

Media Release:

Union Finance & Leasing (Int'l) Corp. Ratings Affirmed At 'twA-/twA-2' On Group Support; Outlook Stable

May 27, 2021

Overview

- We assess Union Finance & Leasing's risk profile has weakened to moderate from adequate previously, due to the company's rapid business expansion into a riskier business segment with increased single-name concentration.
- Conversely, we have raised our anchor for the company, given its now seasoned track record under regulatory oversight compared with corporate FINCO peers in Taiwan.
- We have affirmed our 'twA-' long-term and 'twA-2' short-term issuer credit ratings on Union Finance & Leasing.
- The rating outlook remains stable to reflect our view of the likelihood that the parent bank would provide Union Finance & Leasing with financial support, if needed, given the company's strategic important role within the group's investment strategy.

Rating Action

On May 27, 2021, Taiwan Ratings Corp. affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on **Union Finance & Leasing (Int'l) Corp.** The outlook on the long-term rating remains stable.

Rationale

The rating affirmation reflects our view that Union Finance & Leasing's parent, **Union Bank of Taiwan**, will provide timely financial support to the company, if needed. This is supported by our view that the leasing subsidiary plays a strategic important role within the group's business development plan. We believe Union Finance & Leasing fits the parent's strategy to offer leasing services in Taiwan and Japan markets. The company's operations also fulfil the parent's investment strategy in the Japanese property market as well as Taiwan's green energy industry. We therefore believe there is a high possibility that the parent group will provide Union Finance & Leasing with financial support, as needed.

We have lowered our risk assessment for Union Finance & Leasing to moderate from adequate due to the company's likely fast-growing corporate or equipment finance lending. This

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business field has significant single-borrower concentration, increasing the company's risk exposure and adding possible unexpected credit costs to its credit profile over the next two years. The single largest loan borrower accounts for about 33% of Union Finance & Leasing's net worth as the end of 2020. We forecast this ratio will surge over the coming two years, considering the company's business development plan.

In our view, Union Finance & Leasing's rapid business expansion along with the company's recent new Taiwan dollar (NT\$) 556 million private equity investment will erode its capital strength. Union Finance & Leasing's capitalization as measured by its risk adjusted capital (RAC) ratio declined to 12.2% as of the end of 2020, down from 15.4% in 2019. This weakened capitalization now provides the company with a smaller buffer to absorb unexpected losses and keep its RAC ratio consistently above 10% of what we define as strong capitalization.

The ratings continue to reflect that Union Finance & Leasing comes under the regulatory oversight of Taiwan's Financial Supervisory Commission (FSC). We believe the finance company now has a seasoned track record of supervisory oversight unlike other corporate FINCOs in Taiwan. This regulatory framework is somewhat closer to that for banks in Taiwan, albeit less comprehensive. However, the company's moderate business position resulting from a relatively small market share tempers this strength.

Outlook

The stable outlook on Union Finance & Leasing reflects our view of the likelihood that the parent bank would provide the company with financial support, if needed, given its strategic important role within the group's investment strategy. On a stand-alone basis, we believe Union Finance & Leasing will control the increase in its risky assets to maintain its capitalization at a strong level over the next two years.

Downward scenario

We may lower the long-term rating on Union Finance & Leasing if either of the following occurs: the parent group's consolidated credit profile weakens, or if Union Finance & Leasing's stand-alone credit profile weakens due to weakened capitalization under high growth of riskier assets over the next one to two years.

Upward scenario

We may raise the rating on Union Finance & Leasing if we raise our rating on Union Bank of Taiwan, particularly if the parent can sustain its capitalization at a very strong level as shown by a consolidated RAC of 15% or higher over the next two years.

Related Criteria & Research

Related Criteria

- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014

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- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Group Rating Methodology - July 01, 2019

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed

Union Finance & Leasing (Int'l) Corp.

Issuer Credit Rating	twA-/Stable/twA-2
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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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