

Rating Research Services

2013 Ratings Roundup Report

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2013 Ratings Roundup Report

Weaker-than-expected growth in Taiwan and throughout the Asia-Pacific region due to China's sluggish economy, a soft recovery in the United States, and the Eurozone's continuing recession, contributed to further negative rating actions and rating bias in 2013. The number of negative rating actions taken by Taiwan Ratings Corp. (including rating downgrades, negative CreditWatch placements, and negative outlook revisions) outpaced positive rating actions for the second consecutive year, particularly for rated corporate entities. This excludes nine rating adjustments (eight upgrades and one downgrade) and 16 outlook revisions (14 upward and two downward) taken under Standard & Poor's Ratings Services' revised insurance criteria in June and July 2013 and its revised corporate criteria in December 2013.

Overview:

- Excluding rating changes following the launch of new criteria, corporate ratings experienced downward pressure in 2013, while ratings on financial institutions were relatively stable.
- Rating outlooks maintained a negative rating bias at the end of 2013, particularly for corporate ratings due to Taiwan's weaker-than-expected GDP growth and still relatively weak markets for commodity sectors.
- Structured finance transactions and fixed-income funds held relatively stable credit profiles.

The clear divergence between the rating trend of Taiwan's corporate and financial sectors persisted in 2013 (see table 1). Excluding rating adjustments under Standard & Poor's revised corporate criteria, the corporate sector's one upgrade and four downgrades in 2013 (see table 1 continued) maintained a negative trend. This contrasts with the stable rating trend of the financial sector which had one upgrade and no downgrades during the year, after excluding rating adjustments under the revised insurance criteria.

Table 1

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

	2013		2012		2011		2010		2009	
	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade
Corporates	3	5	1	5	3	2	3	2	1	10
Financial institutions	7	0	4	0	12	6	5	2	0	17
Banks*	1	0	2	0	9	2	0	0	0	7
Insurers	6	0	1	0	1	1	0	2	0	4
Securities companies¶	0	0	0	0	2	1	4	0	0	4
Financial holding companies	0	0	0	0	0	2	0	0	0	2
Other financial institutions	0	0	1	0	0	0	1	0	0	0
Total	10	5	5	5	15	8	8	4	1	27

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

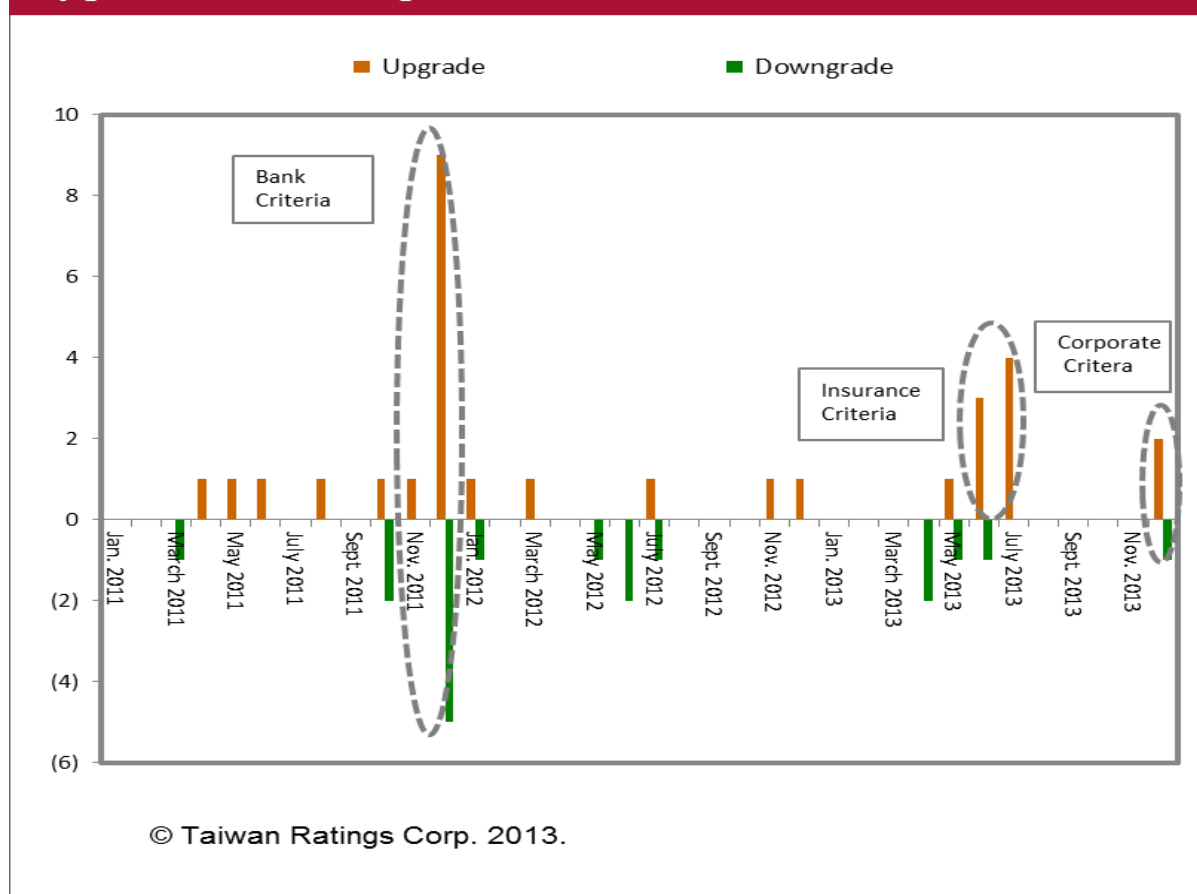
Table 1 (cont'd)

