

Media Release

Fubon Bank (China) Co. Ltd. Assigned 'twAA' Ratings; Outlook Stable

December 17, 2019

Overview

- We assess Fubon Bank (China) as a highly strategic subsidiary of Fubon FHC.
- We are assigning our 'twAA' long-term and 'twA-1+' short-term issuer credit ratings to Fubon Bank (China) Co. Ltd.
- The outlook on the long-term issuer credit rating is stable to reflect our expectation that the bank will remain a highly strategic subsidiary of Fubon FHC over the next one to two years and our view that the group will maintain a stable credit profile over the same period.

Rating Action

Taiwan Ratings Corp. today assigned its 'twAA' long-term and 'twA-1+' short-term issuer credit ratings to Fubon Bank (China) Co. Ltd. The outlook on the long-term rating is stable.

Rationale

The ratings on Fubon Bank (China) reflect our expectation that the bank will remain a highly strategic subsidiary of **Fubon Financial Holding Co. Ltd.** (Fubon FHC) group over the next one to two years, and that the bank benefits from a degree of parental support.

In our view, Fubon Bank (China) plays an important role supporting the group's financial service platform and business strategy in greater China. The bank acts as an important platform for the group by providing cross-border transaction services for its regional clients. It could also become a base for the group's franchise-building plan in China.

Fubon Bank (China) is ultimately a wholly owned subsidiary of Fubon FHC. Nonetheless, the bank's profit contribution to the insurance-centric group remains small, at less than 2% of the group's consolidated profit in 2018. This is mainly due to Fubon Bank (China)'s scale disadvantage in competing with other Chinese banks with wider distributional channels and a larger customer base.

In our view, Fubon Bank (China) has a high level of integration with the parent group, especially **Taipei Fubon Commercial Bank Co. Ltd.**, in terms of risk controls and funding resources. Moreover, cross-selling activities have increased since Fubon Bank (China) joined the group in 2014, particularly given the group's rising emphasis on serving Taiwan-based clients operating in China in the past two years. We believe Fubon Bank (China)'s risk management policies, market risk controls, standard operating procedures, and internal controls are in line with group standards. We expect the parent to remain highly committed to providing business resources and capital and funding support to Fubon Bank (China), if needed.

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In our opinion, Fubon Bank (China) has a competitive advantage in serving companies and high net worth customers with Taiwanese linkages. However, the bank's market presence in China is likely to remain small, as is the case with most subsidiaries of foreign banks that serve specific client segments. Fubon Bank (China)'s launch of its onshore retail banking business in 2017 has enhanced its business diversification and can alleviate the disadvantage of a heavy reliance on wholesale funding to an extent. Nonetheless, we do not expect a drastic change in the business or funding profile over the next one to two years, given industry competition and the bank's prudent growth strategy.

Fubon Bank (China)'s profitability is likely to remain constrained by its small scale and high funding costs due to its still-developing retail deposit base in China. The bank's return on adjusted assets was 0.24% in 2018, slightly down from 0.3% in 2017, because of shrinking fee revenue and higher non-interest expenses. This was despite the bank's credit provisioning remaining low during the period.

We expect Fubon Bank (China) to maintain stable capitalization over the next two years, helped by moderate loan growth coupled with earnings retention. Meanwhile, the bank's asset quality continues to improve owing to tightened underwriting standards and a cautious approach to high-risk industries. We expect Fubon Bank (China) to prudently manage growth in target segments such as small and midsize enterprises, and micro and small companies with adequate risk controls.

We expect potential funding and liquidity support from the parent group to continue to provide good buffers for Fubon Bank (China). At the same time, the bank's stand-alone funding and liquidity metrics are adequate and comparable to peers. As of the end of 2018, Fubon Bank (China)'s stable funding ratio is about 119%, core deposits are about 72% of the funding base, and the ratio of broad liquid assets to short-term wholesale funding is about 1.6x. The bank's short-term wholesale funding is mainly from interbank funding and negotiable certificates of deposit.

Outlook

The stable outlook on Fubon Bank (China) reflects our expectation that the bank will remain a highly strategic subsidiary of Fubon FHC. The outlook also reflects our view that the group will maintain a stable credit profile over the next one to two years.

Downward scenario

We may downgrade Fubon Bank (China) if the group's creditworthiness deteriorates.

Upward scenario

We may upgrade Fubon Bank (China) if Fubon FHC group's credit profile improves. We view this scenario as remote over the next 12-24 months.

We may also raise the rating if we view Fubon Bank (China) as a core entity of the group. This could happen if the bank can improve its operating performance and become one of the major and stable profit contributors to the group. However, we view this scenario as unlikely in the next 12-24 months, given the bank's small scale of operations in the competitive China market.

Related Criteria

- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- General Criteria: Group Rating Methodology - 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: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- 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 Assigned

Fubon Bank (China) Co. Ltd.

Issuer Credit Rating

twAA/Stable/twA-1+

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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