

Media Release:

Guarantee Liability The Kaohsiung Third Credit Co-Operative Assigned 'twBBB/twA-2' Ratings; Outlook Stable

April 11, 2024

Overview

- In our view, Taiwan-based Guarantee Liability The Kaohsiung Third Credit Co-Operative has a small market presence and less-diversified business scope as a regional financial institution, and operates mainly in Taiwan's southern Kaohsiung region.
- We forecast Kaohsiung Third Credit Co-Operative will maintain adequate capitalization with good asset quality over the next two years.
- We are assigning our 'twBBB' long-term and 'twA-2' short-term issuer credit ratings on Kaohsiung Third Credit Co-Operative.
- The stable rating outlook reflects our view that Kaohsiung Third Credit Co-Operative's risk-adjusted capital (RAC) ratio will remain at 7%-8% with stable asset quality over the next two years.

Rating Action

Taiwan Ratings Corp. today assigned its 'twBBB' long-term and 'twA-2' short-term issuer credit ratings on Kaohsiung Third Credit Co-Operative. The outlook on the long-term rating is stable.

Rationale

The ratings on Kaohsiung Third Credit Co-Operative reflect the credit cooperative's adequate capitalization and satisfactory asset quality relative to its relatively simple risk profile, as well as the cooperative's appropriate funding and liquidity profile. Counterbalancing factors include its constrained business position due to the cooperative's small scale and concentrated business activities compared with its commercial banking peers.

We apply our 'bbb' anchor for Taiwan's banking sector. Our 'bbb' anchor for Kaohsiung Third Credit Co-Operative reflects our view that the credit cooperative is exposed to similar economic and industry risks as Taiwan banks, given the cooperative's deposit-taking and lending business, and the fact that the cooperative is subject to similar compliance requirements as commercial banks. Kaohsiung Finance Bureau supervises Kaohsiung Third Credit Co-Operative, with indirect supervision from Taiwan's Financial Supervisory Commission. The anchor also reflects the credit cooperative's sole operations in Taiwan.

PRIMARY CREDIT ANALYST

Jason Fu

Taipei

+866-2-2175-6831

jason.fu

@spglobal.com

jason.fu

@taiwanratings.com.tw

SECONDARY CONTACT

Eunice Fan

Taipei

+866-2-2175-6818

eunice.fan

@spglobal.com

eunice.fan

@taiwanratings.com.tw

Small scale and concentrated business activities constrain the business position. Kaohsiung Third Credit Co-Operative has a small scale in Taiwan's financial system, with around a 0.2% share of loans underwritten by banks and credit cooperatives. The majority of its businesses are originated in Kaohsiung City. By contrast to commercial banks that have diverse product lines, Kaohsiung Third Credit Co-Operative focuses more on traditional deposit taking and lending activities. It has a narrower client base than banks' and faces regulatory constraints to enter new businesses. We believe these factors will limit Kaohsiung Third Credit Co-Operative's ability to grow and diversify its business operations and make the cooperative more vulnerable to adverse operating conditions in Taiwan's competitive financial sector.

Capitalization will likely remain adequate. The credit cooperative's capitalization as measured by our RAC ratio was 8.0% as of the end of December 2023. We forecast the ratio will hover around 7%-8% by the end of 2026, which qualifies for our assessment of adequate capitalization. We base this projection on our view that Kaohsiung Third Credit Co-Operative will continue to pursue mid-single digit loan growth and focus on its niche market in regional real estate lending (including mortgages), with limited wealth management and proprietary trading activities. We also forecast the credit cooperative's ratio of core earnings to average adjusted assets will remain at 0.25%-0.35% over the next two years, which is below the average for Taiwan banks, with moderate dividend distribution to the credit cooperative's members.

Adequate risk position reflects its good track record managing relatively simple business operations. Kaohsiung Third Credit Co-Operative has a relatively simple lending profile which mainly focuses on residential real estate lending where it has proven expertise. The credit cooperative's nonperforming loan ratio averaged 0-9 basis points over the past five years and is below the domestic bank average with a reserve coverage higher than 1,000% at the same time. This is despite the credit cooperative's simpler risk management framework and higher concentration on residential real estate lending than banks. Kaohsiung Third Credit Co-Operative also has a simple investment risk profile with limited market risk exposure, in our view.

We assess Kaohsiung Third Credit Co-Operative's concentration risk is higher than its industry peers. The credit cooperative's geographical concentration is higher than for banks because it operates mostly in the Kaohsiung region. Kaohsiung Third Credit Co-Operative also faces concentration risk in real estate lending. As of Dec. 31, 2023, mortgage lending represented 49% of the credit cooperative's total loans, with an additional 27% coming from bridge loans backed by residential real estate and 10% from land loans. Kaohsiung Third Credit Co-Operative's business performance can therefore be sensitive to movements in the real estate market.

Stable funding and ample liquidity supported by retail deposits in the home market. We assess Kaohsiung Third Credit Co-Operative's overall funding and liquidity profile to be adequate, supported by ample market liquidity in Taiwan, and the sticky and diversified deposit profile of its members. The credit cooperative's usage of short-term, confidence-sensitive wholesale funding is limited due to its limited interbank activities and regulatory constraints to issue debt.

We view the cooperative has appropriate liquid assets to cover its short-term funding needs against unexpected volatility over the next one to two years. The credit cooperative's liquidity ratio was 24.10% as of Dec. 31, 2023, and consistently has met the minimum regulatory requirement of 10%. We anticipate that ample market liquidity, stable market confidence, and Kaohsiung Third Credit Co-Operative's liquid assets will be sufficient to cover short-term funding needs with an adequate buffer to meet unexpected volatility over the next two years.

Outlook

The stable rating outlook reflects our view that Kaohsiung Third Credit Co-Operative will maintain adequate capitalization to support its business operations over the next two years. We also forecast the credit cooperative will maintain stable asset quality metrics with adequate risk controls relative to its simpler risk framework over the period.

Downward scenario

We may lower the long-term rating on Kaohsiung Third Credit Co-Operative if:

- Asset quality deteriorates due to aggressive growth or if the credit cooperative explores new business areas without adequate risk controls; or
- Capitalization weakens significantly, as indicated by the RAC ratio falling below 7% due to weak capital accumulation or overly aggressive business growth.

Upward scenario

We could upgrade Kaohsiung Third Credit Co-Operative if the cooperative improves its capitalization through improving operating earnings on a sustainable basis as indicated by the RAC ratio rising to consistently above 10%, with unchanged asset quality metrics.

Related Criteria & Research

Related Criteria

- 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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
- 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

New Ratings; Outlook

Guarantee Liability The Kaohsiung Third Credit Co-Operative

Issuer Credit Rating	twBBB/Stable/twA-2
----------------------	--------------------

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.

Media Release: Guarantee Liability The Kaohsiung Third Credit Co-Operative Assigned 'twBBB/twA-2' Ratings; Outlook Stable

Copyright © 2024 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, www.taiwanratings.com (free of charge), and rss.taiwanratings.com.tw (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.