

Media Release:

Ratings On Taishin FHC And Key Subsidiaries Affirmed Following Acquisition Announcement; Outlook Stable

August 13, 2020

Overview

- Taiwan-based Taishin FHC group has announced its plan to acquire the life insurer Prudential Taiwan via cash transaction.
- In our view, the Taishin FHC group can absorb the acquisition, given the relatively small transaction value, and we expect the group to sustain its credit profile despite Prudential Taiwan's capitalization is weaker than the group's.
- We are affirming our issuer credit ratings on Taishin FHC and its key subsidiaries.
- The outlook on the long-term ratings is stable, which mainly reflects our expectation of sustained strong capitalization at the core banking subsidiary and accordingly for the group over the next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its long-term and short-term issuer credit ratings on **Taishin Financial Holding Co. Ltd.** (Taishin FHC), **Taishin International Bank Co. Ltd.**, and **Taishin D.A. Finance Co. Ltd.**, as well as the issue credit rating on the bank's rated debt (see ratings list). The outlook on the long-term ratings is stable.

Rationale

The rating affirmation reflects our view that Taishin FHC group's plan to acquire **Prudential Life Insurance Co. of Taiwan Inc. (Prudential Taiwan)** will have a limited impact on the group's consolidated credit profile, given the small size of Prudential Taiwan relative to the group. On a pro forma basis, Prudential Taiwan represents about 5% of the group's consolidated capital and 8% of total assets, based on the group's financial data as of December 2019. We expect Taishin FHC's double-leverage ratio to increase but to remain at a manageable level of about 122% following the acquisition. The double-leverage ratio represents the parent's equity investment in its subsidiaries to total shareholders' equity.

On Aug. 11, 2020, Taishin FHC announced its intention to acquire 100% equity in Prudential Taiwan for a base consideration of New Taiwan dollar (NT\$) 5.5 billion. Taishin FHC's Board has approved the acquisition proposal but it remains subject to approval from Taiwan's regulator.

Taishin FHC group's consolidated credit profile is dominated by that of its core subsidiary, Taiwan-based Taishin Bank, which contributed over 90% of the group's total assets and

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capital as of 2019. We expect the group to remain bank-centric over the coming few years, given Taishin Bank will still account for about 90% of the group's assets and capital following the acquisition. In our view, the bank has strong capitalization with a risk-adjusted capital (RAC) ratio before diversification of over 10%. By contrast, we view Prudential Taiwan as having only fair capitalization, which is its key weakness. However, we do not expect the acquisition to materially dilute the group's overall capital strength, given its prudent capital management.

Outlook

The stable outlook on Taishin FHC and its key subsidiaries reflects our expectation that the group will sustain its strong capitalization over the next one to two years. We also expect Taishin Bank to sustain its adequate business profile, asset quality, and funding and liquidity over the same period. We also believe the Taishin FHC group will maintain a stable consolidated credit profile and remain bank-centric over the next one to two years.

Downward scenario

We may lower the ratings on Taishin FHC and its key subsidiaries if Taishin Bank or the group fails to sustain strong capitalization due to aggressive business expansion, sizeable credit losses, or significant unexpected capital needs for Prudential Life following the acquisition. A RAC ratio below 10% for the banking unit over the next one to two years would indicate such a decline in capitalization. We may also lower the ratings if Taishin Bank's asset quality significantly deteriorates due to loosening credit risk controls or a heightened risk appetite.

Upward scenario

We may raise our ratings on Taishin FHC and its key subsidiaries if Taishin Bank, and therefore the group, strengthens its capitalization. A sustainable rise in bank's RAC ratio to above 15% for one to two years would reflect such capital improvement. We would also expect the bank to maintain adequate risk management and asset quality over the same period. However, we view such improvement as highly unlikely in the next few years considering the group's business growth strategy.

Related Criteria & Research

Related Criteria

- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- Criteria | Insurance | General: Insurers 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
- TRC Financial Services Issue Credit Rating Criteria - July 31, 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: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018

Related Research

- Taiwan Ratings' Ratings Definitions, August 10, 2020

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

Ratings List

Ratings Affirmed

Taishin Financial Holding Co. Ltd.

Issuer Credit Rating	twA+/Stable/twA-1
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Taishin International Bank Co. Ltd.

Issuer Credit Rating	twAA-/Stable/twA-1+
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Issue Credit Rating	twA
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Taishin D.A. Finance Co. Ltd.

Issuer Credit Rating	twA+/Stable/twA-1
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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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