Media Release:

FCB Leasing Co. Ltd. Ratings Affirmed At 'twA+/twA-1'; Outlook Stable

May 11, 2023

PRIMARY CREDIT ANALYST

Eric Lin
Taipei
+886-2-2175-6830
eric.lin
@spglobal.com
eric.lin
@taiwanratings.com.tw

SECONDARY CONTACT

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

Overview

- **FCB Leasing Co. Ltd.'s** overall credit strength is unlikely to change over the rating horizon, given our view of the company's strategic importance to its financially stronger parent First FHC group.
- However, we have lowered our assessment of FCB Leasing's capital and earnings score to strong from very strong, given our forecast that the company's capitalization will continue to weaken under its business growth plan that still involves a high concentration on real estate-related exposures.
- We have affirmed our 'twA+' long-term and 'twA-1' short term issuer credit ratings on FCB Leasing.
- The stable rating outlook reflects our view that FCB Leasing will continue to benefit from support from the parent group, if needed.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA+' long-term and 'twA-1' short-term issue credit ratings on FCB Leasing. The outlook on the long-term rating is stable.

Rationale

Ratings reflect likely parent resource support. The ratings on FCB Leasing reflect our view of potential support for the leasing company from its financially stronger parent **First Financial Holding Co. Ltd.** (First FHC) group, based on FCB Leasing's strategically important group status. The ratings also reflect FCB Leasing's adequate funding and liquidity supported by the parent group's resources. Counterbalancing factors include the leasing company's limited operating scale in Taiwan's finance and leasing industry and moderate risk position due to higher concentration on real estate exposure and among its top 20 risk exposures relative to its domestic peers.

We have lowered our assessment of FCB Leasing's capital and earnings score to strong from very strong previously, to reflect the company's business growth plans and relatively higher concentration on real estate credits.

Business growth and higher concentration on real estate exposure has eroded capitalization. FCB Leasing delivered strong double-digit business growth in 2022, as reflected in 17% growth in the credit risk of the company's overall risk-weighted assets (RWA) for the same period.

In addition, FCB Leasing's higher concentration on loans in the construction and real estate sectors has led to simultaneous loan growth in both sectors. This further increases the company's overall credit risk. Expansion in FCB Leasing's RWA for the construction and real estate sectors grew by about 22% in 2022. In turn, this has weakened our assessment of the company's risk-adjusted capital (RAC) ratio to 15.5% from 18.6% over the same period. This is based on S&P Global Ratings definition of the RAC ratio. We forecast milder potential growth in the company's overall lending business in 2023-2024; however, FCB Leasing's capital level has weakened, and further expansion of its overall lending would continue to eat away at the company's capital buffer. This would be reflected in a potential RAC ratio of 13%-15% for 2023-2024, given the company's growth plan and cash dividend policy.

FCB Leasing to remain strategically important to First FHC group. We believe that the leasing company still complements the group's key strategy to serve small and mid-size corporates in Taiwan and China, which is unlikely to change over 2023-2024. The parent group fully owns FCB Leasing through the group's banking unit, First Commercial Bank, and the leasing company is closely linked with the group's name and logo. FCB Leasing represents only a small proportion of the group's total capital base, at about 1.8% at the end of 2022, and makes a limited profit contribution to the group.

Outlook

The stable rating outlook on FCB Leasing reflects the company's strategically important status within Taiwan-based First FHC group. We therefore believe the group will provide support to FCB Leasing when needed. The outlook also reflects our view that the company will adopt a prudent growth strategy over the next two years, particularly in China and ASEAN countries.

Downward scenario

We could lower the rating if the company pursues more aggressive overseas business expansion over the next two years, which increases its overall economic risk. We would also lower the rating if FCB Leasing's RAC ratio significantly drops below 10% over the same period.

Upward scenario

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

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed

FCB Leasing Co. Ltd.	
Issuer Credit Rating	twA+/Stable/twA-1