

Media Release:

Taiwan Cooperative Bank Upgraded And Several Financial Institution Ratings Affirmed Following Taiwan Upgrade; Outlooks Stable

May 6, 2022

Overview

- S&P Global Ratings recently raised its long-term issuer credit rating on Taiwan to 'AA+' from 'AA'. The outlook is stable. The 'A-1+' short-term issuer credit rating was affirmed.
- We believe that Taiwan Cooperative Bank benefits from extraordinary government support due to its systemic importance and status as a government-related entity.
- We therefore raised our issuer credit ratings on Taiwan Cooperative Bank to 'twAAA/twA-1+' from 'twAA+/twA-1+' and raised our rating on the bank's subordinated debt issued in 2012 to 'twAA+' from 'twAA'. The outlook on the long-term rating is stable.
- At the same time, we affirmed our issuer credit ratings of other government-related financial institutions and systemically important banks and affirmed our issue credit ratings on the banks' various outstanding debts. The outlooks on the ratings are stable.
- The rating actions reflect our view of Taiwan's enhanced economic strength.

Rating Action

Taiwan Rating Corp. today took various rating actions on Taiwan-based issuers that receive extraordinary government support either due to their systemic importance in the domestic banking industry or as government-related entities (GREs) and related group members. The rating actions include the upgrade of Taiwan Cooperative Bank to 'twAAA/twA-1+' from 'twAA+/twA-1+' and the affirmation of all other financial entities that in our view have systemic importance in Taiwan's banking system or status as a government-related entity.

Rationale

The rating actions follow S&P Global Ratings recent upgrade of Taiwan (unsolicited; AA+/Stable/A-1+). The actions reflect our expectation that these government related entities and systemically important banks will continue to benefit from extraordinary support from the government over the next 12-24 months. However, we do not expect any extraordinary government support will flow into the hybrid capital issued by these banks with the exception of Bank of Taiwan and Agricultural Bank of Taiwan which we classify as GREs with extremely high likelihood of government support.

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On April 29, 2022, S&P Global Ratings raised its long-term issuer credit rating on Taiwan to 'AA+' from 'AA'. The outlook is stable. The short-term issuer credit rating was affirmed at 'A-1+'.

The ratings action reflected the rating agency's view that Taiwan's strong economic performance on the back of robust demand for its electronics exports is raising income to levels compatible with a stronger economic assessment. The COVID-19 pandemic has accelerated digitization globally and increased demand for Taiwan's semiconductor exports. The rating agency raised its economic assessment for Taiwan to reflect its view that Taiwan's improved average income level will be sustained by stronger growth prospects. While rising geopolitical tensions pose headwinds to Taiwan's export-reliant economy, this is unlikely to derail growth in its competitive manufacturing sector.

Taiwan Ratings classifies the Taiwan government's tendency to support systemically important banks as highly supportive. Given the enhanced credit strength of the government, we now see an enlarged capacity to support those issuers that benefit from its extraordinary support. The degree of the support will also be subject to the systemic importance of the banks or the likelihood of support for GREs. For the Taiwan national scale ratings, we also consider an entity's credit strength relative to other Taiwanese obligors according to Taiwan Ratings' Ratings Definition. For non-GRE banks, we believe this government support will not flow into subordinated debt, according to our criteria on issue ratings (see Related Criteria).

Bank of Taiwan

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.

Agricultural Bank of Taiwan

The stable rating outlook on **Agricultural Bank of Taiwan** reflects our expectation of an extremely high likelihood that the government of Taiwan will provide sufficient and timely extraordinary support over the next two years in the event that the bank faces financial stress. The outlook also reflects our view that Agricultural Bank will maintain its capitalization at an adequate level with no significant deterioration in asset quality over the same period. We also believe the bank will cautiously control its risk asset growth with a higher focus on its risk controls and business margin.

Downward scenario

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

Taiwan Cooperative Bank Ltd.

The stable rating outlook reflects our view of a high likelihood of government support for **Taiwan Cooperative Bank Ltd.** in times of financial distress, given the bank's high systemic importance in the domestic banking sector. The outlook also reflects our view that the bank's capitalization will remain strong under its prudent growth strategy and capital policies and those of its parent, Taiwan Cooperative Financial Holding Co. Ltd. group. Moreover, we do not expect Taiwan Cooperative Bank's risk position to deviate greatly from our current assessment of adequate. Furthermore, we believe the group will maintain a stable consolidated credit profile and avoid overly aggressive mergers or acquisitions over the coming two years.

Downside scenario

We could lower the rating if the bank's stand-alone credit profile (SACP) deteriorates, due to either our assessment of the bank's weakened risk position or weakened capitalization.

Chang Hwa Commercial Bank Ltd.

The stable rating outlook reflects our view of a moderately high likelihood that **Chang Hwa Commercial Bank Ltd.** 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 the bank's capitalization will remain strong over the next two years, given its prudent capital management.

Downward scenario

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

Upward scenario

We also view the likelihood of an upgrade to be over the same period considering the bank's current business strategy and capital policy.

Hua Nan Commercial Bank Ltd.

