

# TAIWAN RATINGS CORP: 2015 RATINGS ROUNDUP REPORT

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中華信用評等  
*Taiwan Ratings*

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# TAIWAN RATINGS CORP.

## 2015 RATINGS ROUNDUP REPORT



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Overall, Taiwan Ratings' issuer rating pool maintained a slight negative rating bias at the end of 2015, which mostly reflects the impact of weakening demand growth in key export markets for rated corporate entities as well as continuing overcapacity in several corporate sectors during the year.

Corporate ratings came under downward pressure in 2015, while by contrast our ratings on financial institutions exhibited relatively stable-to-positive movement over the same period. This was supported by a more stable operating environment for financial institutions domestically, comprising low credit charges, ample market liquidity, and manageable investment returns.

Similarly, Taiwan originated structured finance transactions held relatively stable credit profiles in 2015--given the transactions' favorable counterparty support, largely steady underlying asset performances, and conservative payment structure arrangements, as did the performance of fixed income funds, supported by their stable asset quality.

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## 2015 Ratings Roundup Report

Slow economic growth in Taiwan's key export markets, most notably in China, and continuing overcapacity in the commodity, technology, and transportation sectors led to negative rating actions and outlook revisions in the corporate sector in 2015. Taiwan Ratings Corp. expects Taiwanese corporations to continue experiencing downward pressure on their rating profiles over the next few quarters, amid the growing likelihood that global demand will fail to strengthen during the same period.

Taiwanese financial institutions, on the other hand, saw relatively stable-to-positive credit profiles in 2015, given a stable operating environment supported by low credit charges, ample market liquidity, and manageable investment returns. The higher capital requirement under Basel III also encouraged banks to improve their capitalization over the past 12 months. However, the slow domestic economy and downward pressure on credit profiles in the corporate sector could trigger a gradual decline in credit costs and financial profiles across the financial sector in 2016. Most of the outlook changes we took on local financial institutions over the past 12 months followed similar outlook changes on the entities' overseas parent. Increased merger and acquisition activity within Taiwan's financial services sector also contributed to some of the outlook changes we made in 2015.

### Overview:

- Corporate ratings came under pressure in 2015, while rating changes among financial institutions were relatively stable to positive.
- Our ratings outlook maintained a negative rating bias at the end of 2015, particularly for corporate ratings due to weak demand from key export markets, especially China.
- Structured finance transactions and fixed income funds held relatively stable credit profiles.

Overall we made 12 rating adjustments (eight upgrades and four downgrades), and 36 outlook revisions (18 upwards and 18 downwards, including CreditWatch actions) on corporate and financial institutions in 2015. As with 2014, there was again a clear divergence between the rating trend of Taiwanese corporate and financial sectors over the past 12 months (see table 1). Two upgrades and four downgrades in the corporate sector in 2015 resulted in an overall negative rating trend, which contrasts with the positive rating trend for the financial sector, which had six upgrades over the same period. We also upgraded one asset-backed security (ABS).