Rating Adjustments Excluding Those Under 2013 Revised Insurance/Corporate Criteria

	2013	
	Upgrade	Downgrade
Corporates	1	4
Financial institutions	1	0
Banks	1	0
Insurers	0	0
Securities companies	0	0
Financial holding companies	0	0
Other financial institutions	0	0
Total	2	4

Overall rating actions followed a negative evolution compared to the five upgrades and five downgrades that took place in 2012. The negative rating actions were taken mainly in the second quarter of 2013 (see chart 1), due to the effect of weaker-than-expected GDP growth in Taiwan and the economic slowdown in China. Slower demand in the Chinese market has led to over capacity and negatively affected Taiwan's exporters in commodity sectors such as steel and chemicals.

Chart 1
Taiwan Ratings' Corporate And Financial Institution Ratings Upgrades And Downgrades



Downward outlook revisions and negative CreditWatch placements continued to outnumber positive actions in 2013 after excluding the outlook revisions as a result of revised criteria (see table 2 and table 2 continued). This is particularly true for the corporate sector with three downward outlook revisions and zero upward revisions. The outlook revisions partly reflected company specific reasons such as a weakening market position or difficulties in maintaining technology leadership. Conversely, the outlook revisions on financial institutions were rather balanced during the year with three upward and three downward changes. Outlook revisions on financial institutions mainly reflected the outlook changes on foreign institutions of their respective parent group and announcements of mergers and acquisitions amongst Taiwan financial institutions.

Table 2

Outlook Revisions On Corporate And Financial Institution Ratings Over The Past Five Years										
	2013		2012		2011		2010		2009	
	Upward	Downward	Upward	Downward	Upward	Downward	Upward	Downward	Upward	Downward
Corporates	2	5	0	2	2	12	10	1	3	3
Financial institutions	15	3	5	16	10	3	19	1	12	19
Banks*	3	2	3	4	3	1	9	0	5	9
Insurers	7	0	0	6	1	0	3	1	1	3
Securities companies [§]	2	0	1	2	4	1	3	0	5	3
Financial holding	3	1	1	4	2	1	3	0	1	4
Other financial	0	0	0	0	0	0	1	0	0	0
Total	17	8	5	18	12	15	29	2	15	22

