

Media Release:

Taiwan Shin Kong Commercial Bank Outlook Revised To Stable From Negative; Ratings Affirmed 'twAA-/twA-1+'

May 30, 2022

Overview

- We believe Shin Kong Bank's stand-alone credit profile has strengthened amid improving asset quality and prudent risk-adjusted loan expansion in line with the industry average.
- We continue to assess the bank as a core group member of the wider Taiwan-based Shin Kong FHC group.
- We revised the outlook on Shin Kong Bank to stable from negative in line with the credit trend on the group credit profile. At the same time, we affirmed our 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on Shin Kong Bank as well as our issue credit ratings on the bank's subordinated debentures.

Rating Action

Taiwan Ratings Corp. today revised its outlook on Taiwan Shin Kong Commercial Bank Co. Ltd. (Shin Kong Bank) to stable from negative in line with the credit trend of the group's credit profile. At the same time, we affirmed the 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on Shin Kong Bank as well as our issue credit ratings on the bank's subordinated debentures (see ratings list).

Rationale

The outlook on Shin Kong Bank follows the credit trend of the group's flagship unit, Shin Kong Life. We revised the outlook on Shin Kong Bank to stable, in line with our outlook revisions on the other units of the **Shin Kong Financial Holding Co. Ltd.** (Shin Kong FHC) group. The outlook on Shin Kong Bank mirrors that on the group's flagship institution, **Shin Kong Life Insurance Co. Ltd.** The outlook revision reflects our view of reduced pressure on the life insurer's financial risk profile over the past few months due to its improved capital adequacy.

Shin Kong Bank remains a core unit within the wider financial services group. The ratings on Shin Kong Bank continue to reflect the bank's core group status within the Shin Kong FHC group. The ratings also reflect the bank's strong capitalization. Counterbalancing that is the bank's somewhat limited market presence and geographic diversification, and lower profit margins compared with regional peers. We have upwardly revised Shin Kong Bank's stand-alone credit profile by one notch and now stands at the same level as the group credit profile.

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Improved asset quality and risk provisions have elevated the bank's risk position from our previous assessment. In our view, Shin Kong Bank has an adequate risk position, which is an improvement over our moderate assessment previously. The bank reported good growth over the past two years, mainly in expanding its small and mid-sized enterprise lending and mortgage lending, similar to other local banks. At the same time, Shin Kong Bank's asset quality and provision coverages continued to improve to a level similar to the industry average. The bank's loan profile has shown less concentration in exposures to single borrowers and top business groups than other local banks. We believe Shin Kong Bank will continue to grow its business prudently over the coming one to two years with asset quality and loss records on par with the industry average.

Outlook

As a core entity of Shin Kong FHC group, the rating outlook on Shin Kong Bank mirrors the outlook on the group's flagship entity, Shin Kong Life. The stable rating outlook on Shin Kong Life reflects our view of the life insurer as the flagship entity of the Shin Kong FHC group, and our belief that the group will maintain its competitive position in Taiwan's financial services industry, particularly the life insurance sector over the next one to two years.

The outlook also reflects our belief that Shin Kong Life will maintain its stable credit profile over the same period, underpinned by the insurer's large scale and high controlled distribution channels in Taiwan, as well as the group's proactive capital management.

Downward scenario

We may lower the ratings on Shin Kong Life and Shin Kong Bank if the group credit profile deteriorates significantly from our base case assumptions, which could happen if:

- Risk management significantly weakens at the group level and at Shin Kong Life beyond our previous assumption, particularly on forex risk exposure or investment-risk concentration.
- Shin Kong Life's capital adequacy deteriorates to our assessment of weak due to unexpected market volatility, poor earnings, or slower value of in-force growth, or
- The group's competitive position and management capability weaken sharply because of damage to its franchise or deterioration in the market share of Shin Kong Life's key product lines.

Upward scenario

We believe an upgrade to be remote over the next one to two years and would involve Shin Kong Life improving its capital adequacy to a satisfactory level through a substantial increase in capital.

Ratings Score Snapshot

Taiwan Shin Kong Commercial Bank Co. Ltd.

	To	From
Issuer Credit Rating	twAA-/Stable/twA-1+	twAA-/Negative/twA-1+
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	Adequate and Adequate(0)	Adequate and Adequate(0)
Comparable ratings analysis	0	0
Support	0	+1
ALAC support	0	0
GRE support	0	0
Group support	0	+1
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

ESG credit indicators: E-2, S-2, G-2

Related Criteria & Research

Related Criteria

- 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
- 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022

Related Research

- Media Release: Shin Kong FHC, Shin Kong Life Outlooks Revised To Stable From Negative On Sustained Financial Buffer; Ratings Affirmed
- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed, Outlook Revision

	To	From
Taiwan Shin Kong Commercial Bank Co. Ltd.		
Issuer Credit Rating	twAA-/Stable/twA-1+	twAA-/Negative/twA-1+
Unsecured Subordinated Debenture	twA+	
Unsecured Subordinated Debenture	twA	

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