

Media Release:

Ratings And Outlooks On Various Taiwanese Financial Institutions Revised Following Taiwan Upgrade

April 23, 2021

Overview

- S&P Global Ratings recently raised its long-term issuer credit rating on Taiwan to 'AA' from 'AA-'. The outlook is positive. The 'A-1+' short-term issuer credit rating was affirmed.
- We therefore revised various ratings and outlooks on several Taiwan-based government related entities and related group members, as well as banks with systemic importance that receive extraordinary government support. At the same time, we affirmed our issue credit ratings on the banks' various outstanding debts.
- The rating actions reflect our view of Taiwan's enhanced credit strength.

Rating Action

Taiwan Rating Corp. today took various rating actions on Taiwan-based issuers that receive extraordinary government support either due to their systemic importance in the domestic banking industry or as government related entities and related group members.

The affected entities are:

Issuer Credit Rating	To	From
Land Bank of Taiwan	twAA+/Stable/twA-1+	twAA/Stable/twA-1+
Taiwan Cooperative Bank Ltd.	twAA+/Positive/twA-1+	twAA+/Stable/twA-1+
Mega International Commercial Bank Co. Ltd.	twAAA/Stable/twA-1+	twAA+/Stable/twA-1+
BankTaiwan Securities Co. Ltd.	twAAA/Stable/twA-1+	twAA+/Stable/twA-1+

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Rationale

The rating actions follow S&P Global Ratings recent upgrade of Taiwan (unsolicited; AA/Positive/A-1+). The actions reflect our expectation that the aforementioned entities will continue to benefit from extraordinary support from the government over the next 12-24 months. Individual rating actions depend on the entity's respective level of extraordinary government support.

On April 22, 2021, S&P Global Ratings raised its long-term issuer credit rating on Taiwan to 'AA' from 'AA-'. The outlook is positive. The short-term issuer credit rating was affirmed at 'A-1+'.

The ratings action reflected the rating agency's view that Taiwan's response to the pandemic has been one of the most successful globally, thereby allowing the government to avoid stringent lockdown measures. The competitive export sector also benefited from the global shift towards remote working and strong demand for semiconductor chips. These trends enabled the economy to outperform even its pre-pandemic trajectory. The government's debt-servicing costs have declined substantially, due to years of a well-managed fiscal position, strong domestic liquidity, and low interest rates, the government's debt servicing costs have declined substantially.

We classify the Taiwan government's tendency to support systemically important banks as highly supportive. Given the enhanced credit strength of the government, we now see an enlarged capacity to support those issuers that benefit from its extraordinary support. The degree of the support will also be subject to the systemic importance of the banks or the likelihood of support for government-related entities. For the Taiwan national scale ratings, we also consider an entity's credit strength relative to other Taiwanese obligors according to Taiwan Ratings' Ratings Definition. For non-government related entity banks, we believe this government support will not flow into subordinated debt, according to our criteria on issue ratings (see Related Criteria).

Bank of Taiwan

(Primary analyst: Serene Hsieh)

The stable outlook on **Bank of Taiwan** (BOT) reflects our expectation of an extremely high likelihood that the Taiwan government would provide sufficient and timely extraordinary support to the bank over the next two years, if needed. The outlook also reflects our view that BOT will continue to play a dominant role in terms of the overall risk profile of the bank's parent, Taiwan Financial Holding Co. Ltd. group. In addition, the outlook reflects our belief that BOT will sustain prudent growth and that the Taiwan government will help the bank to implement a prudent capital policy.

Downward scenario

We assess the possibility of a downgrade as remote over the next 24 months.

Agricultural Bank of Taiwan

(Primary analyst: Serene Hsieh)

The stable outlook on **Agricultural Bank of Taiwan** reflects our expectation of an extremely high likelihood that the government of Taiwan will provide sufficient and timely extraordinary support over the next two years in the event that the bank faces financial stress. The outlook also reflects our view that Agricultural Bank will maintain its capitalization at an adequate level with no significant deterioration in asset quality over the same period. We also believe the bank will cautiously control its risk asset growth with a higher focus on its risk controls and business margin.

