

Media Release

Chang Hwa Commercial Bank Upgraded To 'twAA+/twA-1+' On Strong Capitalization; Outlook Stable

October 29, 2019

Overview

- We believe Chang Hwa Bank's capitalization has improved to strong from adequate previously, following a hybrid tier I capital issuance and managed risk asset growth over the past 18 months. We expect the bank's prudent capital management to sustain its enhanced capitalization over the next two years.
- We are therefore raising our issuer credit ratings on Chang Hwa Bank to 'twAA+/twA-1+' from 'twAA/twA-1+'. At the same time, we are raising our issue credit ratings on the bank's various financial debentures.
- The stable outlook reflects our view that Chang Hwa Bank will sustain strong capitalization over the next one to two years and our view of a moderately high likelihood that the bank will receive support from the Taiwan government in times of severe financial stress.

Rating Action

Taiwan Ratings Corp. today raised its issuer credit ratings on **Chang Hwa Commercial Bank Ltd.** to 'twAA+/twA-1+' from 'twAA/twA-1+', as well as raised the issue ratings on the bank's various debt issues (see Ratings List). The outlook on the long-term ratings is stable.

Rationale

The upgrade of Chang Hwa Bank reflects our view of the bank's strengthened capitalization, which we now assess as strong compared to adequate previously. The bank has issued a total of New Taiwan dollar (NT\$) 15.96 billion hybrid perpetual non-cumulative unsecured subordinated debt over the past 18 months. We believe this debt has intermediate equity content due to its loss-absorbing characteristic. These capital issuances have raised the bank's risk-adjusted capital (RAC) ratio before diversification to 10.8% in 2018 and 11.7% in June 2019, compared with 10.2% in 2017.

Our view of Chang Hwa Bank's capitalization also reflects our assessment that the bank will maintain the RAC ratio above 10% over the next two years, supported by the bank's prudent capital management. We expect Chang Hwa Bank's improved capitalization will allow the bank to resume loan growth, which has been below the industry average for a few years. We anticipate high-single-digit growth in the bank's risk weighted assets in 2019-2021. We also expect the bank's strategy to retain most of its net profits will help sustain its strong capitalization.

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We continue to factor in a moderately high likelihood that the bank will receive support from the Taiwan government, if needed. This also takes into consideration our view of the bank's moderate importance in Taiwan's banking sector and the government's satisfactory track record of stabilizing the nation's banking system.

On a stand-alone basis, the ratings on Chang Hwa Bank reflect our view of the bank's established franchise and diversified client base in Taiwan, given its government association. The bank has a relatively concentrated business profile focused on traditional lending business and has moderate profitability compared with international peers. We assess Chang Hwa Bank has an adequate risk position, reflecting our view of the bank's simple risk characteristics through its primary focus on traditional commercial banking business. The bank also has a satisfactory funding and liquidity profile, which benefits from the bank's established franchise in Taiwan and its government shareholding.

Outlook

The stable outlook reflects our view of a moderately high likelihood that Chang Hwa Bank will receive support from the Taiwan government in times of severe financial stress, given the bank's moderate importance in Taiwan's banking system. We also believe Chang Hwa Bank's capitalization will support its business expansion over the next two years, given the bank's prudent capital planning. In addition, the outlook reflects our expectation that the bank will maintain its asset quality and operating performance over the same period.

Downside scenario

We may lower the rating on Chang Hwa Bank if it fails to sustain strong capitalization as indicated by a RAC ratio consistently below 10%. This could be the result of an aggressive business expansion or capital policy. We may also lower the rating if the bank's risk position weakens as a result of overly aggressive business growth or above-average operating losses.

Upside scenario

We view the likelihood that we could raise the rating over the next two years is remote considering the bank's current capital policy and business growth plan.

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- TRC Financial Services Issue Credit Rating Criteria, www.taiwanratings.com - July 31, 2019
- 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

Upgrades

	To	From
Chang Hwa Commercial Bank Ltd.		
Issuer Credit Rating	twAA+/Stable/twA-1+	twAA/Positive/twA-1+
Senior Unsecured	twAA+	twAA
Subordinate Unsecured	twAA	twAA-
Perpetual Non-cumulative Subordinate Unsecured	twA+	twA
Subordinate Unsecured (with non viability)	twA+	twA

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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