

Media Release:

# Yuanta Commercial Bank 'twAA/twA-1+' Ratings Affirmed On Improved Business Stability, Core Group Status; Outlook Stable

January 16, 2020

## Overview

- We continue to assess Yuanta Bank as a core entity of the Yuanta FHC group and that the long-term rating on the bank is equal to the group credit profile.
- We have revised upward our assessment of the bank's business position to adequate from moderate because of our view that the bank's business stability has improved following its smooth integration with the smaller Ta Chong Bank in 2018.
- We have also revised upward the bank's stand-alone credit profile.
- We are affirming our 'twAA/twA-1+' issuer credit ratings on the bank.
- The rating outlook remains stable to reflect the outlook on Yuanta FHC because the ratings on Yuanta Bank will move in tandem with the direction of the parent group credit profile.

## Rating Action

Taiwan Ratings Corp. today said it had affirmed its 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on **Yuanta Commercial Bank** (Yuanta Bank). The outlook on the long-term rating is stable.

## Rationale

The rating affirmation reflects our view that Yuanta Bank remains as a core entity of the **Yuanta Financial Holding Co. Ltd.** (Yuanta FHC) group and that the rating is equal to the group credit profile. At the same time, we have revised upward our stand-alone credit profile (SACP) for Yuanta Bank to reflect an upward revision in our assessment of the bank's business position to adequate from moderate.

In our view, Yuanta Bank's overall business stability has enhanced following the smooth merger and integration process with Ta Chong Bank. The bank's sustainable scale expansion following its merger with Ta Chong Bank on Jan. 1, 2018 is evidence of this improved business stability. In our view, Yuanta Bank's management has demonstrated its capability to sustainably increase the bank's deposit base with 4.2% year-on-year growth over the past year ending September 2019. The bank has also posted steady earnings performance with the

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annualized ratio of core earnings to adjusted assets of 0.84% in the first half of 2019, up from 0.78% in 2018, and 0.77% in 2017.

At the same time, we believe Yuanta Bank has maintained its capitalization at a strong level. We estimate the bank's risk-adjusted capital (RAC) ratio was 13.0% as of June 2019 and 12.6% in 2018. We expect the bank to maintain strong capitalization over the next two years. This is supported by the group's prudent financial policy to maintain the bank's capitalization, while also pursuing above-average growth opportunities and adjusting the bank's business mix in the next two years.

We view Yuanta Bank as the core entity to the wider Yuanta FHC group. The bank plays an integral role in providing banking-related products as well as distribution channels to serve the group's clients. Moreover, we don't expect Yuanta Bank's group status to change over the next two to three years. The bank is a significant contributor to the group, representing 54% of the group's total assets, 46% of total equity, and about 44% of profits on pro forma basis as of June 2019.

The ratings on Yuanta Bank are based on our 'bbb' anchor for bank's operating mostly in Taiwan, as well as Yuanta Bank's strong capitalization. Counterbalancing these are the bank's moderate profitability, and the bank's strategies to pursue above-average growth. The ratings also reflect our view of implicit support from the Yuanta FHC group, given the bank's core group status.

## Outlook

The stable outlook on Yuanta Bank reflects our view on the direction of the Yuanta FHC group's consolidated credit profile, given the bank's core group status. The stable outlook also reflects our expectation that Yuanta FHC group's capitalization will remain strong in 2020-2021 because of the group's commitment to adopt a prudent growth strategy with no material growth in the group's risk assets relative to its capital over the period. We also expect the group to remain securities-centric in 2020-2021, with a strong market position and franchise in the domestic securities industry.

### Downward scenario

We may lower the long-term rating on Yuanta Bank if the parent group embarks on an aggressive growth strategy via internal growth or mergers and acquisitions that is beyond our base-case assumption for 2019-2020 without adequate business and financial risk controls, or if the bank adopts more aggressive capital policies. This could be evidenced by a RAC ratio below 10%.

We may also lower the rating if the group's flagship company, **Yuanta Securities Co. Ltd.**, fails to maintain its leading domestic market position in major product lines and sustain above-average profitability. We may also lower the rating if we assess Yuanta Bank's strategic importance to the group has materially weakened, though we consider this to be remote in the next one to two years.

### Upward scenario

We may raise the rating on Yuanta Bank if the parent group is able to improve its RAC ratio sustainably above 15%, though we view such an event as unlikely in 2020-2021.

## Related Criteria

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

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## Ratings List

### Ratings Affirmed

#### Yuanta Commercial Bank

Issuer Credit Rating	twAA / Stable / twA-1+
Issue Credit Rating	twAA-
Issue Credit Rating	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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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