

Media Release:

Selected Taiwan-Based Bank Ratings Affirmed Under Revised Criteria

January 11, 2022

- 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.

- **Cathay United Bank Co. Ltd.** (twAA+/Stable/twA-1+)
- **CTBC Bank Co. Ltd.** (twAA+/Stable/twA-1+)
- **CTBC Financial Holding Co. Ltd.** (twAA-/Stable/twA-1+)
- **E.SUN Commercial Bank Ltd.** (twAA+/Stable/twA-1+)
- **E.SUN Financial Holding Co. Ltd.** (twAA-/Stable/twA-1+)
- **Taipei Fubon Commercial Bank Co. Ltd.** (twAA+/Stable/twA-1+)
- **Taishin International Bank Co. Ltd.** (twAA-/Stable/twA-1+)
- **Taishin Financial Holding Co. Ltd.** (twA+/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 in Taiwan 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

PRIMARY CREDIT ANALYST

Andy Chang, CFA, FRM
+886-2-2175-6815
andy.chang
@spglobal.com
andy.chang
@taiwanratings.com.tw

SECONDARY CONTACTS

Eunice Fan
+886-2-2175-6818
eunice.fan
@spglobal.com
eunice.fan
@taiwanratings.com.tw

Serene Hsieh, CPA, FRM
+886-2-2175-6820
serene.hsieh
@spglobal.com
serene.hsieh
@taiwanratings.com.tw

Patty Wang
+886-2-2175-6823
patty.wang
@spglobal.com
patty.wang
@taiwanratings.com.tw

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.

Cathay United Bank Co. Ltd.

The ratings on Cathay United Bank Co. Ltd reflect the bank's strong capital buffer and diversified funding profile, although the bank's moderate profitability and diversification by global standards somewhat offset these strengths. The ratings also reflect our assessment that Cathay United Bank would receive support from the government of Taiwan, given our view of the bank's moderate systemic importance.

Outlook

The stable rating outlook reflects our view of a moderately high likelihood that Cathay United Bank would receive government support, if needed. We also believe Cathay United Bank will 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 Taiwan-based Cathay Financial Holding Co. Ltd. group, given the bank's material representation and contribution in the group.

Downward scenario

We view the likelihood of a downgrade to be remote over the next two years.

Upward scenario

Similarly, we view the likelihood of an upgrade to be remote over the same period.

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 Strong (0)
- Comparable Rating Analysis: 0

Support: +1

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

Additional Factors: 0

CTBC Bank Co. Ltd.

The ratings reflect CTBC Bank Co. Ltd.'s strong business position and diversified revenue sources relative to those of local peers in the highly competitive domestic market. The outlook also reflects our view that CTBC Bank is of moderate systemic importance in Taiwan's financial sector.

Outlook

The stable rating outlook reflects our view that CTBC Bank will maintain most of its key risk characteristics over the next two years, including strong capitalization and stable earnings, as well as adequate risk management. We also forecast the bank will maintain its strong business position and diversified revenue sources relative to those of local peers in the highly competitive domestic market. The outlook also reflects CTBC Bank's moderate systemic importance in Taiwan's financial sector.

Downward scenario

We may lower the long-term issuer credit rating if the bank pursues high growth without adequate capital planning or a risk management mechanism to manage such growth. These factors could result in a weaker risk position or capitalization for CTBC Bank.

Upward scenario

We believe the likelihood of an upgrade to be remote over the next two to three years. However, we could raise the rating if the bank demonstrates stronger risk management that delivers sustainably better loss experience and earning results than its similarly rated peers¹.

Ratings Score Snapshot

Issuer Credit Rating: twAA+/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 Strong (0)
- Comparable Rating Analysis: 0

Support: 1

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

Additional Factors: 0

CTBC Financial Holding Co. Ltd. (CTBC FHC)

The ratings on Taiwan-based CTBC FHC reflect the consolidated credit profile of CTBC Bank and Taiwan Life Insurance Co. Ltd., given that these companies account for about 69% and 31%, respectively, of CTBC FHC group's total assets as of the end of 2020. The ratings on CTBC FHC also reflect a degree of subordination to its operating subsidiaries.