Downward scenario

We may lower the long-term rating on Agricultural Bank if the bank's policy role declines although we believe the likelihood of this is remote over the next few years.

Land Bank of Taiwan

(Primary analyst: Yuhan Lan)

The stable outlook on **Land Bank of Taiwan** reflects our expectation that the bank will maintain its high systemic importance in Taiwan's financial sector and benefit from implicit support from the government in times of financial distress. The outlook also reflects our view that the bank will pursue a prudent capital policy and loan book growth to maintain its risk-adjusted capital (RAC) ratio above 7% over the next one to two years.

Downward scenario

We may lower the long-term rating on Land Bank if the RAC ratio drops below 7%. We could also lower the ratings if the bank's asset quality materially deteriorates, with above-average credit loss experience or looser underwriting controls over the next one to two years.

Upside scenario

We view the likelihood of an upgrade to be remote over the next one to two years. However, we could upgrade Land Bank if: the bank is able to improve its capitalization and keep its RAC ratio sustainably above 10% with signs of satisfactory asset quality and prudent capital management over the next one to two years, and S&P Global Ratings raises its unsolicited issuer credit ratings on Taiwan.

Taiwan Cooperative Bank Ltd.

(Primary analyst: Eva Chou)

The positive outlook reflects our view of a high likelihood of implicit government support for **Taiwan Cooperative Bank Ltd.** in times of financial distress, given the bank's high systemic importance in the domestic banking sector. The outlook also reflects our view that the bank's capitalization will remain strong under the bank's prudent growth strategy and capital policies and those of its parent, Taiwan Cooperative Financial Holding Co. Ltd. group. Moreover, we do not expect Taiwan Cooperative Bank's risk position to deviate greatly from our current assessment of adequate. Furthermore, we expect the group to maintain a stable consolidated credit profile and avoid overly aggressive mergers or acquisitions over the coming two years.

Upside scenario

We could upgrade the bank if S&P Global Ratings raises its unsolicited issuer credit ratings on Taiwan.

Downside scenario

We could revise the outlook back to stable if S&P Global Ratings takes similar action on its long-term rating on Taiwan or if the bank's stand-alone credit profile (SACP) deteriorates, due to either our assessment of the bank's weakened risk position or weakened capitalization.

Mega International Commercial Bank Co. Ltd.

(Primary analyst: Eunice Fan)

The stable outlook reflects our expectation that **Mega International Commercial Bank Co. Ltd.** (Mega Bank) will remain a high systemic-important bank in Taiwan's financial sector and benefit from implicit support from the government of Taiwan in times of financial distress. We also believe the bank will sustain its leading position in Taiwan's foreign exchange and trade finance markets, as well as strong capitalization over the next two years.

Downside scenario

We believe the possibility of a downgrade is remote over the next two years.

Chang Hwa Commercial Bank Ltd.

(Primary analyst: Eunice Fan)

The stable outlook reflects our view of a moderately high likelihood that **Chang Hwa Commercial Bank Ltd.** (Chang Hwa Bank) will receive support from the Taiwan government in times of financial stress, given the bank's moderate importance in Taiwan's banking system. We also believe Chang Hwa Bank's capitalization will remain strong over the next two years in light of the bank's prudent capital planning.

Upside scenario

We view the likelihood of an upgrade to be remote over the next two years.

Downside scenario

We may lower the long-term rating on Chang Hwa Bank if the bank fails to sustain its capitalization at a strong level as indicated by the RAC ratio consistently below 10%, or a weakened risk position for the bank.

Hua Nan Commercial Bank Ltd.

(Primary analyst: Jack Yang)

The stable outlook reflects our expectation of a moderately high likelihood that **Hua Nan Commercial Bank Ltd.** (Hua Nan Bank) will receive implicit government support in times of financial distress. The outlook also reflects our view that the government's ownership of the bank's parent group, Hua Nan Financial Holdings Co. Ltd. or the bank's government-owned image are unlikely to change over the next one to two years. On a stand-alone basis, we expect Hua Nan Bank to maintain its good business franchise and strong capitalization over the same period.

