

Media Release:

# China Development Financial Holding Corp. And Subsidiaries Upgraded On Strengthened Group Credit Profile, Outlook Stable

May 26, 2021

## Overview

- In our view, CDFHC group's acquisition of an absolute majority shareholding in Taiwan-domiciled China Life Insurance is now a core subsidiary and the dominant contributor to the group credit profile.
- We also believe that China Life's credit profile has stabilized with improved capitalization to buffer against potential market volatility and foreign exchange risks.
- We have raised our issuer credit ratings on CDFHC and its subsidiaries given our assessment of the group's strengthened credit profile.
- The outlook on the ratings is stable to reflect our view that China Life's overall credit profile will remain stable with satisfactory capital and earnings over the next one to two years.

## Rating Action

On, May 26, 2021, Taiwan Ratings Corp. raised its issuer credit ratings on Taiwan-based **China Development Financial Holding Corp.** (CDFHC) and subsidiaries, as well as our issue credit ratings on their various debt issues (see ratings list).

## Rationale

The upgrades reflect our view that the CDFHC group credit profile has improved following its acquisition of an absolute majority shareholding in financially stronger **China Life Insurance Co. Ltd.**

We now view the life insurer as a core operating unit and the dominant contributor to the group credit profile. China Life makes up over 65% of the group's consolidated assets, 54% of net worth, and contributes over 50% of profits as of end of March 2021. China Life's satisfactory operating track record has strengthened the groups business position and revenue diversification, in our view. We believe the franchise linkage, potential resource sharing, and cross selling activities between China Life with other group members will increase over time and enable the group to report average operating performance in comparison to other insurance centric financial groups in Taiwan.

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CDFHC group's credit strength has improved following the acquisition of the life insurer which could allow the group to lower its financial leverage gradually over the next two years. China Life's credit profile remains solid and supported by improved capitalization to buffer against potential market volatility and foreign exchange risks.

CDFHC funded the acquisition through a combination of self-funding and leverage including debt issue and bank borrowing. At the end March 2021, the company's double leverage ratio had increased to 121%, as we expected after the acquisition. The ratio is likely to decline after the group repays some of its debt using proceeds from the sale of its head office building in January 2021. The asset disposal brought about new Taiwan dollar (NT\$) 8 billion. In addition, we believe the capitalization of two of the group's key operating units, **KGI Bank** and **KGI Securities Co. Ltd.**, will remain strong. These units are unlikely to require capital injections from the group over the next one to two years.

The long-term rating on the holding company is one notch lower than that on the group's core entities on a global rating scale to reflect the holding company's relative subordination. CDFHC's directly controls multiple key operating units including banking and securities, which consistently contribute over 40% of the group's consolidated equity. We lower the long-term rating by only one notch due to limited regulations in Taiwan restricting cash-flows between group members or between insurance units and holding companies that would otherwise result in a wider notching between the holding company rating and the group's credit profile.

## Outlook

The stable outlook on CDFHC and its subsidiaries reflects our view that China Life, as a core operating unit, will dominate the overall group credit profile. Therefore, the ratings on the various group units will move in tandem with ratings on China Life.

The outlook also reflects our view that China Life's overall credit profile will remain stable with satisfactory capital and earnings over the next one to two years. At the same time, we believe the group will register an industry average operating performance and its key subsidiaries sustain their current capitalization over the same period.

### Downward scenario

We could downgrade CDFHC and its subsidiaries if we downgrade China Life. if we believe that We could also downgrade CDFHC and its subsidiaries if the group's operating performance weakens to materially below that of similar rated peer financial holding groups in Taiwan.

### Upward scenario

We consider the likelihood of an upgrade of CDFHC and its subsidiaries to be relatively limited over the next one to two years.

## Related Criteria & Research

### Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- 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
- 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: 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

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## Ratings List

### Upgraded

	To	From
<b>China Development Financial Holding Corp.</b>		
Issuer Credit Rating	twAA-/Stable/twA-1+	twA+/Positive/twA-1
Unsecured subordinated issue rating	twA	twA-
<b>KGI Bank</b>		
Issuer Credit Rating	twAA/Stable/twA-1+	twAA-/Positive/twA-1+
Senior unsecured issue rating	twAA	twAA-
<b>KGI Securities Co. Ltd.</b>		
Issuer Credit Rating	twAA/Stable/twA-1+	twAA-/Positive/twA-1+
<b>CDC Finance &amp; Leasing Corp.</b>		
Issuer Credit Rating	twA+/Stable/twA-1	twA/Positive/twA-1

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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