The stable rating outlook on **Hua Nan Commercial Bank Ltd.** (Hua Nan Bank) reflects our belief in a moderately high likelihood that the 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 same period.

Downward scenario

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

Upside scenario:

We also view the likelihood of an upgrade as remote over the same period.

First Commercial Bank Ltd.

The stable rating outlook reflects our view of a moderately high likelihood that **First Commercial Bank Ltd.** 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

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aggressive mergers or acquisitions over the next two years. In addition, we see First Commercial Bank continuing to play a dominant role in terms of the group's overall risk profile.

Downward scenario

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

Upward scenario

We also view the likelihood of an upgrade as remote over the same period.

Cathay United Bank Co. Ltd.

The stable rating outlook reflects our view of a moderately high likelihood that **Cathay United Bank Co. Ltd.** 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's credit profile.

Upside scenario:

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

Downside scenario:

Similarly, we view the likelihood of a downgrade to be remote over the same period.

Taipei Fubon Commercial Bank Co. Ltd.

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

Upside scenario:

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

Downside scenario:

Similarly, we view the likelihood of a downgrade to be remote over the same period.

E.SUN Commercial Bank Ltd.

The stable rating outlook reflects our view of a moderately high likelihood that **E. SUN Commercial Bank Ltd.** (E.SUN Bank) will receive government support in times of financial distress. We also believe the bank is likely to maintain strong capitalization with a risk-adjusted capital ratio above 10% over the next two years, backed by the bank's prudent capital policy. We anticipate E.SUN Bank will maintain its sound asset quality and profitability despite above-average business growth in recent years. In addition, we believe the bank will continue to play a dominant role in terms of its parent E.SUN Financial Holding Co. Ltd. group's overall risk profile.

Upside scenario:

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

Downside scenario:

Similarly, we view the likelihood of a downgrade to be remote over the same period.

BankTaiwan Securities Co. Ltd.

The stable rating outlook on **BankTaiwan Securities Co. Ltd.** reflects our view that the company will maintain its highly strategic role within Taiwan Financial Holding Co. Ltd. group over the next one to two years. Hence, the ratings on the securities company will move in tandem with the group credit profile, which highly correlates to the credit profile of the group's banking arm, Bank of Taiwan, given the bank's dominant role in the group's overall risk profile. We believe that the government of Taiwan will provide sufficient and timely extraordinary support to Bank of Taiwan over the next two years, as needed, and the support could flow to BankTaiwan Securities if necessary.

Downside scenario

We may lower the long-term rating on BankTaiwan Securities if the company's importance to the parent group significantly declines over the next one to two years. This could be due to the company's weakening operating performance or significant deterioration in its market position.

BankTaiwan Life Insurance Co. Ltd.

The stable rating outlook reflects our view that **BankTaiwan Life Insurance Co. Ltd.** will remain a core member of the Taiwan Financial Holding Co. Ltd. group over the next two years under the group's bancassurance strategy. The outlook on the insurer will therefore move in tandem with the direction of the supported group credit profile. In addition, the outlook reflects our view that Bank of Taiwan will continue to play a dominant role in terms of the group's overall risk profile. We believe that the government of Taiwan will provide sufficient and timely extraordinary support to Bank of Taiwan over the next two years, as needed, and the support could flow to BankTaiwan Life if necessary.

Downside scenario

We assess the possibility of a downgrade as remote over the next two years.

Related Criteria & Research

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
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- 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
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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- Research Update: Taiwan Ratings Raised To 'AA+/A-1+' On Strong Economic Performance; Outlook Stable, www.capitaliq.com – April 29, 2022

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

Ratings List

Upgraded

	To	From
Taiwan Cooperative Bank Ltd.		
Issuer Credit Rating	twAAA/Stable/twA-1+	twAA+/Positive/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twAA+	twAA

Ratings Affirmed; Outlook

Bank of Taiwan

Issuer Credit Rating	twAAA/Stable/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twAA+

Agricultural Bank of Taiwan

Issuer Credit Rating	twAAA/Stable/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twAA+

Chang Hwa Commercial Bank Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twA+

First Commercial Bank Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twAA
Unsecured Subordinated Debenture Issue Credit Rating	twA+

Hua Nan Commercial Bank Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twAA
Unsecured Subordinated Debenture Issue Credit Rating	twA+

Cathay United Bank Co. Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twAA
Unsecured Subordinated Debenture Issue Credit Rating	twAA-
Unsecured Subordinated Debenture Issue Credit Rating	twA

Taipei Fubon Commercial Bank Co. Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twAA

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Unsecured Subordinated Debenture Issue Credit Rating	twAA-
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E.SUN Commercial Bank Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
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Unsecured Subordinated Debenture Issue Credit Rating	twAA
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Unsecured Subordinated Debenture Issue Credit Rating	twA+
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BankTaiwan Life Insurance Co. Ltd.

Issuer Credit Rating	twAAA/Stable
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Financial Strength Rating	twAAA/Stable
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BankTaiwan Securities Co. Ltd.

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

Unsecured Subordinated Debenture Issue Credit Rating	twA+
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