

Media Release:

CTBC FHC And Key Subsidiary Ratings Affirmed Following Acquisition Announcement; Outlook Stable

August 28, 2024

Overview

- **CTBC Financial Holding Co. Ltd.** (CTBC FHC) has announced its plan to invest in fellow Taiwan-based financial group Shin Kong Financial Holding Co. Ltd. (Shin Kong FHC) via a public tender offer. In the first stage of its acquisition plan, CTBC FHC intends to purchase up to 51% of Shin Kong FHC's common share.
- We assess the CTBC FHC group can absorb the potential acquisition, given CTBC group's large scale and sound credit profile. The transaction will not substantially pressure the group's consolidated financial profile, in our view.
- We affirmed our issuer credit ratings on CTBC FHC and its key subsidiaries.
- The stable outlooks reflect our view that the group will largely retain its credit profile over the next one to two years, particularly its strong market position and satisfactory capitalization underpinned by prudent financial management.

Rating Action

Taiwan Ratings Corp. today affirmed its long- and short-term issuer credit ratings on CTBC FHC and its key subsidiaries (see ratings list). The outlooks on each of the long-term ratings are stable.

Rationale

CTBC FHC group's credit profile can absorb the planned share acquisition of Shin Kong FHC. In our view, CTBC FHC group has a scale advantage and sufficient resources to execute its investment plan without undermining the group's overall credit profile. The proposed deal, which remains subject to regulatory approval, includes a tender offer plus cash purchase for up to 51% of Shin Kong Financial Holding Co. Ltd.'s (Shin Kong FHC; twA/WatchDev/twA-1) common shares.

We expect CTBC FHC's double leverage ratio to remain below the 125% regulatory benchmark in the first stage if it acquires up to the limit of 51% shares in Shin Kong FHC. The double leverage ratio measures the ratio of the holding company's equity investment in its subsidiaries to total shareholders' equity.

We assess CTBC FHC group as having a superior credit risk profile to the Shin Kong FHC group. We also believe that CTBC FHC can maintain the overall CTBC group credit risk profile with a sufficient buffer, given the holding company's track record of active capital and business management during past acquisitions. On a pro forma basis, Shin Kong FHC group would account

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

Patty Wang
Taipei
+886-2-2175-6823
patty.wang
@taiwanratings.com.tw
patty.wang
@spglobal.com

for about 35% of the consolidated assets of the combined groups, which we believe is manageable and supported by CTBC FHC's extensive group resources.

CTBC's investment plan requires regulatory approval. CTBC FHC plans to make a public tender offer to acquire between 10% and 51% of Shin Kong FHC's common shares for a consideration of approximately 0.3132 shares in CTBC Holding plus new Taiwan dollar (NT\$) 4.09 in cash for each share of Shin Kong FHC. CTBC FHC's board has approved the proposed deal, which remains subject to the approval of the local financial regulator. If the deal proceeds as planned, CTBC intends to acquire 100% of Shin Kong FHC via a second stage of share acquisitions.

The ratings on CTBC FHC and its core subsidiaries continue to reflect the group's strong market presence and satisfactory funding and liquidity in Taiwan's financial market. The ratings also reflect the group's satisfactory capitalization at the consolidated group level. This is underpinned by the bank subsidiary's strong capitalization, albeit somewhat moderated by the insurance unit's weaker capitalization.

In addition, the ratings on **CTBC Bank Co. Ltd.** reflect a moderate level of government support, given the bank's systemic importance in Taiwan. At the same time, the ratings on CTBC FHC reflect a degree of subordination to its operating subsidiaries as the non-operating holding company.

Outlook

The stable rating outlook reflects our view that the CTBC FHC group will largely retain its credit profile over the next one to two years, particularly its satisfactory capital level underpinned by prudent capital policies. We believe the group will continue to benefit from the strong business position and diversified revenue sources of its core banking unit, CTBC Bank, relative to local peers in the highly competitive domestic market.

Downward scenario

We could lower our assessment of the group credit profile and consequently our rating on CTBC FHC, if the group and its key subsidiaries pursue high growth. This could be either organic or inorganic growth without adequate capital planning, satisfactory risk management, or effective execution of the integration of the acquired units that undermine CTBC group's overall credit profile.

Moreover, our assessment of a substantial weakening in the stand-alone credit profile for CTBC Bank or the group's life insurance arm, **Taiwan Life Insurance Co. Ltd.** over the next one to two years, would also result in our decision to lower the group credit profile.

Upward scenario

We could raise our assessment of the consolidated group profile and consequently raise our rating on CTBC FHC, if the group strengthens its capitalization, particularly at Taiwan Life. However, we believe the likelihood of an upgrade is remote considering the group's growth strategy over the next one to two years.

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 - April 30, 2024
- Criteria | Financial Institutions | Other: Alternative Investment Funds Methodology - July 26, 2024
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions - November 15, 2023
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- 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 – Nov. 11, 2021

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

CTBC Financial Holding Co. Ltd.

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

CTBC Bank Co. Ltd.

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

Taiwan Life Insurance Co. Ltd.

Issuer Credit Rating	twAA/Stable/--
Financial Strength Rating	twAA/Stable/--
Unsecured Subordinated Corporate Bond	twAA-

CTBC Securities Co. Ltd.

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

CTBC Asset Management Co. Ltd.

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

CTBC Venture Capital Co. Ltd.

Issuer Credit Rating	twA/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.

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 acknowledgement 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 rrs.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.