

Media Release

Taishin International Bank Co. Ltd. And Holding Company Upgraded On Strong Capitalization; Outlooks Stable

October 17, 2019

Overview

- We believe Taishin Bank's capitalization has improved to strong from adequate previously, and we expect the bank and its parent group's prudent capital management to sustain the bank's enhanced capitalization over the next one to two years.
- The credit profile of Taishin FHC group mainly reflects that of its flagship company, Taishin Bank, which dominates the group's consolidated credit profile.
- We are raising our issuer credit ratings on Taishin Bank to 'twAA-/twA-1+' from 'twA+/twA-1' and our ratings on Taishin FHC to 'twA+/twA-1' from 'twA/twA-1'. At the same time, we are raising our issue credit rating on the bank's financial debentures to 'twA' from 'twA-'.
- The stable outlook reflects our view that Taishin Bank will sustain its strong capitalization over the next one to two years and that the Taishin FHC group will maintain a stable consolidated credit profile over the same period.

Rating Action

Taiwan Ratings Corp. today raised its issuer credit ratings on **Taishin International Bank Co. Ltd.** to 'twAA-/twA-1+' from 'twA+/twA-1', as well as the issue credit rating on the bank's financial debentures to 'twA' from 'twA-'. At the same time, we raised our issuer credit ratings on **Taishin Financial Holding Co. Ltd.** (Taishin FHC) to 'twA+/twA-1' from 'twA/twA-1'. The outlook on the long-term ratings is stable.

Rationale

The upgrade of Taishin Bank reflects a recent improvement in the bank's capitalization, which we now assess to be strong compared with adequate previously. We expect the bank's capitalization will remain at this level for the next one to two years. The upgrade of Taishin FHC reflects the rating action on the bank, which is the group's flagship company and contributes about 95% of the group's consolidated risk profile.

We project Taishin Bank's risk-adjusted capital (RAC) ratio before diversification will be above 10% in 2019-2020, supported by the bank and parent group's prudent capital management. The bank's RAC ratio improved to 12.0% in December 2018 and 13.1% in June 2019 (excluding a likely cash dividend payment), up from 10.9% in 2017, after a series of capital injections totaling New Taiwan dollar (NT\$)

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12.9 billion in 2018 and the issuance of NT\$5 billion of perpetual non-cumulative unsecured subordinated debt in March 2019. We believe the bank can sustain strong capitalization even with above-average loan growth and a moderately high cash dividend payout over the next one to two years.

In our view, the parent group has a proven record of giving the bank necessary support through capital injections to sustain its capitalization. The capital initiatives in 2018 support this view and demonstrate the group's commitment to enhance Taishin Bank's capital strength as the bank expands its business scale. Taishin Bank has a prudent capital policy that aims to maintain the bank's regulatory capital ratios with sufficient buffer above the minimum regulatory requirements.

The ratings on Taishin Bank and Taishin FHC continue to reflect our assessment of the group's satisfactory market position in Taiwan's consumer banking business, adequate revenue diversification with a stable fee-income base, as well as strong capitalization relative to the group's risk profile. The group's moderate profitability by international standards and smaller business scale compared with similarly rated international peers temper these strengths. The ratings on Taishin FHC also reflect its non-operating holding structure and subordination to the group's core entity, Taishin Bank.

Taishin FHC is a bank-centric holding company which wholly owns two major subsidiaries--Taishin Bank and Taishin Securities Co. Ltd. We maintain our view that **Chang Hwa Commercial Bank Ltd.** (CHB) is a non-strategic financial investment of Taishin FHC. Taishin FHC has held a 22.5% stake in the bank since 2005.

Outlook

The stable outlook on Taishin Bank and Taishin FHC reflects our expectation that the group will sustain its strong capitalization over the next one to two years, given its prudent capital management. We also expect Taishin Bank to sustain its adequate business profile, asset quality, and funding and liquidity, and anticipate that the Taishin FHC group will maintain a stable consolidated credit profile over the same period.

Downward scenario

We may lower the long-term rating on Taishin Bank and the holding company if the bank or group fails to sustain strong capitalization due to aggressive business expansion, or incurs sizeable credit losses. A RAC ratio below 10% over the next one to two years would indicate such a decline in capitalization. We may also lower the rating if Taishin Bank's asset quality significantly deteriorates due to loosening credit risk controls or a heightened risk appetite. However, we believe both scenarios are unlikely over the next one to two years, given the group's prudent risk and capital management.

Upward scenario

We may raise the long-term rating on Taishin Bank and the holding company if Taishin Bank and the group strengthens their capitalization with a RAC ratio sustainably above 15%, while maintaining adequate risk management and asset quality for the next one to two years. However, we view such improvement to be highly unlikely considering the group's business growth strategy over the period.

Related Criteria

- 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
- General Criteria: Group Rating Methodology - July 01, 2019
- TRC Financial Services Issue Credit Rating Criteria, www.taiwanratings.com - July 31, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019

- 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

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Ratings List

Upgrade

| | To | From |
|--|---------------------|---------------------|
| Taishin International Bank Co. Ltd. | | |
| Issuer Credit Rating | twAA-/Stable/twA-1+ | twA+/Positive/twA-1 |
| Unsecured Subordinated Debenture | twA | twA- |
| Taishin Financial Holding Co. Ltd. | | |
| Issuer Credit Rating | twA+/Stable/twA-1 | twA/Positive/twA-1 |

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