Upside scenario:

We view the likelihood of an upgrade as remote over the next one to two years.

Downside scenario:

We may lower the long-term rating on Hua Nan Bank if the bank fails to sustain its capitalization at a strong level or if the bank's asset quality deteriorates.

First Commercial Bank Ltd.

(Primary analyst: Serene Hsieh)

The stable outlook reflects our view of a moderately high likelihood that **First Commercial Bank Ltd.** (FCB) will receive support from the Taiwan government in times of severe financial stress, given the bank's moderate importance in Taiwan's banking system. The stable outlook also reflects our expectation that FCB will maintain its good business franchise and strong capitalization over the next two years. We also expect FCB to pursue prudent business growth domestically and overseas. In addition, the stable outlook reflects our view that the parent, First Financial Holding Co. Ltd. group will maintain a stable consolidated credit profile and that the group will not engage in overly aggressive mergers or acquisitions over the next two years. We also expect FCB to continue to play a dominant role in terms of the group's overall risk profile.

Upside scenario:

We view the likelihood of an upgrade to be remote over the next two years.

Downside scenario:

We may lower the long-term rating on FCB if the bank fails to sustain its capitalization at a strong level as indicated by an RAC ratio consistently below 10%, or the bank's risk position weakens as a result of overly aggressive business growth or above-average operating losses.

Cathay United Bank Co. Ltd.

(Primary analyst: Eva Chou)

The stable outlook reflects our view of a moderately high likelihood that **Cathay United Bank Co. Ltd.** will receive government support in times of financial distress, given the bank's moderate systemic importance in Taiwan's banking system. We also expect the bank to maintain its strong capitalization and satisfactory risk controls to sustain its credit profile over the coming two years. We continue to assess Cathay United Bank as a core member of **Cathay Financial Holding Co. Ltd.** group, given the bank's material representation and contribution in the group.

Upside scenario:

We view the likelihood of an upgrade to be remote over the next two years.

Downside scenario:

Similarly, we view the likelihood of a downgrade to be remote over the next two years.

Taipei Fubon Commercial Bank Co. Ltd.

(Primary analyst: Serene Hsieh)

The stable outlook reflects our view of a moderately high likelihood that **Taipei Fubon Commercial Bank Co. Ltd.** will receive implicit government support in times of financial distress, given the bank's moderate systemic importance in Taiwan's banking system. We also expect the bank to maintain its strong capitalization and satisfactory asset quality. We continue to assess Taipei Fubon Bank as the core member of the **Fubon Financial Holding Co. Ltd.** group, given the bank's material representation and contribution to the group.

Upside scenario:

We view the likelihood of an upgrade to be remote over the next two years.

Downside scenario:

Similarly, we view the likelihood of a downgrade to be remote over the next two years.

E.SUN Commercial Bank Ltd.

(Primary analyst: Patty Wang)

The stable outlook reflects our expectation of a moderately high likelihood that **E. SUN Commercial Bank Ltd.** (E.SUN Bank) will receive government support in times of financial distress. We also believe the bank is likely to maintain strong capitalization with a risk-adjusted capital (RAC) ratio above 10% over the next two years, backed by the bank's prudent capital policy. We anticipate the bank will maintain its sound asset quality and profitability despite above-average business growth in recent years. In addition, we expect E.SUN Bank to continue to play a dominant role in terms of its parent **E.SUN Financial Holding Co. Ltd.** group's overall risk profile.

Upside scenario:

We view the likelihood of an upgrade to be remote over the next two years.

Downside scenario:

We may lower the long-term rating on E.SUN Bank if the bank fails to sustain its capitalization at a strong level or if the bank's asset quality deteriorates beyond the industry average.

BankTaiwan Securities Co. Ltd.