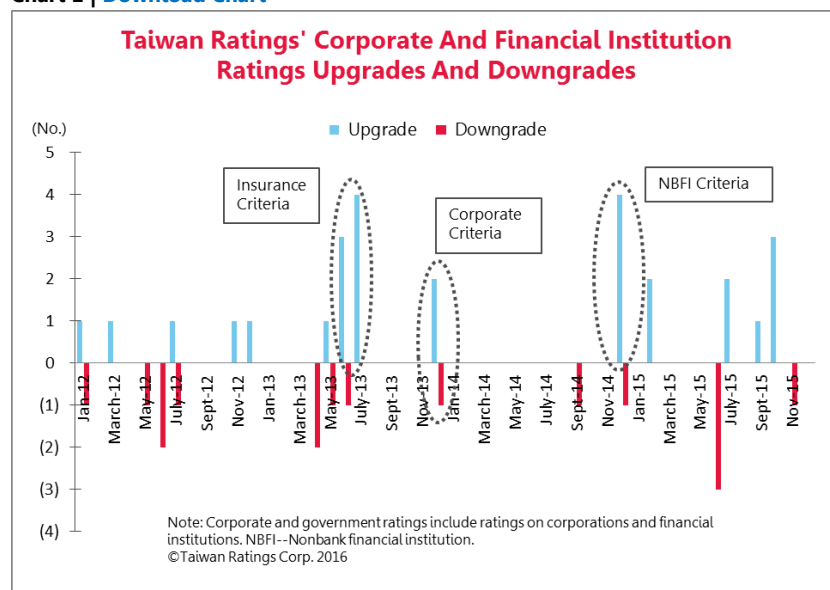
**Table 1 | Download Table**

Long-term Corporate And Financial Institution Rating Changes In Taiwan (2011-2015)										
	2015		2014		2013		2012		2011	
	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade
<b>Corporates</b>	2	4	0	1	3	5	1	5	3	2
<b>Financial institutions</b>	6	0	4	1	7	0	4	0	12	6
Banks*	2	0	1	1	1	0	2	0	9	2
Insurers	1	0	0	0	6	0	1	0	1	1
Securities companies†	1	0	2	0	0	0	0	0	2	1
Financial holding companies	2	0	1	0	0	0	0	0	0	2
Other financial institutions	0	0	0	0	0	0	1	0	0	0
<b>Total</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>10</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>15</b>	<b>8</b>

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

With no impact from criteria changes over the past 12 months, the evolution of rating actions was slightly positive compared to 2014, when we made two downgrades and no upgrades if excluding the four rating upgrades under Standard & Poor's revised nonbank financial institutions criteria. We made four corporate downgrades in 2015 against only one in 2014 (see chart 1).

**Chart 1 | Download Chart**



The financial sector, by contrast, maintained a relatively stable-to-positive rating trend in 2015. We made six upgrades--all in the second half of the year--including **E.SUN Financial Holding Co. Ltd.** (E.SUN FHC), **E.SUN Commercial Bank Ltd.** (E.SUN Bank), **Union Insurance Co. Ltd.**, as well as **First Financial Holding Co. Ltd.** (First FHC) and its related group members.

In contrast with 2014, when upward revisions on rating outlooks and CreditWatch actions outnumbered downward revisions by two to one, the number of upward and downward outlook revisions were the same in 2015 at 18 each (see table 2).

**Table 2 | Download Table**

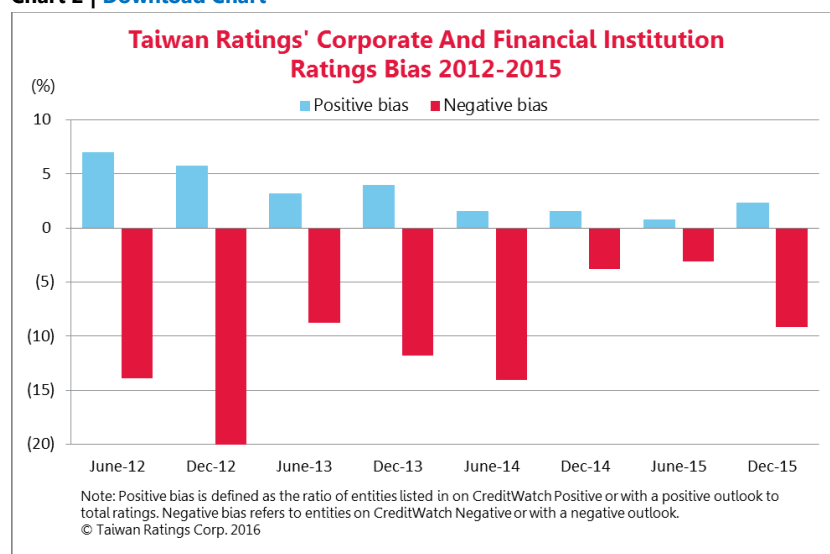
Outlook Revisions On Corporate And Financial Institution Ratings 2011-2015										
	2015		2014		2013		2012		2011	
	Upward	Downward	Upward	Downward	Upward	Downward	Upward	Downward	Upward	Downward
<b>Corporates</b>	<b>4</b>	<b>9</b>	<b>9</b>	<b>0</b>	<b>2</b>	<b>5</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>12</b>
<b>Financial institutions</b>	<b>14</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>15</b>	<b>3</b>	<b>5</b>	<b>16</b>	<b>10</b>	<b>3</b>
Banks*	6	2	4	2	3	2	3	4	3	1
Insurers	3	3	0	1	7	0	0	6	1	0
Securities companies <sup>†</sup>	3	2	2	3	2	0	1	2	4	1
Financial holding companies	2	2	2	2	3	1	1	4	2	1
Other financial institutions	0	0	1	1	0	0	0	0	0	0
<b>Total</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>9</b>	<b>17</b>	<b>8</b>	<b>5</b>	<b>18</b>	<b>12</b>	<b>15</b>

