

Media Release:

Mega Financial Holding Co. Ltd. Ratings Affirmed At 'twAA/twA-1+'; Outlook Stable

September 26, 2023

Overview

- **Mega Financial Holding Co. Ltd.** (Mega FHC) group, through its core banking unit **Mega International Commercial Bank Co. Ltd.** (Mega Bank), will likely maintain its lead position in Taiwan's foreign exchange and offshore banking businesses over the next one to two years. This will underpin the bank's business franchise and funding profiles over the same period.
- We have affirmed our 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Mega FHC.
- The stable rating outlook reflects our view that Mega FHC group's double leverage ratio will not deteriorate further over the next one to two years. The outlook also reflects our view that Mega Bank will maintain strong capitalization and a strong business profile over the same period and continue to play a dominant role in terms of the group's overall credit profile.

Rating Action

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

Rationale

The ratings reflect our view of that Mega Bank will remain a core subsidiary of Mega FHC group.

Through Mega Bank, we forecast Mega FHC will maintain its lead market position by revenue in Taiwan's foreign exchange and offshore banking businesses. We see the bank remaining the dominant contributor to the consolidated group credit profile over the next two years. The ratings on Mega FHC also reflect the holding company's subordination to the group's core entities.

Mega FHC is a bank-centric financial holding company with Mega Bank as the driver behind the group credit profile. The performance of the group largely reflects that of the bank, given that Mega Bank contributes about 91% of the group's assets and over 83% of its pro forma net worth as of June 30, 2023. We believe the bank will remain the group's flagship unit over the next two to three years. The group's other key subsidiaries include **Mega Bills Finance Corp.** (about 10% of the group's pro forma net worth as of June 30, 2023), **Mega Securities Co. Ltd.** (about 5%), and **Chung Kuo Insurance Co. Ltd.** and **Mega Asset Management Co. Ltd.** each with about 1%.

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On a stand-alone basis, Mega FHC's double leverage ratio was 120.9% as of June 30, 2023, up from 115.7% in 2022. The ratio measures the parent's equity investment in its subsidiaries to total shareholders' equity. Mega FHC aims to lower the ratio over the next two years, supported by its subsidiaries' improving profitability and dividend payments to the holding company.

In our view, the group will maintain an adequate funding and liquidity profile over the next few years. Mega Bank's solid franchise and stable customer base in Taiwan have led to a high proportion of demand deposits and good customer retention. While corporate deposits have been important to Mega Bank, the bank has also proactively promoted its retail banking and digital banking businesses, which could gradually expand its retail customer base over the next two to three years.

Outlook

The stable rating outlook reflects our view that Mega Bank, as the group's core banking unit, will help Mega FHC group maintain its lead position in Taiwan's foreign exchange and offshore banking businesses. This will underpin the bank's business franchise and funding profiles over the same period. We also believe Mega Bank will maintain its strong capitalization and business profile and remain the dominant contributor to the group's overall credit profile over the next two years.

Downward scenario

We could lower the long-term rating on Mega FHC if:

- The double leverage deteriorates without adequate capital planning, or
- We lower our ratings on Mega Bank for both of the following reasons: (a) the bank's capitalization deteriorates over the next two years, possibly due to aggressive credit growth, which would be indicated by a drop in its risk-adjusted capital ratio to consistently below 10%; and (b) the bank's business franchise in foreign exchange and offshore banking businesses weakens due to fierce industry competition.

Upside scenario

We may raise the rating on Mega FHC if Mega Bank improves its capitalization. A sustainable increase in the bank's risk-adjusted capital ratio to above 15% would indicate such improvement, although we believe this is highly unlikely, given the bank's business strategy and capital policy.

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, Jun 08 2023
- 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
- 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
- General Criteria: Principles Of Credit Ratings, Feb 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 Financial Holding Co. Ltd.

Issuer Credit Rating

twAA/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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