(Primary analyst: Serene Hsieh)

The stable outlook on **BankTaiwan Securities Co. Ltd.** reflects our expectation that the company will maintain its highly strategic role within Taiwan Financial Holding Co. Ltd. (Taiwan FHC) group over the next one to two years. Hence, the ratings on the securities company will move in tandem with the group credit profile, which highly correlates to the credit profile of the group's banking arm, Bank of Taiwan, given the bank's dominant role in the group's overall risk profile. We expect the government of Taiwan to provide sufficient and timely extraordinary support to Bank of Taiwan over the next two years, as needed, and the support could flow to BankTaiwan Securities if necessary.

Downside scenario

We may lower the long-term rating on BankTaiwan Securities if the company's importance to the parent group significantly declines over the next one to two years. This could be due to the company's weakening operating performance or significant deterioration in its market position.

BankTaiwan Life Insurance Co. Ltd.

(Primary analyst: Eva Chou)

The stable outlook reflects our expectation that **BankTaiwan Life Insurance Co. Ltd.** will remain a core member of the Taiwan Financial Holding Co. Ltd. group over the next two years under the group's bancassurance strategy. The outlook on the insurer will therefore move in tandem with the direction of the supported group credit profile. In addition, the outlook reflects our view that Bank of Taiwan will continue to play a dominant role in terms of the group's overall risk profile. We expect the government of Taiwan to provide sufficient and timely extraordinary support to Bank of Taiwan over the next two years, as needed, and the support could flow to BankTaiwan Life if necessary.

Downside scenario

We assess the possibility of a downgrade as remote over the next one to two years.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- Criteria | Insurance | General: Insurance Rating Methodology-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
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020
- Research Update: Taiwan Ratings Raised To 'AA/A-1+' With Positive Outlook On Strong And Sustained Growth, www.capitaliq.com – April 22, 2021

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

Ratings List

Upgraded

	To	From
Land Bank of Taiwan		
Issuer Credit Rating	twAA+/Stable/twA-1+	twAA/Stable/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twAA	twAA-
Mega International Commercial Bank Co. Ltd.		
Issuer Credit Rating	twAAA/Stable/twA-1+	twAA+/Stable/twA-1+
Senior Debenture Issue Credit Rating	twAAA	twAA+
BankTaiwan Securities Co. Ltd.		
Issuer Credit Rating	twAAA/Stable/twA-1+	twAA+/Stable/twA-1+

Ratings Affirmed; Outlook Action

	To	From
Taiwan Cooperative Bank Ltd.		
Issuer Credit Rating	twAA+/Positive/twA-1+	twAA+/Stable/twA-1+

Ratings Affirmed

Bank of Taiwan		
Issuer Credit Rating	twAAA/Stable/twA-1+	
Unsecured Subordinated Debenture Issue Credit Rating	twAA+	
Agricultural Bank of Taiwan		
Issuer Credit Rating	twAAA/Stable/twA-1+	
Unsecured Subordinated Debenture Issue Credit Rating	twAA+	
Chang Hwa Commercial Bank Ltd.		
Issuer Credit Rating	twAA+/Stable/twA-1+	
Unsecured Subordinated Debenture Issue Credit Rating	twA+	
First Commercial Bank Ltd.		
Issuer Credit Rating	twAA+/Stable/twA-1+	
Senior Debenture Issue Credit Rating	twAA+	
Unsecured Subordinated Debenture Issue Credit Rating	twAA	

Unsecured Subordinated Debenture Issue Credit Rating	twA+
Unsecured Subordinated Debenture Issue Credit Rating	twA-

Hua Nan Commercial Bank Ltd.

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

Cathay United Bank Co. Ltd.

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

Taipei Fubon Commercial Bank Co. Ltd.

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

E.SUN Commercial Bank Ltd.

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

BankTaiwan Life Insurance Co. Ltd.

Issuer Credit Rating	twAAA/Stable
Financial Strength Rating	twAAA/Stable

Land Bank of Taiwan

Unsecured Subordinated Debenture Issue Credit Rating	twA
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Mega International Commercial Bank Co. Ltd.

Unsecured Subordinated Debenture Issue Credit Rating	twAA-
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Taiwan Cooperative Bank Ltd.

Unsecured Subordinated Debenture Issue Credit Rating	twAA
Unsecured Subordinated Debenture Issue Credit Rating	twA+

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