Media Release:

Selected Taiwan-Based Bank Ratings Affirmed Under Revised Criteria

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- We have reviewed our ratings on several Taiwan-based banks and their respective holding companies under our revised criteria.
- We have affirmed the ratings on these banks, and the outlooks are unchanged. We have also affirmed the respective issue ratings on the banks' debts.

Taiwan Ratings Corp. said today that it has affirmed its issuer and issue credit ratings on the following banks and their holding companies. Our outlooks on these financial institutions remain unchanged.

- Agricultural Bank of Taiwan (twAAA/Stable/twA-1+)
- Bank of Taiwan (twAAA/Stable/twA-1+)
- Chang Hwa Commercial Bank Ltd. (twAA+/Stable/twA-1+)
- First Commercial Bank Ltd. (twAA+/Stable/twA-1+)
- First Financial Holding Co. Ltd. (twAA-/Stable/twA-1+)
- Hua Nan Commercial Bank Ltd. (twAA+/Stable/twA-1+)
- Hua Nan Financial Holdings Co. Ltd. (twAA-/Stable/twA-1+)
- Land Bank of Taiwan (twAA+/Stable/twA-1+)
- Mega International Commercial Bank Co. Ltd. (twAAA/Stable/twA-1+)
- Mega Financial Holding Co. Ltd. (twAA/Stable/twA-1+)

The affirmations follow a revision to our criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Ratings Methodology," published Dec. 9, 2021 and "Banking Industry Country Risk Assessment Methodology And Assumptions," published Dec. 9, 2021).

Our assessments of economic risk and industry risk in Taiwan also remain unchanged at '3' and '5', respectively. These scores determine the BICRA and the anchor, or starting point, for our ratings on financial institutions that operate primarily in that country. The trends we see for both economic risk and industry risk remain stable. The BICRA criteria changes also don't alter the fundamentals of the existing analytical framework. They remove quantitative limits on the frequency of the use of adjustments and replace the multiple subfactor-specific individual adjustments within each of the economic and industry risk factors with an initial score for each factor with a single adjustment applied to arrive at the final score. The changes also reduce some mechanistic links with sovereign rating scores and allow for a wider range of metrics and economic indicators to be used to reflect the specifics of economic structures.

In addition, the group stand-alone credit profiles of the Taiwan-based banks, and our assessment of the likelihood of extraordinary external support remain unchanged under our revised criteria.

Bank of Taiwan

The ratings on **Bank of Taiwan** reflect our view of an extremely high likelihood that the Taiwan government would provide timely, sufficient, and extraordinary support to the bank, if necessary. The ratings also reflect Bank of Taiwan's solid domestic franchise and market position, strong customer base with superior funding profile, as well as its below-average profitability compared with domestic peers'.

Outlook

The stable rating outlook on Bank of Taiwan reflects our expectation of an extremely high likelihood that the Taiwan government would provide sufficient and timely extraordinary support to the bank, if needed. The outlook also reflects our view that Bank of Taiwan 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, we believe that Bank of Taiwan 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.

Ratings Score Snapshot

Issuer Credit Rating: twAAA/Stable/twA-1+

Stand-alone credit profile: a-

- Anchor: bbb
- Business Position: Adequate (0)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Strong and strong (+1)
- Comparable Rating Analysis: 0

Support: +3

- ALAC Support: 0
- GRE Support: +3
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

Chang Hwa Commercial Bank Ltd. (Chang Hwa Bank)

The ratings on Chang Hwa Bank reflect view that the Taiwan government would provide timely support to the bank, if needed, given the bank's moderate systemic importance in Taiwan's banking industry. The ratings also reflect Chang Hwa Bank's strong capitalization relative to its risk profile, satisfactory market present in Taiwan's banking sector, and adequate funding profile supported by its good franchise. Counterbalancing factors include Chang Hwa Bank's concentrated business profile, primarily in the traditional lending business, and moderate profitability compared with that of international peers.

Outlook

The stable outlook reflects our view of a moderately high likelihood that 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, given the bank's prudent capital management.

Downward 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 risk adjusted capital ratio consistently below 10%, or a weakened risk position for the bank.

Upward scenario

We view the likelihood that we could raise the ratings over the next two years is remote considering the bank's current business strategy and capital policy.

Ratings Score Snapshot

Issuer Credit Rating: twAA+/Stable/twA-1+

Stand-alone credit profile: bbb+

- Anchor: bbb
- Business Position: Adequate (0)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 1

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 1

Additional Factors: 0

First Commercial Bank Ltd.

The ratings on First Commercial Bank reflect our assessment of the bank's strong capitalization, good domestic market positions supported by an established banking franchise, and satisfactory funding and liquidity profile. The ratings on the bank also reflect a moderately high level of support from the Taiwan government, given the bank's moderate systemic importance. Counterbalancing factors include continuing competitive pressure on the bank's profitability and First Commercial Bank's relatively concentrated revenue structure by international standards.