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

That said, we made nine downward outlook revisions compared with four upward revisions in the corporate sector. Downward outlook revisions included our corporate ratings in the technology, commodity, cyclical transportation, and telecom sectors. This reflected either the respective companies' weakening performance due to weak demand and capacity oversupply amid China's slowing economic growth, or the entity's deteriorating financial risk profile, which was mostly due to higher capital expenditures and investments. By contrast, the number of upward outlook revisions on financial institution ratings was slightly higher than that for downward revisions and mainly reflected outlook changes on the foreign parent groups and the impact of merger and acquisition activity among Taiwanese institutions. Part of those revisions was due to company specific reasons, such as strengthening capitalization or increased investment risks.

Downgrade pressure on our rating pool increased in 2015, during which period ratings with a negative outlook or placed on CreditWatch increased to 9% in 2015, up from 4% the previous year (see chart 2). This was mainly due to several negative rating outlook revisions on the corporate sector.

**Chart 2 | Download Chart**





However, ratings with a positive outlook or placed on CreditWatch increased moderately to 3% at the end of 2015 from 1.5% the previous year. Positive rating outlooks and CreditWatch Positive placements all related to the financial sector, and reflected either positive outlook revisions on the entity's foreign parent group or because the entity was the target of merger and acquisition activity, such as **Ta Chong Bank Ltd.** and **Taiwan Life Insurance Co. Ltd.** Overall, the number of negative rating outlooks on corporate and financial institution ratings continued to outpace positive ones in 2015.

Rated structured finance securities demonstrated rather stable credit profiles in 2015 (see table 3). We made one rating upgrade during the year, based on the transaction's increased coverage on expected collateral credit losses for the notes. In general, the underlying asset performance for transactions within our rated pool was generally stable and performed in line with our expectation even as domestic economic growth decelerated. In addition, we made one rating withdrawal in the ABS sector following the rated notes' full redemption during the year.

**Table 3 | [Download Table](#)**

<b>Structured Finance New Issue Ratings And Ratings Changes In 2015</b>						
Asset type	New	Withdrawn due to Full Paydown	Upgrade	Downgrade	Watch Pos	Watch Neg
Residential mortgage-backed securities	0	0	0	0	0	0
Asset-backed securities	0	1	1	0	0	0
Collateralized bond obligations	0	0	0	0	0	0
Collateralized loan obligations	0	0	0	0	0	0
Ground lease	0	0	0	0	0	0
Real estate asset trust	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Structured Finance New Issue Ratings And Ratings Changes In 2014</b>						
Asset type	New	Withdrawn due to Full Paydown	Upgrade	Downgrade	Watch Pos	Watch Neg
Residential mortgage-backed securities	0	2	0	0	0	0
Asset-backed securities	2	2	1	0	0	0
Collateralized bond obligations	0	4	0	0	0	1
Collateralized loan obligations	0	0	0	0	0	0
Ground lease	0	0	0	0	0	0
Real estate asset trust	0	0	0	0	0	0
<b>Total</b>	<b>2</b>	<b>8</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>

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

Rating performance was also relatively stable in the fixed-income fund sector in 2015, with no rating actions.

## Corporate Ratings

### Negative rating actions and outlook revisions expanded amid China's slowing growth

Our rated corporate issuers faced a negative rating trend in 2015. We downgraded four credits and made downward adjustments to the rating outlooks on nine credits, against two upgrades and four upward outlook adjustments during the year (see table 4). The downgrades were results of the issuer's higher capital expenditures than we predicted, which resulted in higher financial leverage than in our rating predictions (**Far Eastern New Century Corp.** group), or the result of the issuer's weakening financial flexibility (**Asia Cement Corp.**). The two upgrades were **TECO Electric & Machinery Co. Ltd.** and **Cheng Shin Rubber Industries Co. Ltd.**, due to the companies' improved profitability and financial leverage.

