

Media Release

Bank of Taiwan Affirmed At 'twAAA/twA-1+' On Strengthened Capitalization; Outlook Stable

October 1, 2019

Overview

- We expect BOT's capitalization to strengthen following the Ministry of Finance's decision to return property holdings to the bank, which we view as a de facto capital injection.
- We have revised our assessment of the bank's capitalization to strong from adequate because we expect the return of property coupled with the bank's prudent growth strategy and capital management to strengthen its RAC ratio before diversification.
- We are affirming our 'twAAA' long-term and 'twA-1+' short-term issuer credit ratings on BOT, as well as the issue credit ratings on the bank's various unsecured senior and subordinated debentures.
- The outlook is stable to reflect the extremely high likelihood of implicit support for BOT from the Taiwan government and our view that the bank will maintain strong capitalization in the next one to two years.

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Rating Action

Taiwan Ratings Corp. today affirmed its 'twAAA' long-term and 'twA-1+' short-term issuer credit ratings on **Bank of Taiwan** (BOT). The outlook on the long-term rating is stable. At the same time, we affirmed our issue credit ratings on the bank's various unsecured senior and subordinated debentures (see ratings list).

Rationale

The rating affirmation reflects our view that BOT's capitalization will strengthen over the next two years after the decision by Taiwan's Ministry of Finance to shortly return property holdings to the bank that the bank donated to the government in earlier years. These will provide sizeable unrealized appraisal gains of around New Taiwan dollar (NT\$) 42 billion, which we recognize as part of the bank's capital and as such will in turn enhance the bank's capitalization.

Recent progress in the Ministry's efforts to return the property has strengthened our view that the bank's risk adjusted capital (RAC) ratio will sustainably improve to above 10% over the next two years. The revised capital assessment also stems from our view that BOT will maintain a prudent growth strategy with close control on its risk-weighted asset growth. We expect the bank to achieve this by monitoring its risk-adjusted capital consumption relative to risk-adjusted returns. We also expect the Taiwan government to facilitate BOT to implement a prudent capital policy. As of June 2019, the bank's RAC ratio was 9.7%.

Our ratings continue to reflect our view of an extremely high likelihood that the Taiwan government would provide timely, sufficient, and extraordinary support to BOT, if needed. We base this on our assessment of the bank's very important role to the government, given its performance of several policy functions for the government. BOT also has an integral link to the government, which is the bank's sole shareholder and has strong influence over the bank's strategy and business operations through the appointment of board members and senior management.

On a stand-alone basis, the ratings on BOT also reflect the bank's solid domestic franchise and market share, strong customer base with superior funding profile, as well as its weaker-than-average earnings capacity as a result of its government policy role.

Outlook

The stable outlook on BOT reflects our expectation of an extremely high likelihood that the Taiwan government will provide sufficient and timely extraordinary support to the bank over the next two years, if needed. The outlook also reflects our view that BOT will continue to play a dominant role in terms of the overall risk profile of it's the bank's parent, Taiwan Financial Holding Co. Ltd., group. In addition, the outlook reflects our belief that BOT will sustain prudent growth and that the Taiwan government will facilitate the bank to implement a prudent capital policy.

Downward scenario

We assess the possibility of a downgrade as remote over the next 24 months. However, we could lower the long-term rating if BOT's capitalization deteriorates as a result of weakened government support such that the bank cannot implement a prudent financial policy, and if BOT fails to sustain its strong capitalization over the next two years possibly due to an aggressive business growth plan or capital policy. A RAC ratio consistently below 10% would indicate such capital weakening.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

(Unless otherwise stated, these articles are published on www.standardandpoors.com, access to which requires a registered account)

Ratings List

Ratings Affirmed

Bank of Taiwan

Issuer Credit Ratings	twAAA/Stable/twA-1+
Senior Debenture Issue Credit Rating	twAAA
Unsecured Subordinated Debenture Issue Credit Rating	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 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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