings Withdrawn</b>		
<b>Issuer</b>	<b>Ratings prior to withdrawal</b>	<b>Date</b>
Chinatrust Life Insurance Co. Ltd.	twAA-/Stable/--	2012/1/6
Polaris Securities Co. Ltd.	twAA-/Positive/twA-1+	2012/3/30
Ta Chong Securities Co. Ltd.	twBBB+/Stable/twA-2	2012/6/19
Chailease Finance Co. Ltd.	twA/Stable/twA-2	2012/8/27
Taiwan Financial Holdings	twAAA/Stable/twA-1+	2012/9/25

## Structured Finance Ratings

### Stable rating performances and upgrades continued to outpace downgrades in 2012

Structured finance transactions under our surveillance maintained stable performances throughout 2012, despite Taiwan's weak GDP growth and rising capital market volatility. In 2012, Taiwan Ratings raised its ratings on multiple classes of four transactions (see table 8). The only downgrade in 2012 was not related to the transaction's asset performance, but for the downgrade of the swap counterparty.

**Table 8**

Structured Finance Ratings Upgrades		
Class of certificate	Transaction	Date
Class A-3, B, C, D, and E	Standard Bank CBO 2006-1	3/27/2012
Class B and C (deferrable interest notes)	Capital Securities CBO 2006-1	3/27/2012
Class C and D	Chinatrust RMBS	12/6/2012
Class B	Standard Bank CBO 2007-1	12/24/2012
Structured Finance Ratings Downgrades		
Class of certificate	Transaction	Date
Class A-3	Standard Bank CBO 2006-1	10/19/2012

### We assigned no new structured finance ratings in 2012 but withdrew ratings on 13 classes of notes

The ratings withdrawal primarily reflected the full pay-down of notes. Taiwan Ratings did not assign any new ratings in 2012.

**Table 9**

Structured Finance Ratings Withdrawn		
Class of certificate	Transaction	Date
Class A, B, and C	Shin Kong Life Insurance Song Jiang, Cheng Der, and Panchiao Buildings Real Estate Asset Trust	2/8/2012
Class A1	Capital Securities CBO 2006-1	3/20/2012
Class A, B, and C	Shin Kong Tun Hwa REAT	6/22/2012
Class A-3, B, C, D, and E	Standard Bank CBO 2006-1	12/13/2012
Class A	Standard Bank CBO 2007-1	12/17/2012

## Fixed-Income Fund Ratings

We made no rating adjustments on the domestic fixed-income funds under our surveillance in 2012, due to a stable credit environment and satisfactory market confidence. The rated funds are predominately money market funds sharing similar characteristics including highly liquid portfolio with short duration and strong credit quality as per the requirements set by the local regulator.

## Default Experience In Corporate, Financial, And Structured Finance Sectors

There were no defaults in our rated pool of Taiwanese corporates, financial institutions, and structured finance securities in 2012.

For corporate and financial institutions, the absence of defaults was due to the effect of our small issuer pool size and the majority of high ratings (more than 80% are rated 'twA-' or above) in our



issuer pool. The zero default also continues to reflect the adequate access of non-financial corporations to liquidity, corporate issuers' relatively prudent financial policy, and a generally stable financial market in Taiwan despite a still-weak economy.

The stable performance and credit quality of underlying assets and related transaction parties, as well as satisfactory credit enhancement levels supported the zero default of rated structured finance transactions in 2012.

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