

Media Release:

Union Bank of Taiwan Upgraded To 'twA+/twA-1' On Good Asset Quality; Outlook Stable

December 8, 2021

Overview

- We forecast **Union Bank of Taiwan** will maintain good asset quality with average loss experience compared with its domestic peers'.
- We have revised up our assessment of the bank's risk position to adequate from moderate, notwithstanding a slightly higher appetite for business expansion over the coming two years.
- We are raising our long-term issuer credit rating on Union Bank of Taiwan to 'twA+' from 'twA' and affirming the short-term issuer credit rating at 'twA-1'. At the same time, we raised our issue rating on the bank's financial debenture to 'twA-' from 'twBBB+'.
- The rating outlook is stable to reflect our view that the bank will maintain a strong capital base, good asset quality and adequate risk controls over the coming two years.

Rating Action

Taiwan Ratings Corp. today raised its long-term issuer credit rating on Union Bank of Taiwan to 'twA+' from 'twA' and our issue rating on the bank's financial debenture to 'twA-' from 'twBBB+'. The outlook on the long-term rating is stable. At the same time, we affirmed the short-term issuer credit rating on the bank at 'twA-1'.

Rationale

Union Bank will likely sustain its good asset quality over the rating horizon. The upgrade reflects our view of the bank's good asset quality, as demonstrated by low nonperforming loan ratios over the past few years.

Union Bank has higher exposure to residential mortgages than peers' and these mortgages have demonstrated better and more sustained asset quality than other forms of lending. The bank has also implemented good underwriting controls to avoid exposure to batch mortgages, which can be more sensitive to economic downturns than individual or selective mortgages. Union Bank's official nonperforming loan ratio was 0.15% at the end of September 2021, with a coverage ratio of 761% at the same time. These figures are in line with the domestic banking sector's official nonperforming loan ratio of 0.19% and coverage ratio of 704% at the end of September 2021.

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We assess the bank's risk position as adequate compared with moderate previously. We expect this to remain unchanged over the coming two years despite the ongoing negative impact of the COVID-19 pandemic on Taiwan's banking sector. This reflects our view of the bank's established underwriting framework and satisfactory track record over the past few years.

The bank seeks to control its exposure to real estate and construction lending. In our view, Union Bank is unlikely to aggressively expand its real estate and construction lending over the next two years. The bank's risk concentration on this business line has been improving since 2019. This contrasts with the industry's general thirst for lending opportunities in Taiwan's buoyant real estate and construction market over the same period.

We believe Union Bank will remain cautious in this higher-risk segment given the bank's strategy to focus more on non-real estate related business such as small and mid-size enterprise lending and a cautious view of potential property market movement. Furthermore, we believe that Union Bank's strong capitalization will provide a sufficient buffer to potential volatility in the domestic real estate market over the coming one to two years.

Outlook

The stable rating outlook reflects our view that Union Bank's strong capital, prudent capital policies, and adequate risk controls will support the bank's stable credit profile on a consolidated basis over the next two years. We also forecast Union Bank will maintain its established retail franchise, good asset quality, and adequate funding and liquidity profile over the same period.

Downward scenario

We could lower the long-term rating if the bank's consolidated capitalization deteriorates due to aggressive business growth, high dividend payouts, or a significant increase in credit costs that are beyond our expectation. A risk-adjusted capital ratio before diversification below 10% would indicate such deterioration.

Upward scenario

We believe a further upgrade is remote over the next one to two years, given the bank's business growth strategy and capital policy.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB/Stable/A-2	BBB-/Stable/A-3
SACP	bbb	bbb-
Anchor	bbb	bbb
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	0	0
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria & Research

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Upgraded

	To	From
Union Bank of Taiwan		
Issuer Credit Rating	twA+/Stable/twA-1	twA/Stable/twA-1
Unsecured Subordinated Debenture	twA-	twBBB+

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