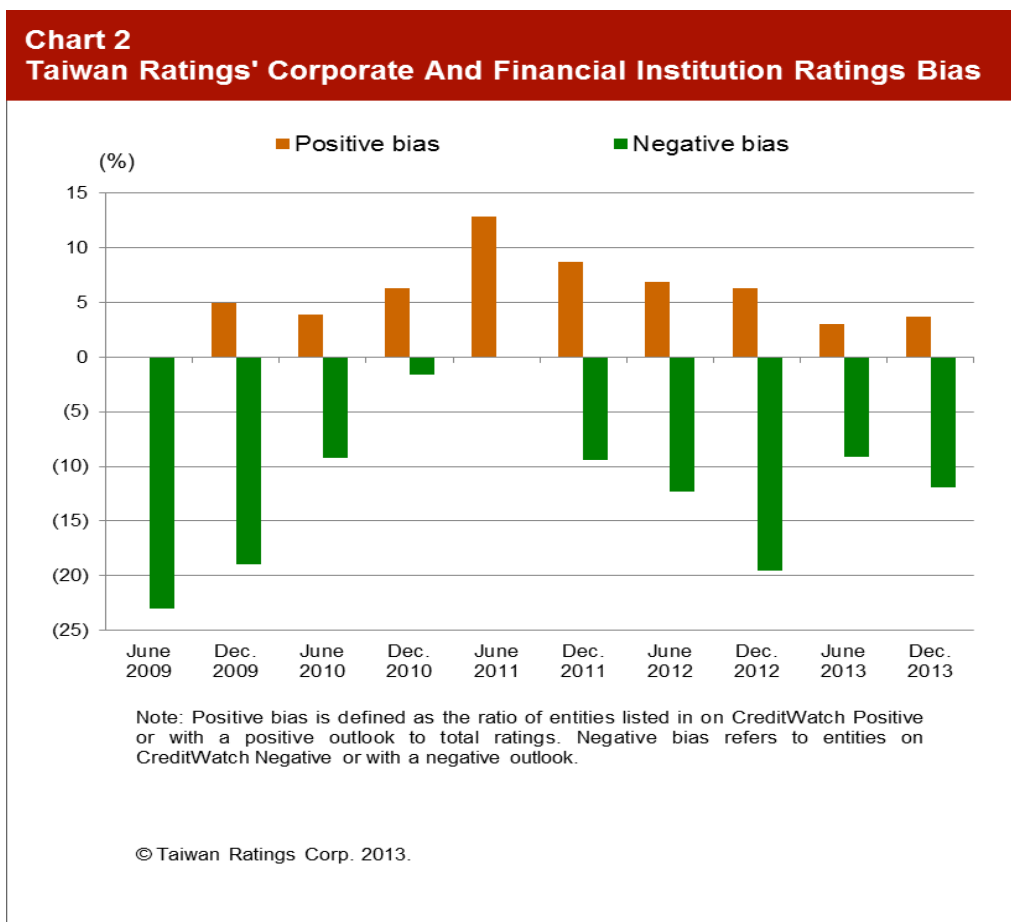
*Includes bills finance companies and finance companies. §Includes securities finance companies. Note: Data do not include revisions from CreditWatch Positive to Positive or CreditWatch Negative to Negative, or CreditWatch Developing to Stable.

Table 2 (cont'd)

Outlook Revisions Excluding Those Under 2013 Revised Insurance And Corporate Criteria		
	2013	
	Upward	Downward
Corporates	0	3
Financial institutions	3	3
Banks	1	2
Insurers	1	0
Securities companies	1	0
Financial holding companies	0	1
Other financial institutions	0	0
Total	3	6

In terms of rating bias, the negative rating bias decreased to 12% at the end of 2013 from 20% at the end of 2012 (see chart 2). The lower negative bias reflects the stable outlook on several corporate ratings following our downgrade on three ratings that previously carried negative outlooks. It can also be attributed to our actions to revise the outlook back to stable on several life insurers and their respective group members following revisions to our insurance criteria in May 2013. Positive rating bias also slightly dipped to 4% in 2013 from 6% in 2012, following our upward revision on one

corporate and one bank rating that previously carried positive outlooks.



Negative rating bias continued to outpace positive rating bias at the end of 2013, while over 80% of the rated pool has stable outlook as of the same time. The negative bias on our corporate ratings is mainly due to the negative outlooks on the Formosa Plastics group and its group members given the group's weaker profitability and rising leverage. The negative bias on financial institution ratings is mainly driven by the parent group outlook of foreign financial institutions in Taiwan and the possible rating impact following merger and acquisition announcements amongst Taiwan financial institutions. Conversely, the Yuanta Financial Holding group maintains a positive rating to reflect our expectation of the group's improving business diversification and earnings resilience.

