

Media Release:

Outlook On Fubon FHC And Subsidiaries Revised To Stable From Negative On Enhanced Capital Buffer; Ratings Affirmed

March 24, 2021

Overview

- Fubon Life's credit profile remains solid supported by a better capital buffer and well-managed risk control despite a disruptive year in 2020.
- The ratings on Fubon Life drive the Fubon FHC group credit profile. We believe the insurance units will help the group combat ongoing uncertainty over the speed of economic recovery after COVID-19 and maintain its credit profile.
- We are revising the outlook on our long-term ratings on Fubon FHC and its core and highly strategic subsidiaries to stable from negative. At the same time, we are affirming the issuer credit ratings on the entities.
- We are also affirming the issuer credit ratings on Taipei Fubon Commercial Bank with a stable outlook, given our view of the bank's core status to the group.

Rating Action

Taiwan Ratings Corp. said today it had revised its outlook on the long-term ratings on **Fubon Life Insurance Co. Ltd., Fubon Insurance Co. Ltd., Fubon Securities Co. Ltd., Fubon Bank (China) Co. Ltd.,** and **Fubon Financial Holding Co. Ltd.** (Fubon FHC) to stable from negative. At the same time, we affirmed the various issuer credit ratings and issue credit ratings on the subsidiaries (see ratings list).

We also affirmed our issuer credit ratings on **Taipei Fubon Commercial Bank Co. Ltd.** and the issue credit ratings on the bank's debentures. The outlook on the long-term rating is stable.

Rationale

The outlook revision on Fubon FHC and its core and highly strategic subsidiaries reflects our view that the group's largest subsidiary and flagship unit, Fubon Life, is likely to sustain ongoing market uncertainty based on an enhanced capital buffer and upholding of risk controls. The group credit profile reflects the stand-alone credit profile of Fubon Life because of the insurer's dominant contribution to the group's proforma assets and net income.

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We expect Fubon Life to maintain stable capital and earnings over the coming two years, despite continued market volatility and a protracted low interest rate environment. We estimate Fubon Life's capital buffer has strengthened as of the end of 2020 due to strong capital gains and the rising value of its investments as stock markets remain buoyant. We continue to assess Fubon Life's capital adequacy as fair, but we believe the capital buffer has improved from the level at the end of 2019, prior to the pandemic. This is despite downward pressure on insurers' recurring investment yields due to lower reinvestment rates after governments cut interest rates and a likely high double-digit growth in asset risks due to an increase in valuation in 2020.

We expect Fubon Life's capital accumulation to slow down in 2021 and 2022 amid moderating profits and growth in value of in-force amid low interest rates. However, we believe reduced asset growth as the insurer's premium growth slows will help to ease pressure on its capitalization. We forecast Fubon Life will continue to report slightly better earnings than the industry average and fully retain the earnings as capital to support its growth over the coming two years.

Fubon Life has well-maintained risk controls to absorb potential market volatility over the coming year. The insurer abides by its internal risk mechanism to cap its equity-related exposure and dispose these investments when appropriate. Fubon Life's foreign exchange risk exposure remained largely in line with the industry average over the past year. We expect the insurer to maintain manageable risk exposure, with no additional risks to its financial profile. We also believe that Fubon Life's asset-liability management remains good because the company seeks for duration and yield matching of overseas assets and to lower the cost of its liabilities at home.

We continue to view the market as challenging for Taiwan life insurers, but conditions have lightened up somewhat with signs of recovery. Taiwan life insurers have a higher equity exposure and higher weighting on overseas investments than their regional peers', making Taiwan life insurers more sensitive to global market conditions. We expect a rough and uncertain path to recovery for many economies; however, the impact and costs related to the pandemic have so far been manageable for most Taiwan lifers, including Fubon Life. That's because the Taiwan government's prompt management of the pandemic has minimized the potential decline in domestic economic activity and its resultant impact on insurers. With the global launch of vaccines, the macro economy has begun to show signs of recovery, despite still-high uncertainty over the duration of the pandemic.

Our assessment of Fubon FHC's group credit profile continues to reflect the group's solid market position and business profile in Taiwan's financial services sectors. In addition, the group credit profile reflects the stand-alone credit profile of Fubon Life, given the insurer contributed 50%-55% of the group's proforma assets and net income over the past five years. As such, the group credit profile is sensitive not only to the investment risks facing the life subsidiary, but also to Fubon Life's capitalization, which inhibits the subsidiary's stand-alone credit profile.

Outlook

Fubon Financial Holding Co. Ltd., Fubon Life Insurance Co. Ltd., Fubon Insurance Co. Ltd., Fubon Bank (China) Co. Ltd., and Fubon Securities Co. Ltd.

The stable outlook on Fubon FHC reflects our view that the group's flagship entity, Fubon Life, will continue to dominate the overall group credit profile over the next two years. We also believe the group's core banking unit, Taipei Fubon Bank, will continue to contribute more than 25% of the group's operating income over the next two years.

