

Media Release:

Ratings On CTBC Financial Holding Co. Ltd. And Subsidiaries Affirmed; Outlook Stable

May 6, 2020

Overview

- We believe CTBC FHC and its subsidiaries have sufficient capital buffer on a consolidated basis to manage the impact of increased volatility in global financial markets.
- However, we anticipate the group's life insurance subsidiary, Taiwan Life Insurance, could face increasing challenges to preserve its capital and earnings on a stand-alone basis if it encounters unexpected financial market volatility.
- We are affirming the ratings on CTBC FHC and its key subsidiaries.
- The outlook on all the long-term ratings is stable to reflect our view that CTBC FHC group will maintain most of its key risk characteristics including its adequate risk management and stable earnings over the next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its ratings on **CTBC Financial Holding Co. Ltd.** (CTBC FHC), **CTBC Bank Co. Ltd.**, **Taiwan Life Insurance Co. Ltd.**, and **CTBC Securities Co. Ltd.** (see ratings list). The outlook on the long-term ratings remains stable.

Rationale

We believe CTBC FHC group has maintained its overall credit profile remains despite the recent rise in global financial market volatility triggered by the COVID-19 pandemic. We expect CTBC FHC group to maintain its satisfactory capitalization at the consolidated level. This reflects the combined effect of strong capitalization at the group's flagship banking unit, CTBC Bank, as well as our assessment of weaker capitalization at the group's life insurance subsidiary, Taiwan Life.

We believe CTBC FHC group has a sufficient capital buffer against currently high market volatility and the prevailing low interest rate environment. We also expect the group to maintain its adequate capitalization and satisfactory double leverage ratio over the coming two years. The double leverage ratio is 115.6% as of end of 2019.

Nevertheless, we believe the same volatility and low interest rates could exert greater pressure on Taiwan Life's capital and earnings. In our view, the insurer faces substantial downside risks considering the adverse impact of the novel coronavirus outbreak, oil shocks, and sluggish macroeconomic prospects. We also believe that compared with its global peers, Taiwan Life's credit profile has a higher equity exposure, heavier weighting on overseas investments, and thinner capital buffer to weather current volatility.

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We expect Taiwan Life to maintain its capital and earnings at a fair level over the coming two years assuming no adverse change in global equity markets. However, the insurer's capitalization has deteriorated slightly as a result of unexpected market volatility in March 2020. We also expect Taiwan Life's earnings to face further downward pressure, particularly in terms of maintaining its investment yield. Nonetheless, we expect recent cuts on the declared rates of interest sensitive products pressure to somewhat offset pressure on the insurer's product margin. That's because Taiwan Life has an above-average proportion of Interest Sensitive Life (ISL) reserve to their total reserve.

At the group level, we expect the consolidated group credit profile to remain unchanged. As the group's flagship company and core subsidiary, the creditworthiness of CTBC Bank anchors that of CTBC FHC. Meanwhile, the impact of equity market volatility on the trading portfolio of the bank and securities subsidiaries should be temporary and manageable. Interest rate cuts could pressure banking subsidiary's net interest margin and spread, but the impact should moderate somewhat after rate adjustments are also reflected through changes in the pricing of the bank's deposits. We believe the impact of equity market volatility on the group and individual subsidiaries' asset quality and capitalization should be absorbable.

Outlook

The stable outlook reflects our expectation that the CTBC FHC group will maintain most of its key risk characteristics including adequate risk management and stable earnings over the next one to two years. The outlook also reflects our expectation that the group will maintain adequate capitalization over the same period. This compares with strong capitalization at the group's core banking business, CTBC Bank, and weaker capitalization at its life insurance arm, Taiwan Life. The group is also likely to continue to benefit from CTBC Bank's strong business position in the highly competitive domestic market.

Downward scenario

We may lower the ratings on CTBC FHC and its subsidiaries if the group credit profile weakens, mainly due to deterioration in Taiwan Life's credit profile, particularly its capitalization. We could also lower the ratings if the group and its subsidiaries pursue high organic or inorganic growth without adequate capital planning or a risk management mechanism to manage such growth. These factors could result in a weaker risk position or capitalization for CTBC Bank or the group over the coming two years.

Upward scenario

Conversely, we could raise the rating on CTBC FHC if we raise the group credit profile if the group improves its capitalization to strong through following a prudent business strategy and good earnings retention over the coming two years. However, we believe the likelihood of an upgrade is remote over the rating horizon.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- 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
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

CTBC Financial Holding Co. Ltd.

Issuer Credit Rating	twAA-/Stable/twA-1+
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CTBC Bank Co. Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
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Taiwan Life Insurance Co. Ltd.

Issuer Credit Rating	twAA/Stable
Financial Strength Rating	twAA/Stable

CTBC Securities Co. Ltd.

Issuer Credit Rating	twAA-/Stable/twA-1+
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