Meanwhile, we made downward outlook revisions on corporate ratings within the technology, commodity, cyclical transportation, and telecom sectors. These actions either reflected the respective companies' weakening performance due to weak demand and capacity oversupply, or reflected a deteriorating financial risk profile, mostly as a result of higher capital expenditures and investments. The upward outlook revisions reflected the companies' improving financial risk profile.

Table 4 | [Download Table](#)

Corporate Sector Upgrades			
Issuer	To	From	Date
TECO Electric & Machinery Co. Ltd.	twA+ / Stable / twA-1	twA / Positive / twA-1	2/16/2015
Cheng Shin Rubber Industries Co.	twA+ / Stable / twA-1	twA / Positive / twA-2	2/26/2015
Corporate Sector Downgrades			
Issuer	To	From	Date
Far Eastern New Century Corp.	twA+ / Stable / twA-1	twAA- / Stable / twA-1	6/26/2015
Yuan Ding Investment Corp.	twA+ / Stable / twA-1	twAA- / Stable / twA-1	6/26/2015
Far Eastone Telecommunications Co. Ltd.	twAA- / Stable / twA-1+	twAA / Stable / twA-1+	6/26/2015
Asia Cement Corp.	twA / Stable / twA-1	twA+ / Negative / twA-1	11/17/2015
Corporate Sector Outlook Revisions			
Issuer	To	From	Date
Taiwan Power Co.	twAAA / Stable / twA-1+	twAAA / Negative / twA-1+	3/24/2015
Yang Ming Marine Transport Corp.	twBBB / Positive / twA-3	twBBB / Stable / twA-3	4/29/2015
Chi Mei Corp.	twA+ / Stable / twA-1	twA+ / Negative / twA-1	5/18/2015
Taiwan Mobile Co. Ltd.	twAA / Negative / twA-1+	twAA / Stable / twA-1+	6/2/2015
Unimicron Technology Corp.	twA+ / Negative / twA-1	twA+ / Stable / twA-1	6/8/2015
Asia Cement Corp.	twA+ / Negative / twA-1	twA+ / Stable / twA-1	7/7/2015
Far Eastern New Century Corp.	twA+ / Negative / twA-1	twA+ / Stable / twA-1	8/5/2015
Yuan Ding Investment Corp.	twA+ / Negative / twA-1	twA+ / Stable / twA-1	8/5/2015
Far Eastone Telecommunications Co. Ltd	twAA- / Negative / twA-1+	twAA- / Stable / twA-1+	8/5/2015
Solar Applied Materials Technology Corp.	twBBB+ / Negative / twA-2	twBBB+ / Stable / twA-2	8/31/2015
Mai-liao Power Corp.	twA+ / Stable / twA-1	twA+ / Negative / twA-1	10/14/2015
Sinyi Realty Inc.	twA / Negative / twA-2	twA / Stable / twA-2	12/11/2015
Yang Ming Marine Transport Corp.	twBBB / Stable / twA-3	twBBB / Positive / twA-3	12/17/2015
Corporate Sector Ratings On / Off Credit Watch			
Issuer	To	From	Date
Nil			



## One new issuer credit rating assigned and three ratings withdrawn

We assigned one new credit rating on a government-related entity and withdrew three corporate ratings in 2015 (see table 5).

**Table 5 | [Download Table](#)**

Corporate Sector New Issuer Ratings		
Issuer	Ratings assigned	Date
Taiwan Railways Administration, MOTC	twAAA / Stable / twA-1+	12/28/2015
Corporate Sector Ratings Withdrawn		
Issuer	Ratings prior to withdrawal	Date
Gallop Number One Real Estate Investment Trust	twA / Stable / twA-1	4/8/2015
Taiwan Power Co.	twAAA / Stable / twA-1+	24/6/2015
Pacific Hospital Supply Co. Ltd.	twA- / Stable / twA-2	24/8/2015

## Financial Service Ratings

### Credit profiles mostly 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 somewhat uneventful year in 2015, given a generally stable operating environment. Credit profiles across the financial services sector remained stable in 2015, supported by low credit charges, ample liquidity, and manageable investment returns, despite capital market volatility during the third quarter of 2015. There were no downgrades in 2015. Most of the outlook revisions reflected the revised outlook on the parent, while the rest followed the announcement of mergers and acquisitions (see table 6).

