

Media Release:

# CTBC Venture Capital Co. Ltd. Outlook Revised To Stable; 'twA+/twA-1' Ratings Affirmed

June 6, 2022

## Overview

- **CTBC Venture Capital Co. Ltd.** is CTBC FHC group's first foray into the venture capital market. CTBC Venture also owns CTBC Leasing Co. Ltd., a China-based leasing subsidiary. Given both entities make a meaningful contribution to their consolidated assets and equities, we assess the credit profile of CTBC Venture Capital by combining the credit profile of the two entities.
- S&P Global Ratings recently revised its economic risk trend for China's banking system to stable from positive. We believe this revision could negatively affect CTBC Leasing's credit profile and ultimately the overall credit profile of CTBC Venture Capital
- We have therefore revised our rating outlook on CTBC Venture Capital to stable from positive.
- At the same time, we affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings to CTBC Venture Capital.

## Rating Action

Taiwan Ratings Corp. today revised its outlook on the 'twA+' long-term issuer credit rating on CTBC Venture Capital to stable from positive. At the same time, we affirmed our 'twA+/twA-1' issuer credit ratings on the company.

## Rationale

The outlook revision mirrors S&P Global Ratings' recent revision of its economic risk trend for China banks to stable from positive (see related Research). This revision mainly reflects the impact on the banking sector from tough COVID-19 restrictions by local governments in China amid a resurgence in infections. These restrictions have dampened the improving trend for the banking system's loan quality.

Our assessment of CTBC Venture Capital's credit profile reflects the company's two major business operations, including the company's venture capital business line and CTBC Leasing, the subsidiary CTBC Venture Capital acquired from an affiliate. The venture capital and financial leasing businesses contribute about 60% and 40%, respectively, of CTBC Venture Capital's proforma assets and equity.

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We expect the weakening economic risk trend in China to eventually have a negative impact on CTBC Venture Capital's credit profile, given the focus of CTBC Leasing's business in China and the subsidiary's significant standing in CTBC Venture Capital's credit profile.

S&P Global Ratings' assessments of economic risk and industry risk in China are '7' and '5', respectively. These scores determine the BICRA and the anchor, or starting point, for ratings on financial institutions that operate primarily in China. The rating agency now sees stable economic risk and industry risk trends in China.

## Outlook

The stable rating outlook on CTBC Venture Capital reflects our view that the company will maintain its stand-alone credit profile over the next one to two years. Several factors could support this, including the leasing subsidiary's strong capital strength and moderate business growth for the venture capital business, as well as a prudent risk control framework that is highly integrated with parent **CTBC Financial Holding Co. Ltd.** (CTBC FHC) group.

The outlook also reflects our view that CTBC Venture Capital will remain a strategically important subsidiary of CTBC FHC group and that the overall group credit profile will remain stable over the next one to two years.

### Downward scenario

We could lower the long-term rating on CTBC Venture Capital due to weaker risk-adjusted leverage or liquidity in its venture capital business, which may result from a lower cash position, higher growth in the investment portfolio, or higher portion of non-public equity investments in its investment profile.

We may also lower the rating if the leasing subsidiary's capital strength weakens, which may result from more rapid business expansion that we currently predict.

### Upward scenario

We now believe there is a limited likelihood that we would upgrade CTBC Venture Capital over the next one to two years.

## Related Criteria & Research

### Related Criteria

- Criteria | Financial Institutions | Other: Alternative Investment Funds Methodology - December 09, 2021
- 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: Group Rating Methodology - July 01, 2019
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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

## Related Research

- Outlooks On Three China Banks Revised To Stable On Rising Economic Uncertainties – May 31, 2022
- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

## Ratings List

### Outlook Revised; Ratings Affirmed

	To	From
<b>CTBC Venture Capital Co. Ltd.</b>		
Issuer Credit Rating	twA+/Stable/twA-1	twA+/Positive/twA-1

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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