

## Research Update

# Fubon Financial Holding Co. Ltd. Ratings Affirmed At 'twAA/twA-1+'; Outlook Stable

August 2, 2019

## Overview

- The Fubon FHC group credit profile continues to reflect the profile of its flagship entity, Fubon Life, which contributes a large part of the group's capital and asset base. The group has a very strong competitive position with good business diversification across Taiwan's major financial sectors, good earning stability and established risk framework.
- At the same time, the group's capitalization and investment risk exposure are similar to the domestic industry average.
- We are affirming our 'twAA/twA-1+' issuer credit ratings on Fubon FHC. The ratings on the holding company reflect one notch of subordination to the group's core entities.
- The outlook is stable to reflect our expectation that the Fubon FHC group will maintain its strong business position in the local market and better earnings resilience compared with local peers over the next one to two years.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Taiwan-domiciled **Fubon Financial Holding Co. Ltd.** The outlook is stable. At the same time, we affirmed the 'twAA' issue rating on the holding company's various unsecured senior corporate bonds.

## Rationale

Our assessment of Fubon FHC's group credit profile largely reflects the stand-alone credit profile of its key and flagship subsidiary, Fubon Life, given the insurer's dominant role contributing 70%-80% of the group's total-adjusted capital base. The ratings on Fubon FHC reflect the group's strong market position and business profile in Taiwan's life and non-life insurance, bank, and securities sectors. The ratings also reflect the group's satisfactory funding structure and proactive liquidity management.

Counterbalancing these strengths is our assessment of Fubon Life's capitalization at a fair level, at no more than 30% below the 'BBB' confidence level per our capital model, which is slightly weaker than that of its international peers albeit in line with local peer average. This is despite our assessment of Fubon Life's capital and earnings as satisfactory after considering the insurer's track record on asset and liability risk control, as well as volatility of its domestic equity investments to market movement. The ratings on the holding company also reflect its subordination to the group's core entities.

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# Outlook

The stable outlook on Fubon FHC reflects our view that the group's flagship entity **Fubon Life Insurance Co. Ltd.** will continue to dominate the overall group credit profile over the next two years. We believe Fubon FHC group's capital and earnings will reflect those of Fubon Life over the same period.

We expect Fubon FHC group to maintain its investment allocation and manage additional capital requirements without weakening its capital and earnings materially. These could include capital outlay to support overseas subsidiaries and ongoing organic asset growth. We also expect the holding company to proactively manage its liquidity to maintain an adequate liquidity coverage ratio.

In addition, we do not expect Fubon FHC's very strong competitive position to change over the next two years relative to that of other local peers. Moreover, the group is likely to maintain its moderately low risk exposure by controlling foreign exchange risk exposure, particularly at Fubon Life, given the group's effective risk management mechanisms. We believe the group's banking unit, **Taipei Fubon Commercial Bank Co. Ltd.**, will continue to contribute more than 25% of the group's operating income over the next two years.

## Downward scenario

We could lower the ratings on Fubon FHC and its key subsidiaries if either of the following occurs:

- The group's risk exposure deteriorates to moderately high from moderately low at present. The risk position is particularly sensitive to Fubon Life's large invested asset pool, which forms a significant part of the group's total assets. We could also lower the ratings if Fubon Life's foreign exchange risk exposure, net of effective hedging, or investment concentration in the financial sector materially and consistently exceeds the local peer average; or
- The group's capital and earnings weakens to fair from satisfactory currently. This is likely if the group overly expands its investment assets as well as grows through mergers and acquisitions that exceed our current expectation or if the group's operating performance drops below the domestic industry average. This could also occur if the growth in Fubon Life's value of in-force (VIF) is materially lower than we had forecasted, because VIF accounts for a large part of the group's total adjusted capital.

## Upward scenario

We view an upgrade as unlikely over the next two years. Such a scenario would require a substantial increase in the group's capital strength, which is unlikely to occur in the next one to two years.

# Related Criteria

- TRC Financial Services Sector Issue Credit Rating Criteria, [www.taiwanratings.com](http://www.taiwanratings.com) - September 23, 2014
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Group Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, [www.taiwanratings.com](http://www.taiwanratings.com) - June 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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# Ratings List

## Ratings Affirmed

### Fubon Financial Holding Co. Ltd.

Issuer Credit Ratings	twAA/Stable/twA-1+
Unsecured Senior Corporate Bond	twAA

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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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