**Table 6 | [Download Table](#)**

Financial Institutions Upgrades			
Issuer	To	From	Date
E.SUN Commercial Bank Ltd.	twAA- / Stable / twA-1+	twA+ / Stable / twA-1	7/13/2015
E.SUN Financial Holding Co. Ltd.	twA+ / Stable / twA-1	twA / Stable / twA-1	7/13/2015
Union Insurance Co. Ltd.	twAA / Stable / --	twAA- / Stable / --	9/11/2015
First Commercial Bank Ltd.	twAA+ / Stable / twA-1+	twAA / Positive / twA-1+	10/5/2015
First Financial Holding Co. Ltd.	twAA- / Stable / twA-1+	twA+ / Positive / twA-1	10/5/2015
First Securities Inc.	twAA- / Stable / twA-1+	twA+ / Positive / twA-1	10/5/2015
Financial Institutions Downgrades			
Issuer	To	From	Date
Nil			
Financial Institutions Outlook Revisions			
Issuer	To	From	Date
UBS AG, Taipei Branch	twAA+ / Stable / twA-1+	twAA+ / Negative / twA-1+	6/10/2015
Citigroup Global Markets Taiwan Securities Co. Ltd.	twAA / Positive / twA-1+	twAA / Stable / twA-1+	7/24/2015
China Life Insurance Co. Ltd.	twAA / Negative / --	twAA / Stable / --	7/30/2015
Ta Chong Bank Ltd.	twA / Positive / twA-1	twA / Stable / twA-1	8/18/2015
Yuanta Commercial Bank	twAA / Negative / twA-1+	twAA / Stable / twA-1+	8/18/2015
Yuanta Securities Co. Ltd.	twAA / Negative / twA-1+	twAA / Stable / twA-1+	8/18/2015
Yuanta Securities Finance Co. Ltd.	twAA / Negative / twA-1+	twAA / Stable / twA-1+	8/18/2015
Yuanta Financial Holding Co. Ltd.	twAA- / Negative / twA-1+	twAA- / Stable / twA-1+	8/18/2015
First Commercial Bank Ltd.	twAA / Positive / twA-1+	twAA / Stable / twA-1+	8/25/2015
First Securities Inc.	twA+ / Positive / twA-1	twA+ / Stable / twA-1	8/25/2015
First Financial Holding Co. Ltd.	twA+ / Positive / twA-1	twA+ / Stable / twA-1	8/25/2015
Taiwan Life Insurance Co. Ltd.	twA+ / Positive / --	twA+ / Stable / --	10/2/2015
UBS AG, Taipei Branch	twAA+ / Positive / twA-1+	twAA+ / Stable / twA-1+	12/4/2015
Societe Generale Taipei Branch	twAA+ / Stable / twA-1+	twAA+ / Negative / twA-1+	12/4/2015

Financial Institutions Ratings On / Off CreditWatch				
Issuer	To	From	Date	
Standard Chartered Bank (Taiwan) Ltd.	twAA+ / Watch Neg / twA-1+	twAA+ / Negative / twA-1+	2/4/2015	
Cathay Life Insurance Co. Ltd.	twAA+ / Watch Neg / --	twAA+ / Stable / --	3/25/2015	
Cathay Century Insurance Co. Ltd.	twAA+ / Watch Neg / --	twAA+ / Stable / --	3/25/2015	
Cathay Financial Holding Co. Ltd.	twAA / Watch Neg / twA-1+	twAA / Stable / twA-1+	3/25/2015	
Standard Chartered Bank (Taiwan) Ltd.	twAA+ / Stable / twA-1+	twAA+ / Watch Neg / twA-1+	6/10/2015	
Cathay Life Insurance Co. Ltd.	twAA+ / Stable / --	twAA+ / Watch Neg / --	6/22/2015	
Cathay Century Insurance Co. Ltd.	twAA+ / Stable / --	twAA+ / Watch Neg / --	6/22/2015	
Cathay Financial Holding Co. Ltd.	twAA / Stable / twA-1+	twAA / Watch Neg / twA-1+	6/22/2015	
Citigroup Global Markets Taiwan Securities Co. Ltd.	twAA / Watch Pos / twA-1+	twAA / Positive / twA-1+	11/4/2015	

Our rating actions in the financial services sector followed a slightly positive rating trend in 2015 compared to 2014. We made three upgrades on First FHC and related group members because of their enhanced capitalization following the completion of the group's capital raising plan. In addition, we upgraded E.SUN FHC and E.SUN Bank in recognition of the bank's enhanced business diversity and consistently superior asset quality and the positive impact of these on the parent holding company. We also upgraded Union Insurance to reflect the company's improved underwriting performance. We made no downgrades in the financial services sector during the year.