Outlook

The stable rating outlook reflects our view of a moderately high likelihood that First Commercial Bank 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 outlook also reflects our view that the bank will maintain its good business franchise and strong capitalization over the next two years. We also believe that First Commercial Bank will pursue prudent business growth domestically and overseas. Furthermore, the outlook reflects our view that the parent 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 see First Commercial Bank continuing to play a dominant role in terms of the group's overall risk profile.

Downward scenario

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

Upward scenario

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

Ratings Score Snapshot

Issuer Credit Rating: twAA+/Stable/twA-1+

Stand-alone credit profile: bbb+

- Anchor: bbb
- Business Position: Adequate (0)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 1

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: +1

Additional Factors: 0

First Financial Holding Co. Ltd. (First FHC)

The ratings on First FHC reflect our assessment of the group's strong capitalization, and good domestic market position supported by First Commercial Bank's established franchise. Counterbalancing factors include competitive pressure on the group's profitability and the group's relatively concentrated revenue structure by international standards. The ratings also reflect the subordination of the holding company to its core operating subsidiary, First Commercial Bank.

Outlook

The stable rating outlook for First FHC reflects our view that the group's core operating unit, First Commercial Bank, will maintain its good business franchise and strong capitalization over the next two years. We believe the bank will pursue prudent business growth domestically and overseas. The outlook also reflects our view that First FHC group will maintain a stable consolidated credit profile and not engage in overly aggressive mergers or acquisitions over the next two years. First Commercial Bank will continue to play a dominant role in terms of the group's overall risk profile, in our opinion.

Downside scenario

We may lower the rating on First FHC if the group's banking unit fails to sustain its capitalization at a strong level as indicated by a RAC ratio consistently below 10%. This could be the result of aggressive growth, particularly in overseas lending or material expansion of the investment portfolio.

Upside scenario

We consider the possibility of an upgrade as remote over the next two years, considering the banking unit's capital policy and business growth plan during the period.

Hua Nan Commercial Bank Ltd. (Hua Nan Bank)

The ratings reflect our assessment of Hua Nan Bank's strong capitalization, good domestic market position supported by an established banking franchise, as well as satisfactory funding and liquidity profile. Counterbalancing factors include the bank's weaker profitability and concentrated revenue stream compared with global peers'. The ratings on Hua Nan Bank also reflect our view of implicit government support for the bank, given its moderate systemic importance in Taiwan's banking system.

Outlook

The stable rating outlook on Hua Nan Bank reflects our belief in a moderately high likelihood that Hua Nan Bank will receive implicit government support should the bank experience financial distress. The outlook also reflects our view that the government's ownership of the bank's parent Hua Nan Financial Holdings Co. Ltd. group, or the bank's government owned image is unlikely to change over the next 12-24 months. On a stand-alone basis, we believe Hua Nan Bank will maintain its good business franchise and strong capitalization over the period.

Downward 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 over the next one to two years.

Upward scenario

We may upgrade Hua Nan Bank if the bank is able to improve its capitalization and keep its RAC ratio sustainably above 15%. However, we believe this is highly unlikely in the next one to two years.

Ratings Score Snapshot

Issuer Credit Rating: twAA+/Stable/twA-1+

Stand-alone credit profile: bbb+

- Anchor: bbb
- Business Position: Adequate (0)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 1

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: +1

Additional Factors: 0

Hua Nan Financial Holdings Co. Ltd. (Hua Nan FHC)

The ratings on Hua Nan FHC reflect the group's strong capitalization, good domestic market position, as well as adequate funding and liquidity profile. Counterbalancing factors include the group's moderate profitability and concentrated revenue stream by international standards. The ratings on Hua Nan FHC also reflect the relative subordination of the holding company to its core operating subsidiary, Hua Nan Bank.

Outlook

The stable rating outlook reflects our view that Hua Nan FHC's credit profile will move in tandem with that of Hua Nan Bank. We believe the bank will maintain its good business franchise and strong capitalization over the next two years and we forecast Hua Nan Bank will pursue prudent business growth and capital policies over the same period.

The outlook also reflects our view that Hua Nan FHC will maintain a stable consolidated credit profile and that the group will not engage in aggressive mergers or acquisitions over the next two years. Hua Nan Bank will continue to play a dominant role in terms of the group's overall risk profile. We also believe the group's association with the Taiwan government will remain unchanged in terms of the government's ownership of the holding company and the bank's image as a government-owned entity.

Downward scenario

We may lower the long-term rating on Hua Nan FHC if Hua Nan Bank fails to sustain its capitalization at a strong level or if the bank's asset quality deteriorates. This would be indicated by a RAC ratio consistently below 10% or a nonperforming loan ratio significantly higher than that of peers.

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

Land Bank of Taiwan
The ratings on Land Bank reflect our view that the Taiwan government would ensure full and timely support to the bank, if needed, due to the bank's high systemic importance to the local banking industry. The ratings also reflect our assessment of the bank's good domestic franchise and above-average funding capability, considering its 100% government-owned image. These factors are offset by Land Bank's below-average capitalization relative to its risk profile when compared with domestic banks', and its higher exposure to construction loans than domestic peers'.