Outlook

The stable rating outlook reflects our expectation that the CTBC FHC group will maintain most of its key risk characteristics over the next one to two years. The outlook also reflects our view that the group will maintain its capital at satisfactory level underpinned by prudent capital policies. The group is likely to continue to benefit from its core banking unit, CTBC Bank's strong business position and diversified revenue sources relative to those of local peers in the highly competitive domestic market.

Downside scenario

We may lower the group credit profile and consequently the rating on CTBC FHC, if the group and its key subsidiaries pursue high growth without adequate capital planning or a risk management mechanism to manage such growth. These factors could result in a weaker risk position or capitalization for CTBC Bank or the group over the coming two years.

Upside scenario

We could raise the consolidated group profile and consequently the rating on CTBC FHC, if the group can improve its capitalization particularly at Taiwan Life, via a prudent business strategy and good earnings retention over the coming two years. However, we believe the likelihood of this is remote over the period.

E.SUN Commercial Bank Ltd. (E.SUN Bank)

The ratings reflect E.SUN Bank's systemic importance in the local financial market where it holds a stable market share. The ratings also reflect the bank's strong capitalization, good asset quality, and satisfactory management and execution of its business strategy compared with its domestic peers'. Counterbalancing factors include the bank's moderate, albeit improving profitability and small business scale by international standards.

Outlook

The stable rating outlook reflects our view of a moderately high likelihood that the Taiwan government would provide financial support for E.SUN Bank, if needed, given the bank's good retail franchise and moderate presence in Taiwan's fragmented banking sector. We also believe E.SUN Bank will 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 also anticipate the bank will maintain its sound asset quality and profitability despite above-average business growth in recent years. In addition, we believe that E.SUN Bank will maintain its dominant role in terms of its parent E.SUN Financial Holding Co. Ltd. group's overall risk profile.

Downward scenario

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

Upward scenario

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

E.SUN Financial Holding Co. Ltd. (E.SUN FHC)

The ratings on E.SUN FHC's reflect the ratings on the group's flagship unit E.SUN Bank, given the bank commands over 95% of the group's assets, capital, and profits. Other group subsidiaries act in complementary roles to the group's bank-centric strategies and have no material influence over the group's overall risk profile. The ratings on E.SUN FHC also reflect a degree of subordination to its operating subsidiaries.

Outlook

The stable rating outlook for E.SUN FHC largely reflects the stable credit trend of the stand-alone credit profile for E.SUN Bank. We view the bank as the group's core operating unit and we believe the bank will maintain its strong capitalization with a RAC ratio above 10% over the next two years, backed by a prudent capital policy and growth strategy.

We also anticipate E.SUN Bank will maintain sound asset quality, despite above-average business growth in recent years. In addition, we believe the bank will continue to play a dominant role in terms of the group's overall risk profile over the next two years.

Downside scenario

We may lower the long-term rating on E.SUN FHC if E.SUN Bank fails to maintain strong capitalization. A RAC ratio consistently below 10% over the coming two years would indicate such weakening and could result from substantial growth in the bank's risk-taking.

Upside scenario

We may raise the rating on E.SUN FHC if E.SUN Bank improves its business and geographic diversification while maintaining its stand-alone credit profile. However, we consider upside rating potential as currently remote over the next one to two years, given it will take time for the bank to achieve such improvement.

Taipei Fubon Commercial Bank Co. Ltd. (Taipei Fubon Bank)

The ratings on Taipei Fubon Bank reflect our view that the Taiwan government would provide financial support to the bank, if needed, given our view of Taipei Fubon Bank's moderate systemic importance in the domestic banking industry. The ratings also reflect the bank's strong capitalization and adequate risk controls with satisfactory asset quality. Counterbalancing these strengths are Taipei Fubon Bank's moderate profitability by international standards and less-diversified business stream than its international peers'.

Outlook

The stable rating outlook reflects our view of a moderately high likelihood that the Taiwan government would support the bank support in times of financial distress, given the bank's moderate systemic importance in Taiwan's banking system. We also forecast the bank will maintain its strong capitalization and satisfactory asset quality over the next one to two years. We continue to view Taipei Fubon Bank as the core member of the Fubon Financial Holding Co. Ltd. (Fubon FHC) group, given the bank's material representation and contribution to the group.