Unlike corporate and financial institutions ratings, rated structured finance securities demonstrated rather stable credit profiles in 2013 (see table 3). Compared with 2012, there were no rating changes or CreditWatch placements in 2013, because rated transactions have generally performed in line with our expectation. The only rating withdrawal during the year was due to full pay down.

Table 3

Structured Finance New Issue Ratings And Ratings Changes In 2013

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

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

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

Taiwan Ratings downgraded one fixed-income fund due to our assessment of the fund manager's stronger credit risk appetite, while the rating on another fund was withdrawn at the fund manager's request. The downgrade and withdrawal actions differed from the stable rating trend in 2012, when we made no rating alterations.

Corporate Ratings

Rating performance remained negative as a result of still-weak demand in key markets

We downgraded five credits and made downward adjustments to the rating outlook on five corporate issuers, versus only three upgrades and two CreditWatch positive placements in 2013 (see table 4). The negative rating trend mainly reflected the relatively weak market conditions and lowered market demands in some corporate sectors including commodity chemical and steel sectors. This results from Taiwan's high reliance on China as an export market coupled with the recent slowdown in China's growth with lowered demand leading to overcapacity in some sectors. Other negative rating and outlook actions reflected company specific reasons including more aggressive debt leverage or weakening technology leadership and market positions in a rapidly evolving operating environment. The rating actions and CreditWatch placements taken in November to December 2013 followed the introduction of Standard & Poor's revised corporate criteria and group rating methodology.

Table 4

Corporate Sector Upgrades			
Issuer	To	From	Date
Uni-President Enterprises Corp.	twAA-/Stable/twA-1	twA+/Positive/twA-1	7/1/2013
Far Eastern New Century Corp.	twAA-/Stable/twA-1+	twA+/Watch Pos/twA-1	12/10/2013
Yuan Ding Investment Corp.	twAA-/Stable/twA-1+	twA+/Watch Pos/twA-1	12/10/2013
Corporate Sector Downgrades			
China Steel Corp.	twAA-/Stable/twA-1+	twAA/Negative/twA-1+	4/29/2013
Dragon Steel Corp.	twA+/Stable/twA-1	twAA-/Negative/twA-1+	4/29/2013
Nan Ya Printed CircuitBoard Corp.	twA+/Stable/twA-1	twAA-/Negative/twA-1+	5/8/2013
Solar Applied Materials Technology Corp.	twBBB+/Stable/twA-2	twA-/Stable/twA-2	6/3/2013
Far EastOne Telecommunications Co. Ltd	twAA/Stable/twA-1+	twAA+/Watch Neg/twA-1+	12/10/2013
Corporate Sector Outlook Revisions			
Taiwan Acceptance Corp.	twA/Stable/twA-1	twA/Positive/twA-1	6/4/2013
Taiwan Power Co.	twAAA/Negative/twA-1+	twAAA/Stable/twA-1+	6/18/2013
United Microelectronics Corp.	twAA/Negative/twA-1+	twAA/Stable/twA-1+	10/1/2013
Nan Ya Printed Circuit Board Corp.	twA+/Negative/twA-1	twA+/Stable/twA-1	11/26/2013
Corporate Sector Ratings On Credit Watch			
Far EastOne Telecommunications Co. Ltd	twAA+/Watch Neg/twA-1+	twAA+/Stable/twA-1+	11/26/2013
Far Eastern New Century Corp.	twA+/Watch Pos/twA-1	twA+/Stable/twA-1	11/26/2013
Yuan Ding Investment Corp.	twA+/Watch Pos/twA-1	twA+/Stable/twA-1	11/26/2013

Three new issuer credit ratings assigned and one rating withdrawal

We withdrew the rating on one corporate entity in 2013 and assigned three new credit ratings (see table 5).