Outlook
The stable rating outlook on Land Bank reflects our view 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 forecast that the bank will pursue a prudent capital policy and loan book growth to maintain its 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 rating if the bank's asset quality materially deteriorates, with above-average credit losses 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: (1) 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 (2) S&P Global Ratings raises its unsolicited issuer credit ratings on Taiwan.

Ratings Score Snapshot
Issuer Credit Rating: twAA+/Stable/twA-1+
Stand-alone credit profile: bbb

- Anchor: bbb
- Business Position: Adequate (0)
- Capital and Earnings: Adequate (0)
- Risk Position: Adequate (0)
- Funding and Liquidity: Strong and adequate (0)
- Comparable Rating Analysis: 0

Support: 3

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: +3

Additional Factors: 0

Mega International Commercial Bank Co. Ltd. (Mega Bank)

The ratings on Mega Bank reflect the bank's well-established franchise especially in Taiwan's foreign exchange and offshore banking businesses, above-average overseas diversification, strong capitalization, and adequate funding and liquidity supported by a strong corporate banking franchise. The ratings also reflect our belief in the likelihood of the government of Taiwan providing support for Mega Bank in times of financial distress, given our view of the bank's high systemic importance in Taiwan's financial sector and foreign exchange market. The bank's slightly moderate profitability by international standards tempers these strengths.

Outlook

The stable rating outlook for Mega Bank reflects our view that the bank will maintain its lead position in Taiwan's foreign exchange and offshore banking businesses, which will support its business franchise and funding profile. We also believe Mega Bank will maintain its capitalization at a strong level over the next two years. In addition, the bank's high systemic importance in Taiwan's financial sector is unlikely to change over the same period, in our view. Moreover, we believe Mega Bank will continue to play a dominant role in the group's overall credit profile over the same period.

Downward scenario

We may lower the long-term rating on Mega Bank if the bank's business franchise in foreign exchange and offshore banking businesses weakens, or if the bank fails to maintain above-average profitability in the domestic banking system.

We could also lower the rating if Mega Bank's capitalization deteriorates as shown by the RAC ratio falling below 10% over the next two years. However, we view the likelihood of such deterioration to be low over the next 12-24 months, given the bank's prudent capital policy as a domestic systemically important bank in Taiwan.

Ratings Score Snapshot

Issuer Credit Rating: twAAA/Stable/twA-1+

Stand-alone credit profile: a-

- Anchor: bbb
- Business Position: Strong (+1)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 2

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: +2

Additional Factors: 0

Mega Financial Holding Co. Ltd. (Mega FHC)
The ratings on Mega FHC reflect our assessment of the group's lead position in Taiwan's foreign exchange and offshore banking businesses through its core bank subsidiary, Mega Bank, as well as the group's strong capitalization and adequate funding and liquidity profile supported by the strong banking franchise. Mega FHC group's slightly moderate profitability by international standards tempers these strengths. The ratings on the holding company also reflect its subordination to the group's core entities.

Outlook
The stable rating outlook reflects our view that the Mega FHC group, through its core banking unit Mega Bank, will maintain the group's lead position in Taiwan's foreign exchange and offshore banking businesses, which support the bank's business franchise and funding profiles. We also believe Mega Bank will maintain its capitalization at a strong level and continue to play a dominant role in terms of the group's overall credit profile over the next two years.

Downside scenario
We may lower the long-term rating on Mega FHC if Mega Bank's business franchise in foreign exchange and offshore banking businesses weaken, or if the bank fails to maintain above-average profitability in the domestic banking system. We could also lower the rating if Mega Bank's capitalization deteriorates as shown by a RAC ratio below 10% over the next two years. However, we view the likelihood of such deterioration to be low over the next 12-24 months, given the bank's prudent capital policy as one of the designated domestic systemic important banks in Taiwan.

Upside scenario
We may raise the rating on Mega FHC if Mega Bank's capitalization improves, as represented by a RAC ratio sustainably above 15%. However, this is highly unlikely over the next one to two years, given the bank's business strategy.

Agricultural Bank of Taiwan
The ratings on Agricultural Bank reflect our view of an extremely high likelihood of support from the Taiwan government, given the bank's status as a government-related entity. The ratings also reflect the bank's adequate capitalization and diversified funding with strong liquidity profile, despite the impact of the bank's policy role on its ability to improve its asset-liability mismatch and limited operating network.

Outlook
The stable rating outlook on Agricultural Bank reflects our belief in an extremely high likelihood that the government of Taiwan will provide sufficient and timely extraordinary support for the bank over the next two years. The outlook also reflects our view that Agricultural Bank will maintain adequate capitalization with no significant deterioration in asset quality over the period. Furthermore, we assume the bank will cautiously control its risk asset growth with a higher focus on its risk controls and business margin.

Downside scenario

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

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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: Group Rating Methodology - July 01, 2019
- 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, Wed Mar 25 2015
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019

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