Downside scenario:

We view the likelihood of a downgrade to be remote over the next two years.

Upside scenario:

Similarly, we view the likelihood of an upgrade to be remote over the next 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

Taishin International Bank Co. Ltd. (Taishin Bank)

The ratings on Taishin Bank reflect the bank's established market position in Taiwan's consumer banking sector, adequate revenue diversification with a stable fee-income base, and strong capitalization. Counterbalancing factors include the bank's moderate profitability compared with international peers and relatively small business scale by international standards.

Outlook

The stable rating outlook reflects our view that Taishin Bank and the parent Taishin Financial Holding Co. Ltd. (Taishin FHC) group will maintain strong capitalization over the next one to two years, given their prudent capital management. We also forecast Taishin Bank will maintain its adequate business profile, asset quality, and funding and liquidity over the same period along with a stable consolidated credit profile for Taishin FHC group.

Downward scenario

We may lower the rating on Taishin Bank if the bank or Taishin FHC group fails to maintain strong capitalization due to aggressive business expansion or sizeable credit losses. A RAC ratio below 10% over the next one to two years would indicate such a decline in capitalization. We may also lower the rating if Taishin Bank's asset quality significantly deteriorates due to loosening credit risk controls or a heightened risk appetite. However, we believe both scenarios are unlikely over the next one to two years, given the group's prudent risk and capital management.

Upside scenario

We may raise our rating on Taishin Bank if the bank and Taishin FHC group strengthen their capitalization with a RAC ratio sustainably above 15%, while maintaining adequate risk management and asset quality over the next one to two years. However, we view such improvement to be highly unlikely, considering the group's business growth strategy over the period.

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: 0

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

Additional Factors: 0

Taishin Financial Holding Co. Ltd.

The ratings on Taishin FHC reflect the group's satisfactory market position in Taiwan's consumer banking business, adequate revenue diversification with a stable fee-income base, and Taishin Bank's strong capitalization. The group's moderate profitability by international standards and smaller business scale similarly rated international peers' temper these strengths. The ratings on Taishin FHC also reflect its non-operating holding structure subordination to the group's core entity, Taishin Bank.

Outlook

The stable outlook on Taishin FHC reflects our view that the group's flagship unit, Taishin Bank, will maintain strong capitalization over the next one to two years under the group's prudent capital management. We also believe that Taishin Bank to maintain adequate business profile, asset quality, and funding and liquidity over the same period. In addition, we anticipate Taishin FHC group will keep a stable consolidated credit profile and remain bank-centric over the next one to two years.

Downward scenario

We may lower the rating on Taishin FHC if Taishin Bank fails to maintain strong capitalization due to aggressive business expansion, or if the bank incurs sizeable credit losses. A RAC ratio below 10% over the next one to two years would indicate such a decline in capitalization. We may also lower the rating if Taishin Bank's asset quality deteriorates significantly due to loosening credit risk controls or a heightened risk appetite. However, we believe both scenarios are unlikely over the next one to two years, given the group's prudent risk and capital management.

Upside scenario

We could upgrade Taishin FHC if Taishin Bank strengthens its capitalization as shown by a RAC ratio sustainably above 15%, while maintaining adequate risk management and asset quality over the next one to two years. However, we view such improvement to be highly unlikely considering the group's business growth strategy over the same period.

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
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019

Additional Contacts

Eva Chou, +886-2-2175-6822; eva.chou@spglobal.com, eva.chou@taiwanratings.com.tw

Yuhan Lan, +886-2-2175-6810; yuhan.lan@spglobal.com, yuhan.lan@taiwanratings.com.tw

Jack Yang, +886-2-2175-6816; jack.yang@spglobal.com, jack.yang@taiwanratings.com.tw

Kaifu Hu, +886-2-2175-6814; kaifu.hu@spglobal.com, kaifu.hu@taiwanratings.com.tw

Jenny Lin, +886-2-2175-6811; jenny.lin@spglobal.com, jenny.lin@taiwanratings.com.tw

Caroline Shih, +886-2-2175-6833; caroline.shih@spglobal.com, caroline.shih@taiwanratings.com.tw

Media Contact

Simon Chen, +886-2-2175-6871; simon.chen@taiwanratings.com.tw

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