Our outlook revisions on financial institution ratings showed a positive trend in 2015 with fourteen upward and nine downward outlook revisions. These mainly reflected outlook revisions on the entities' overseas parent groups, as well as the result of capital injections and the announcements of mergers and acquisitions among Taiwan financial institutions

#### Four new issuer ratings assigned with two ratings withdrawn

We assigned four new ratings and withdrew two existing ratings on financial institutions in 2015 (see table 7).

Table 7 | [Download Table](#)

Financial Institutions New Issuer Ratings			
Issuer	Ratings assigned		Date
UBS AG, Taipei Branch	twAA+ / Negative / twA-1+		4/24/2015
Barclays Bank PLC Taipei Branch (Issuer)	twAA / Stable / twA-1+		7/3/2015
Taishin D.A. Finance Co. Ltd. (Issuer)	twA / Stable / twA-1		7/27/2015
Mega Asset Management Co. Ltd. (Issuer)	twA+ / Stable / twA-1		7/30/2015
Financial Institutions Ratings Withdrawn			
Issuer	Ratings prior to withdrawal		Date
Bank of Kaohsiung (Issuer)	twBBB+ / Stable / twA-2		11/19/2015
Taiwan Life Insurance Co. Ltd. (Issuer)	twA+ / Positive / --		12/30/2015

## Structured Finance Ratings

### Stable ratings amid a slowing domestic economy

Taiwan structured finance transactions maintained stable ratings in 2015, thanks to stable counterparty support, largely steady underlying asset performances, and transactions' conservative payment structure arrangement. In general, the performance of underlying assets supporting most securitization transactions was in line with our expectations, with the minority being slightly affected by the much slower domestic economy in the second half. Stable asset performance, together with increased credit enhancement under a sequential pay-down structure led us to upgrade one ABS tranche (see table 8).

Table 8 | [Download Table](#)

Structured Finance Upgrades				
Class of certificate	Transaction	To	From	Date
Class B	Chailease 2011 Securitization Special Purpose Trust	twAA(sf)	twA(sf)	3/5/2015
Structured Finance Downgrades				
Class of certificate	Transaction	To	From	Date
Nil				
Structured Finance On / Off Credit Watch				
Class of certificate	Transaction	To	From	Date
Nil				

### We withdrew ratings on one securitization tranche in 2015

We withdrew the rating on one ABS tranche following full redemption (see table 9).

Table 9 | [Download Table](#)

Structured Finance New Issue Ratings			
Class of certificate	Transaction	Ratings assigned	Date
Nil			
Structured Finance Ratings Withdrawn			
Class of certificate	Transaction	Ratings prior to withdrawal	Date
Class A	Chailease 2011 Securitization Special Purpose Trust	twAAA(sf)	11/26/2015

## Fixed-Income Fund Ratings

### Stable creditworthiness on financial institutions supported fund ratings

Stable asset quality, reflected by stable-to-positive movement in financial institution ratings supported the stable rating performance of fixed-income funds in 2015. This was despite continued yield competition propelling some funds to pursue more aggressive investment strategies. We made no rating changes in 2015.

## Corporate, Financial, And Structured Finance Sector Default Experience

There were no defaults in our rated pool of Taiwanese corporates, financial institutions, and structured finance securitizations in 2015.

For corporate and financial institutions, the absence of defaults was due mostly to the higher rating quality of the majority of our rated issuer pool--more than 80% of entities are rated 'twA-' or above. The zero default rate also continues to reflect the adequate access to liquidity of non-financial corporations, supported by ample liquidity in Taiwan's banking sector and a generally stable domestic financial market.

There was no payment or structural default among structured finance transactions in 2015.

*We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee.*

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