

Media Release:

Mega International Commercial Bank 'twAAA/twA-1+' Ratings Affirmed On Strong Capitalization; Outlook Stable

September 25, 2023

Overview

- Taiwan-based **Mega International Commercial Bank Co. Ltd.** (Mega Bank). has a strong business franchise and strong capitalization. The bank also benefits from likely financial support from the Taiwan government, if needed, given the bank's high systemic importance.
- We have affirmed our 'twAAA' long-term and 'twA-1+' short-term issuer credit ratings on Mega Bank.
- The stable rating outlook reflects our view that Mega Bank will maintain its lead market share in Taiwan's foreign exchange and offshore banking businesses, as well as strong capitalization over the next two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAAA' long-term and 'twA-1+' short-term issuer credit ratings on Mega Bank. The outlook on the long-term rating is stable.

Rationale

Mega Bank holds a strong position in Taiwan's highly competitive banking sector, specifically in the foreign banking business. The bank holds the second-largest share in the foreign deposit market as of June 2023, with 9% market share.

The ratings also reflect Mega Bank's above-average overseas diversification by domestic standards, including well-established franchise in offshore banking network and operations, strong foreign exchange businesses, and satisfactory overseas profit contribution. However, Mega Bank could find it difficult to maintain these rating strengths as other banks expand their overseas and foreign currency businesses over the next few years.

We forecast Mega Bank will maintain solid capitalization over the next two years. We see several factors supporting the bank's strong capitalization over the next one to two years. These include the bank's prudent capital policy, good financial flexibility, and satisfactory loan-loss reserve capacity with stable earnings structure. This is despite our view that, over the next two years, the bank's risk-adjusted capital (RAC) ratio could hover just above 10%--our lower threshold for an assessment of strong capital and earnings.

The bank's high systemic importance in Taiwan's banking sector and foreign exchange market also supports the ratings. The Taiwan government has designated Mega Bank as a domestic systemically important banks; therefore, we believe the government will provide financial support to the bank, if needed, during times of financial distress.

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Outlook

The stable rating outlook reflects our view that Mega Bank will maintain its lead market share in Taiwan's foreign exchange and offshore banking businesses, which will support the bank's business franchise and funding profiles.

The outlook also reflects our forecast for Mega Bank to maintain strong capitalization over the next two years, with no reduction in the bank's high systemic importance over the same period. We also see the bank continuing to make a dominant contribution to the consolidated credit profile of its parent, **Mega Financial Holding Co. Ltd.** group, over the same period.

Downward scenario

We could lower the rating on Mega Bank by one notch if both of the following happen:

1. The bank's capitalization deteriorates over the next two years, possibly due to aggressive credit growth. A drop in the RAC ratio to consistently below 10% would reflect such weakening; and
2. The bank's business franchise in foreign exchange and offshore banking businesses weakens due to fierce industry competition.

Ratings Score Snapshot

Issuer credit rating: twAAA/Stable/twA-1+

Stand-alone credit profile: a-

Anchor: bbb

Business position: Strong (+1)

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

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: 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

Media Release: Mega International Commercial Bank 'twAAA/twA-1+' Ratings Affirmed On Strong Capitalization; Outlook Stable

- 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

Mega International Commercial Bank Co. Ltd.

| | |
|----------------------|---------------------|
| Issuer Credit Rating | twAAA/Stable/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 for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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