

Media Release:

# Hua Nan Financial Holdings 'twAA-/twA-1+' Ratings Affirmed; Outlook Stable

May 29, 2023

## Overview

- We have affirmed the 'twAA-/twA-1+' issuer credit ratings on Hua Nan FHC.
- The stable rating outlook reflects our view that Hua Nan FHC group will maintain a stable consolidated credit profile and that the group will not have aggressive merger or acquisitions or capital policy over the next two years.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **Hua Nan Financial Holdings Co. Ltd.** (Hua Nan FHC). The ratings reflect our assessment that the group has a good domestic market position supported by an established banking franchise, sufficient capital buffer against market volatility, as well as its satisfactory funding and liquidity profile. The group's moderate profitability and relatively concentrated revenue stream compared with global peers temper these strengths. On a stand-alone basis of the nonoperating holding company, the double leverage ratio of 120% as the end of 2022 is higher than industry average.

The ratings on Hua Nan FHC also reflect the company's subordination to its core operating subsidiary, **Hua Nan Commercial Bank Ltd.** (Hua Nan Bank) because we believe the bank will still play a dominant role in the group's overall credit profile and contribute above 90% of the group's profits, consolidated assets, and capital over the next two years.

## Outlook

The stable rating outlook reflects our view that Hua Nan FHC group will maintain a stable consolidated credit profile and that the group will not engage in aggressive mergers or acquisitions over the next two years. We also expect the nonoperating holding company to manage the gap between its cash dividend payout and the cash dividend received from subsidiaries to control its double leverage ratio. We view the group's association with the Taiwan government remains unchanged in terms of the government's ownership of the holding company and the bank's image as a government-owned entity.

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## Downward scenario

We may lower the long-term rating on Hua Nan FHC if:

- The group credit profile weakens due to Hua Nan Bank's weakened credit profile. This could occur due to the bank's failure to maintain its strong capitalization, as indicated by a risk-adjusted capital ratio consistently below 10% or significantly deteriorated asset quality beyond its peers.
- Hua Nan FHC's double-leverage ratio consistently above industry average and over 125%.

## Upward scenario

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

## Related Criteria & Research

### Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Mar 02 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec 09 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec 09 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10 2021
- General Criteria: Group Rating Methodology, Jul 01 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, Jun 25 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, Jul 20 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, Apr 07 2017
- TRC Financial Services Sector Issue Credit Rating Criteria, Sep 23 2014
- General Criteria: Principles Of Credit Ratings, Feb 16 2011

### Related Research

- Taiwan Ratings' Ratings Definitions – Nov. 11, 2021

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## Ratings List

### Ratings Affirmed

#### Hua Nan Financial Holdings Co. Ltd.

Issuer Credit Rating	twAA-/Stable/twA-1+
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