

Media Release:

# First Financial Holding And First Commercial Bank Ratings Affirmed On Sustained Capital Strength; Outlook Stable

August 24, 2023

## Overview

- First Commercial Bank Ltd.'s capital strength remains strong, in our view, although its risk-adjusted capital (RAC) ratio could dip slightly below 10% over the next two years.
- We believe the bank's prudent capital policy, good financial flexibility, and satisfactory loan loss reserve with stable earnings structure continue to support its strong overall capital position.
- We have affirmed our issuer credit ratings on Financial Holding Co. Ltd. at 'twAA-/twA-1+' and on First Commercial Bank at 'twAA+/twA-1+'. At the same time, we affirmed 'twA+' our issue credit rating on the bank's unsecured subordinated debts.
- The outlook on the long-term ratings remains stable to reflect our view that as the First FHC group's core operating unit, First Commercial Bank will maintain its good business franchise and strong capitalization over the next two years. The outlook also reflects our expectation that the group will maintain a stable consolidated credit profile and will not engage in overly aggressive mergers or acquisitions over the same period.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA-/twA-1+' issuer credit ratings on Taiwan-domiciled **First Financial Holding Co. Ltd.** (First FHC) and the 'twAA+/twA-1+' issuer credit ratings on **First Commercial Bank Ltd.**, as well as our 'twA+' issue credit rating on the bank's unsecured subordinated debts. The outlook on the long-term ratings remains stable.

## Rationale

**The affirmation of the rating on First FHC reflects our view that the group will likely maintain solid capitalization on a consolidated basis.** This will be driven by our expectation First Commercial Bank will maintain strong capitalization over the next two years. We believe the bank's prudent capital policy, good financial flexibility, and satisfactory loan loss reserve capacity with stable earnings structure will support consistently strong overall capitalization. This is despite the bank's RAC ratio dipping to 9.8% at the end of 2022, slightly below our typical reference point of 10% for an assessment of strong capital and earnings.

### PRIMARY CREDIT ANALYST

Serene Hsieh, CPA, FRM

Taipei

+886-2-2175-6820

serene.hsieh

@spglobal.com

serene.hsieh

@taiwanratings.com.tw

### SECONDARY CONTACT

Yuhan Lan

Taipei

+886-2-2175-6810

yuhan.lan

@spglobal.com

yuhan.lan

@taiwanratings.com.tw

**The ratings on First Commercial Bank also reflect its strong market position despite stiff competition.** The bank is likely to maintain its good domestic market position supported by its established banking franchise, and a satisfactory funding and liquidity profile. The ratings on First Commercial Bank also reflect a moderately high level of support from the Taiwan government, given the bank's moderate importance in Taiwan's banking system. Counterbalancing these rating strengths are persistent competitive pressure on First FHC group's profitability and the group's relatively concentrated revenue structure by international standards.

## Outlook

The stable rating outlook for First FHC and First Commercial Bank reflects our view that, as the group's core operating unit, the bank will maintain its good business franchise and strong capitalization over the next two years. We also believe the bank will pursue prudent business growth domestically and overseas.

The outlook also reflects our forecast that the group will maintain a stable consolidated credit profile and not engage in overly aggressive mergers or acquisitions over the next two years. In addition, we believe First Commercial Bank will continue to play a dominant role in terms of the group's overall risk profile.

### For First FHC

#### Downward scenario

We may lower the long-term rating on First FHC if the group's banking unit fails to maintain strong capitalization. A failure to execute a prudent capital policy, such as maintaining a relatively unchanged RAC ratio, good financial flexibility, and satisfactory loan loss reserving, could indicate such weakening. This could also result from aggressive growth, particularly in overseas lending, or material expansion in the bank's investment portfolio.

#### Upward scenario

We consider the possibility of an upgrade as remote over the next two years, considering the banking unit's prudent capital policy and business growth plan for the period.

### For First Commercial Bank

#### Downward scenario

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

#### Upward scenario

Similarly, we view the likelihood of an upgrade as remote over the same period.

## Ratings Score Snapshot

### For First Commercial Bank Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
Stand-alone credit profile	bbb+
Anchor	bbb
Economic risk	3
Industry risk	5
Business Position	Adequate (0)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Adequate and Adequate (0)
Comparable Rating Analysis	0
Support	+2
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	+2
Additional Factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria & Research

### Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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

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## Ratings List

### Ratings Affirmed; Outlook

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#### First Commercial Bank Ltd.

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Issuer Credit Rating	twAA+/Stable/twA-1+
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Perpetual Non-cumulative Unsecured Subordinated Debenture	twA+
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#### First Financial Holding Co. Ltd.

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