We expect Fubon FHC group to manage the impact of market volatility and prolonged low interest rates on its capital and earnings. We also expect the group to fulfill additional capital requirements without materially weakening its capital and earnings. These could include capital outlays to absorb volatility in its investment valuation, support overseas subsidiaries, or to pursue further organic asset growth.

Downward scenario

We could lower the long-term rating on Fubon FHC, Fubon Life, Fubon Insurance, and Fubon Bank (China) if the group credit profile weakens mainly due to changes in Fubon Life's credit profile. This may happen if:

- Fubon Life's risk exposure heightens, which could be due to the insurer's: (1) enlarged foreign exchange risk exposure, net of effective hedging; or (2) materially and consistently higher investment concentration in the financial sector than the local peer average, which could raise volatility in its capital and earnings, or
- The insurer's capital and earnings weakens to fair from satisfactory. This is likely if Fubon Life's expands its investment assets or increases exposure to market volatility more than our base case assumption. This could also occur if the growth in Fubon Life's value of in-force is materially lower than we had forecasted, because value of in-force accounts for a large part of the group's total adjusted capital. Lastly, weakening of the capital and earnings assessment could occur if the insurer expands through mergers and acquisitions beyond our current expectation or if Fubon Life's operating performance drops below the domestic industry average.

Upward scenario

We view an upgrade as unlikely over next 12-24 months. Such a scenario would require a substantial increase in Fubon Life's capital strength.

Taipei Fubon Commercial Bank Co. Ltd.

The stable outlook reflects our expectation that Taipei Fubon Bank will remain a core unit and integral part of the wider Fubon FHC group. The ratings on Taipei Fubon Bank will move in tandem with the overall group credit profile in most circumstances. However, if the group credit profile only deteriorates by one notch, we would expect to keep our ratings on Taipei Fubon Bank unchanged. That's because the bank ratings may benefit from a degree of implicit government support, given the bank's moderate systemic importance in Taiwan.

At the group level, we expect the consolidated Fubon FHC group credit profile to remain unchanged over the next two years, given the group's very strong competitive position and stable capitalization. We also expect Fubon FHC group to maintain better earning resilience

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compared with that of similar domestic peers. On a stand-alone basis, we forecast Taipei Fubon Bank will maintain its strong capitalization and satisfactory asset quality over the same period.

Downside scenario

We may lower the rating on Taipei Fubon Bank if the bank's stand-alone credit profile deteriorates along with deterioration in the group credit profile. Such a weakening of the group credit profile is strongly tied to the credit profile of Fubon Life.

Upside scenario

We view an upgrade as unlikely over the next two years. However, we may raise the rating on Taipei Fubon Bank if the group credit profile strengthens because of a substantial increase in the life insurance unit's capital strength.

Rating Score Snapshot

For Fubon Life Insurance Co. Ltd.

| | |
|----------------------------------|---------------------|
| Business Risk Profile | Strong |
| Competitive position | Very strong |
| IICRA | Moderately high |
| Financial Risk Profile | Satisfactory |
| Capital and earnings | Satisfactory |
| Risk exposure | Moderately low |
| Funding structure | Neutral |
| Modifiers | |
| Governance | Neutral |
| Liquidity | Adequate |
| Financial Strength Rating | twAA+ |

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria & Research

Related Criteria

- 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
- 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
- General Criteria: Group Rating Methodology - July 01, 2019
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019

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- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- 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: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed; Outlook Revision

| | To | From |
|--|---------------------|-----------------------|
| Fubon Financial Holding Co. Ltd. | | |
| Issuer Credit Rating | twAA/Stable/twA-1+ | twAA/Negative/twA-1+ |
| Unsecured Senior Debenture Issue Credit Rating | twAA | twAA |
| Fubon Life Insurance Co. Ltd. | | |
| Issuer Credit Rating | twAA+/Stable | twAA+/Negative |
| Financial Strength Rating | twAA+/Stable | twAA+/Negative |
| Fubon Insurance Co. Ltd. | | |
| Issuer Credit Rating | twAA+/Stable | twAA+/Negative |
| Financial Strength Rating | twAA+/Stable | twAA+/Negative |
| Fubon Securities Co. Ltd. | | |
| Issuer Credit Rating | twAA+/Stable/twA-1+ | twAA+/Negative/twA-1+ |
| Fubon Bank (China) Co. Ltd. | | |
| Issuer Credit Rating | twAA/Stable/twA-1+ | twAA/Negative/twA-1+ |

Ratings Affirmed; Outlook

Taipei Fubon Commercial Bank Co. Ltd.

| | |
|--|---------------------|
| Issuer Credit Rating | twAA+/Stable/twA-1+ |
| Unsecured Senior Debenture Issue Credit Rating | twAA+ |
| Unsecured Subordinated Debenture Issue Credit Rating | twAA |
| Unsecured Subordinated Debenture Issue Credit Rating | twAA- |

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