

Media Release:

# Taiwan Cooperative Financial Holding, Taiwan Cooperative Bank Ratings Affirmed Under Revised Criteria; Outlooks Unchanged

January 27, 2022

## Overview

- We reviewed our ratings on **Taiwan Cooperative Bank Ltd.** and its parent, **Taiwan Cooperative Financial Holding Co. Ltd.** (Taiwan FHC) under our revised criteria.
- We affirmed our 'twAA+/twA-1+' issuer credit ratings on the bank and 'twAA-/twA-1+' issuer credit ratings on the parent holding company. At the same time, we affirmed the issue ratings on the bank's various unsecured subordinated debts (see Ratings List).
- The rating outlooks remain unchanged.

## Rating Action

Taiwan Ratings Corp. today affirmed its long-term and short-term issuer credit ratings on Taiwan FHC and Taiwan Cooperative Bank. The outlooks on the long-term ratings remain unchanged. The affirmations follow a revision to our criteria for rating banks and nonbank financial institutions and for determining Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Rating Methodology" and "Banking Industry Country Risk Assessment Methodology And Assumptions," both published on Dec. 9, 2021).

## Rationale

The affirmations reflect our assessment of the group's good market position and established franchise in Taiwan's banking sector, strong capitalization, and satisfactory funding and liquidity profile. Counterbalancing these strengths is the group's mediocre profitability relative to similar-rated global peers.

The ratings on Taiwan Cooperative Bank also reflect our view of implicit support from the Taiwan government, if needed, given the bank's high systemic importance in Taiwan's banking system. In addition, the ratings on the holding company reflect its relative subordination to its major operating subsidiaries.

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## Outlook

### Taiwan Cooperative Financial Holding Co. Ltd.

The stable rating outlook on Taiwan Cooperative FHC reflects our view that the group's core banking subsidiary, Taiwan Cooperative Bank Ltd., will maintain a stable credit profile in 2022-2023. We believe that the bank's good business stability and established market position will continue to support its satisfactory funding profile. In addition, we believe that the bank will adopt a prudent growth strategy and that the parent group will maintain prudent capital policies over the same period. These factors should help to sustain the bank's risk-adjusted capitalization at a strong level.

At the same time, we do not expect to see significant deviation in Taiwan Cooperative Bank's adequate risk position over the next one to two years. Moreover, the group is likely to maintain a stable consolidated credit profile in our view, and we believe that the group will avoid engaging in aggressive mergers or acquisitions over the same period.

#### Downward scenario

We may lower the long-term rating on Taiwan Cooperative FHC if Taiwan Cooperative Bank's risk position deteriorates, as indicated by significant weakening in the bank's asset quality. We could also lower the rating if the bank fails to sustain its strong capitalization over the next two years, as indicated by a risk-adjusted capital ratio consistently below 10%. In addition, we could lower the rating if the operating performance or capitalization of the group's other subsidiaries shows unexpected significant deterioration that weakens the group credit profile. Nonetheless, we view the possibility of the latter two scenarios to be remote over the next one to two years.

#### Upward scenario

We also consider the possibility of an upgrade as remote over 2022-2023, considering Taiwan Cooperative Bank and the group's business policy and capital plan.

### Taiwan Cooperative Bank Ltd.

The positive rating outlook reflects our view of a high likelihood that the Taiwan government would provide financial support for Taiwan Cooperative Bank in times of financial distress. That's because of the bank's high systemic importance in the domestic banking sector.

The outlook also reflects our view that Taiwan Cooperative Bank's capitalization will remain strong under the bank's prudent growth strategy and capital policies as well as those of the parent group. Moreover, we do not expect Taiwan Cooperative Bank's risk position to deviate greatly from our current assessment of adequate. Furthermore, we believe that the group will maintain a stable consolidated credit profile and avoid overly aggressive mergers or acquisitions over the next two years.

#### Downward scenario

We could revise the outlook to stable if S&P Global Ratings takes similar action on its long-term rating on Taiwan (AA/Positive/A-1+; unsolicited) or if the bank's stand-alone credit profile deteriorates due to a weakened risk position or weakened capitalization.

#### Upward scenario

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We could upgrade the bank if S&P Global Ratings raises its long-term rating on Taiwan.

### Rating Score Snapshot

Taiwan Cooperative Bank Ltd.

Issuer Credit Rating: twAA+/Positive/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: Strong and Adequate (0)

- Comparable rating analysis: 0

Support: +2

- ALAC support: 0

- GRE support: 0

- Group support: 0

- Sovereign support: +2

Additional factors: 0

## Related Criteria & Research

### Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- 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
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019
- 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

### Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

(Unless otherwise stated, these articles are published on [www.taiwanratings.com](http://www.taiwanratings.com))

## Ratings List

### Ratings Affirmed

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**Taiwan Cooperative Financial Holding Co. Ltd.**

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Issuer Credit Rating	twAA-/Stable/twA-1+
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**Taiwan Cooperative Bank Ltd.**

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Issuer Credit Rating	twAA+/Positive/twA-1+
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Unsecured Subordinate debenture	twAA
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Unsecured Subordinate debenture	twA+
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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](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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