

Research Update

BankTaiwan Life Insurance Co. Ltd. Ratings Affirmed At 'twAAA'; Outlook Stable

September 26, 2019

Overview

- BankTaiwan Life receives a high level of implicit support from its parent, Taiwan FHC group. The close linkage to the group mitigates BankTaiwan Life's smaller scale and weak profitability.
- We also view BankTaiwan Life's capital and earnings to be weak and we expect no material risks that are not captured in our capital and earnings analysis.
- We are affirming our 'twAAA' long-term insurer financial strength and issuer credit ratings on BankTaiwan Life Insurance.
- The outlook is stable to reflect our expectation that BankTaiwan Life will remain a core member of the Taiwan FHC group under the group's bancassurance strategy over the next two years.

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Rating Action

Taiwan Ratings Corp. affirmed its 'twAAA' long-term insurer financial strength and issuer credit ratings on Taiwan-domiciled **BankTaiwan Life Insurance Co. Ltd.** The outlook is stable.

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Outlook

The stable outlook reflects our expectation that over the next two years BankTaiwan Life will remain a core member of the Taiwan Financial Holding Co. Ltd. (Taiwan FHC) group under the group's bancassurance strategy. The ratings on the insurer will therefore move in tandem with the direction of the supported group credit profile. In addition, the outlook reflects the risk profile of the group's flagship subsidiary, **Bank of Taiwan**, which is unlikely to change significantly over the next one to two years, given the extremely high likelihood of government support in the event the bank faces financial stress. The ratings on Bank of Taiwan will move in tandem with S&P Global Ratings' unsolicited foreign currency issuer credit ratings on Taiwan (AA-/Stable/A-1+), given the bank's government ownership.

Downward scenario

We may downgrade BankTaiwan Life if we lower the ratings on Bank of Taiwan. We may also downgrade BankTaiwan Life if the strategic link between the insurer and parent group weakens such that the subsidiary changes from a core to a highly strategic unit. A strategic change in the group's operations or a consistently weakening operating performance by BankTaiwan Life could result in such a shift. Under this scenario, we would lower our ratings on the insurer by one notch; however, we consider the likelihood for such a scenario to be low over the next one to two years.

Rationale

The ratings on BankTaiwan Life reflect the likelihood that the insurer will remain a core subsidiary of the Taiwan FHC group along with the group's banking arm, Bank of Taiwan. We classify Bank of Taiwan as a government-related entity and we believe there is an extremely high likelihood that the government of Taiwan would provide timely, sufficient, and extraordinary support to the bank, as needed. We believe this support will extend through the holding company and shared by BankTaiwan Life whenever needed.

Ratings Score Snapshot

Business Risk Profile	Fair
Competitive position	Satisfactory
IICRA	Moderately High
Financial Risk Profile	Weak
Capital and earnings	Weak
Risk exposure	Moderately Low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Financial Strength Rating	twAAA

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Group Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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Ratings List

Ratings Affirmed

BankTaiwan Life Insurance Co. Ltd.

Issuer Credit Rating	twAAA/Stable
Financial Strength Rating	twAAA/Stable

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.

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