Table 5

Corporate Sector New Issuer Ratings		
Issuer	Ratings assigned	Date
TECO Electric & Machinery Co. Ltd.	twA/Stable/twA-1	4/10/2013
Cheng Shin Rubber Ind. Co. Ltd.	twA/Stable/twA-2	5/2/2013
Union Finance & Leasing (Int'l) Corp.	twA-/Stable/twA-2	5/31/2013
Corporate Sector Ratings Withdrawn		
Issuer	Ratings prior to withdrawal	Date
Everlight Electronics Co. Ltd.	twBBB+/Stable/twA-2	7/17/2013

Financial Service Ratings

Credit profiles largely remained stable due to low credit charges and ample liquidity

Taiwan's financial institutions (including banks, insurers, securities companies, and financial holding companies) had a rather uneventful year in 2013 due to a stable operating environment. In general, credit profiles across the financial institution industry remained stable in 2013, with slightly improved reported net income. This resulted from low credit charges, ample liquidity, and manageable investment returns, despite volatility in the capital markets. Excluding rating actions that we took following the insurance criteria change, we made only one rating upgrade due to improving business and revenue diversification, a couple of outlook revisions back to stable as a result of changes in the credit outlook of their respective parents overseas, and a few CreditWatch placements due to merger and acquisitions announcements (see table 6).

Table 6

Financial Institutions Upgrades			
Issuer	To	From	Date
Cosmos Bank	twBBB/Stable/twA-3	twBBB-/Positive/twA-3	5/15/2013
China Life Insurance Co. Ltd.	twAA/Stable/--	twAA-/Stable/--	6/19/2013
Shinkong Insurance Co. Ltd.	twAA/Stable/--	twAA-/Stable/--	6/26/2013
Tokio Marine Nawa Insurance Co. Ltd.	twAAA/Stable/--	twAA+/Stable/--	6/26/2013
Taiwan Fire & Marine Insurance Co. Ltd.	twAA/Stable/--	twAA-/Stable/--	7/3/2013
The First Insurance Co. Ltd.	twAA-/Stable/--	twA+/Stable/--	7/3/2013
Taian Insurance Co. Ltd	twAA/Stable/--	twAA-/Stable/--	7/3/2013
Financial Institutions Outlook Revisions			
Cathay Century Insurance Co. Ltd.	twAA+/Stable/--	twAA+/Negative/--	5/29/2013
Cathay Financial Holding Co., Ltd.	twAA/Stable/twA-1+	twAA/Negative/twA-1+	5/29/2013
Cathay Life Insurance Co. Ltd.	twAA+/Stable/--	twAA+/Negative/--	5/29/2013
Shin Kong Financial Holding Co. Ltd.	twA+/Stable/twA-1	twA+/Negative/twA-1	5/29/2013
Shin Kong Life Insurance Co. Ltd.	twAA-/Stable/--	twAA-/Negative/--	5/29/2013
Taiwan Shin Kong Commercial Bank Co. Ltd.	twAA-/Stable/twA-1+	twAA-/Negative/twA-1+	5/29/2013
Taiwan Life Insurance Co. Ltd.	twA+/Stable/--	twA+/Negative/--	6/19/2013
Citibank Securities (Taiwan) Ltd.	twAA/Stable/twA-1+	twAA/Negative/twA-1+	6/21/2013
Fubon Financial Holding Co. Ltd	twAA/Stable/twA-1+	twAA/Negative/twA-1+	6/26/2013
Fubon Insurance Co. Ltd.	twAA+/Stable/--	twAA+/Negative/--	6/26/2013
Fubon Life Insurance Co. Ltd.	twAA+/Stable/--	twAA+/Negative/--	6/26/2013
Fubon Securities Co. Ltd.	twAA+/Stable/twA-1+	twAA+/Negative/twA-1+	6/26/2013
Taipei Fubon Commercial Bank Co. Ltd.	twAA+/Stable/twA-1+	twAA+/Negative/twA-1+	6/26/2013
Banco Bilbao Vizcaya Argentaria, S.A. Taipei Branch	twA/Stable/twA-1	twA/Negative/twA-1	12/3/2013
Financial Institutions Ratings On Credit Watch			
Bank of Panhsin	twBBB-/Watch Neg/twA-3	twBBB-/Stable/twA-3	11/1/2013
CTBC Bank Co. Ltd.	twAA+/Watch Neg/twA-1+	twAA+/Stable/twA-1+	11/4/2013
Taiwan Life Insurance Co. Ltd.	twA+/Watch Pos/--	twA+/Stable/--	11/4/2013
CTBC Financial Holding Co. Ltd.	twAA-/Watch Neg/twA-1+	twAA-/Stable/twA-1+	11/4/2013

The bulk of rating actions we took between May and July 2013 followed Standard & Poor's introduction of revised insurance criteria. Major changes to the criteria included the introduction of a matrix for business risk and financial risk, an insurance industry country risk assessment (IICRA), and the increased weighting of capitalization in the rating assessment. The upgrades of several property & casualty insurance companies reflect our view that the insurers' capital and earnings, which we assessed as very strong to strong, solidly underpin their stand-alone credit profiles. The outlook revision back to stable from negative for several life insurers' and their respective groups reflected our assessment that a rating cut as a result of industry challenges is less likely within next one to two years, based on the IICRA on Taiwan's life industry. The outlook change also reflected our belief that these insurers' are unlikely to experience significant capital weakening over the next two years under our base-case assumptions.

