

Media Release:

# Taishin FHC And Key Subsidiary Ratings Placed On CreditWatch Following Merger Announcement

August 27, 2024

## Overview

- Taishin FHC has announced its proposed merger with Shin Kong FHC via a 100% share swap.
- We assess the credit profile of Shin Kong FHC as weaker than that of Taishin FHC. Therefore, the proposed merger, if it materializes, is likely to weaken Taishin FHC's group credit profile.
- As a result, we have placed our ratings on Taishin FHC, Taishin Life, and Taishin D.A. Finance on CreditWatch with negative implications, given that the ratings will move in tandem with our assessment of the group credit profile.
- At the same time, we have placed our ratings on Taishin Bank on CreditWatch with developing implications because we believe the rating direction for the bank could be at positive, unchanged, or negative subject to the execution of the merger. Our ratings on the bank factor in potential government support following the merger, given the meaningful domestic deposit share of the combined bank.
- We expect to resolve our CreditWatch placement once we have more clarity on the merger process, as well as the execution of future business strategies, financial management and operational integration on the combined group.

## PRIMARY CREDIT ANALYST

**Eunice Fan**  
Taipei  
+886-2-2175-6818  
eunice.fan  
@taiwanratings.com.tw  
eunice.fan  
@spglobal.com

## SECONDARY CONTACT

**Yuhan Lan**  
Taipei  
+886-2-2175-6810  
yuhan.lan  
@taiwanratings.com.tw  
yuhan.lan  
@spglobal.com

## Rating Action

Taiwan Ratings Corp. today placed its long- and short-term issuer credit ratings on **Taishin Financial Holding Co. Ltd.** (Taishin FHC), **Taishin Life Insurance Co. Ltd.**, and **Taishin D.A. Finance Co. Ltd.** on CreditWatch with negative implications.

At the same time, we placed our long-term issuer credit rating on **Taishin International Bank Co. Ltd.** (Taishin Bank) on CreditWatch with developing implications.

## Rationale

*The proposed merger is likely to weaken the Taishin FHC group credit profile.* We assess the financial profile of Taiwan-based Shin Kong Financial Holding Co. Ltd. (Shin Kong FHC; twA/WatchDev/twA-1) group is weaker than Taishin FHC group's financial profile. On a pro forma basis, Shin Kong FHC group will account for 55%-60% of the combined group's assets and capital which brings in significant implications for their consolidated credit profile.

We also believe that Taishin FHC may require additional resources to manage the post-merger integration, given the large scale of both financial groups that involves a wide variety of operating units. This is despite our view that the merger will enhance the market rankings of the combined group, and greatly expand the market share of key banking, life insurance and securities subsidiaries. However, synergies from the merger are only likely to materialize through effective integration post-merger.

**The proposed merger awaits shareholder and regulatory approval.** Taishin FHC group recently announced that it has agreed to a merger with Shin Kong FHC group via a 100% share swap. Taishin FHC will issue new common shares to swap for Shin Kong FHC's existing common shares (1:0.6022 Shin Kong to Taishin share ratio). Taishin FHC will also issue preferred shares to swap for Shin Kong FHC's preferred shares. The proposed deal was approved at board meetings held by both groups on Aug. 22, 2024, but remains subject to the approval of their respective shareholder meetings and the local financial regulator. If the deal is closed, Taishin FHC will be the surviving company and renamed TS Financial Holding Co. Ltd.

We placed our ratings on Taishin FHC, Taishin Life and Taishin D.A. Finance on CreditWatch with negative implications, given that our ratings on the units will move in tandem with the group credit profile. Meanwhile, we placed our ratings on Taishin Bank on CreditWatch with developing implications, to reflect our view that the rating direction for the bank could be at positive, unchanged, or negative subject to the execution of the merger with **Taiwan Shin Kong Commercial Bank Co. Ltd.** (twA+/WatchDev/twA-1). The ratings on Taishin Bank could benefit from government support following the merger, given the meaningful domestic deposit share of the combined bank which we assess could reach 5%-6%. However, the rating direction for Taishin Bank will be subject to the effectiveness and execution of the merger.

## Credit Watch

We expect to resolve the CreditWatch placement when we have more clarity over the developments of the deal, as well as more details over the combined group's proposed business strategy, financial management and operational integration.

We may remove the CreditWatch placement and affirm the ratings if the proposed deal does not materialize, such as through the failure to receive shareholder or regulatory approval. We may also remove the CreditWatch placement and affirm the ratings if Taishin FHC group can sustain its consolidated credit profile following the merger, while at the same time effectively managing the large-scale integration and capital needs of the combined life insurance unit.

Under the affirmation scenario, we would revise the outlook on Taishin FHC, Taishin Bank and Taishin Life back to stable, while the outlook on Taishin D.A. Finance would return to negative to reflect pressure on the subsidiary's consolidated capitalization.

We may lower our ratings on Taishin FHC, Taishin Life and Taishin D.A. Finance if we assess that the merger with the financially weaker Shin Kong FHC group weakens the post-merger Taishin FHC group credit profile. We may lower our ratings on Taishin Bank if the merger materializes but the combined banking unit does not maintain its deposit market share within our forecast range.

We may upgrade Taishin Bank if the merger materializes, and we factor in a degree of government support given the substantially expanded scale of the post-merger banking unit.

## Related Criteria & Research

### Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- 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: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions - November 15, 2023

### Related Research

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

(Unless otherwise stated, these articles are published on [www.taiwanratings.com](http://www.taiwanratings.com))

## Ratings List

### CreditWatch

	To	From
<b>Taishin Financial Holding Co. Ltd.</b>		
Issuer Credit Rating	twA+/Watch Neg/twA--1	twA+/Stable/twA-1
<b>Taishin International Bank Co. Ltd.</b>		
Issuer Credit Rating	twAA-/Watch Dev /twA-1+	twAA-/Stable/twA-1+
<b>Taishin Life Insurance Co. Ltd.</b>		
Issuer Credit Rating	twAA-/Watch Neg	twAA-/Stable
Financial Strength Rating	twAA-/Watch Neg	twAA-/Stable
<b>Taishin D.A. Finance Co. Ltd.</b>		
Issuer Credit Rating	twA+/Watch Neg/twA-1	twA+/Negative/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](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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