Six new issuer ratings assigned with three rating withdrawals

We assigned six new ratings and withdrew three existing ratings on financial institutions in 2013 (see table 7).

Table 7

Financial Institutions New Issuer Ratings		
Issuer	Ratings assigned	Date
KGI Securities Co. Ltd.	twAA-/Stable/twA-1+	1/22/2013
Taiwan Cooperative Financial Holding Co. Ltd.	twA+/Stable/twA-1	2/7/2013
Banco Bilbao Vizcaya Argentaria, S.A. Taipei Branch	twA/Negative/twA-1	2/19/2013
ANZ Bank (Taiwan) Ltd.	twAAA/Stable/twA-1+	4/8/2013
Union Insurance Co. Ltd.	twAA-/Stable/--	9/27/2013
CDC Finance & Leasing Corp.	twA/Stable/twA-1	10/7/2013
Financial Institutions Ratings Withdrawn		
Issuer	Ratings prior to withdrawal	Date
Ho-An Insurance Agency Co. Ltd.	twA / Stable / twA-1	4/11/2013
Grand Cathay Securities Corp.	twAA-/Stable/twA-1+	6/21/2013
Cosmos Bank	twBBB/Stable/twA-3	10/22/2013

Structured Finance Ratings

Stable transaction performances

Structured finance transactions under our surveillance maintained stable performances, as reflected by the stable counterparty support, the satisfactory arrangement of transactions' liquidity reserves, and low asset losses throughout 2013. Asset performance across all sectors was generally stable and performed in line with our expectation, despite slower-than-expected economic growth and increased volatility in global capital markets. We made no adjustments to the ratings of our structured finance transactions during the year.

We assigned no new structured finance ratings in 2013 and withdrew ratings on one class of notes
The ratings withdrawal was due to the notes' full pay-down (see table 8).

Table 8

Structured Finance Ratings Withdrawn		
Class of certificate	Transaction	Date
Class B	Chinatrust Commercial Bank RMBS 2004-A Special Purpose Trust	4/25/2013

Fixed-Income Fund Ratings

One rating downgrade due to revised risk appetite

The increased challenges of generating competitive investment yields in a low interest rate environment have affected the credit quality of certain fixed income funds. We made one downgrade in 2013 (see table 9) to reflect our assessment of a growing credit risk appetite for higher investment yield. In addition, while the majority of the rated fixed-income funds managed to maintain credit quality consistent with the ratings, there was increasing uncertainty over asset quality due to yield competition. Aside from the single rating action, we assigned no new ratings and made one rating withdrawal at the request of the fund manager (see table 10).

Table 9

Fixed-Income Fund Ratings Downgrades

Fund	To	From	Date
Allianz Global Investors Taiwan Money Market Fund	twAAf/--	twAA+f/--	8/14/2013

Table 10

Fixed-Income Fund Ratings Withdrawn

Fund	Rating prior to withdrawal	Date
Deutsche Far Estern DWS Taiwan Money Market Fund	twAAf/--	6/19/2013

Corporate, Financial, And Structured Finance Sector Default Experience

There were no defaults in our rated pool of Taiwanese corporates, financial institutions, and structured finance securities in 2013.

For corporate and financial institutions, the absence of defaults was due to the effect of our small issuer pool size and the majority position held by high ratings (more than 80% are rated 'twA-' or above) in our issuer pool. The zero default also continues to reflect non-financial corporations' adequate access to liquidity, corporate issuers' relatively prudent financial policy, and a generally stable financial market in Taiwan, despite a weaker-than-expected economy.

The stable performance of underlying assets and related transaction parties supported the zero default of rated structured finance transactions in 2013.

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