

Media Release:

Taishin FHC And Key Subsidiaries Ratings Remain On CreditWatch On Potential Merger Implications

October 25, 2024

Overview

- Shareholders of both Taishin FHC and Shin Kong FHC approved a merger of the two companies. The deal will be subject to further regulatory process.
- We continue to believe that the merger is likely to weaken Taishin FHC's group credit profile. The credit profile of Shin Kong FHC is weaker than that of Taishin FHC and it also constitutes a significant portion of the combined group profile.
- We have kept our ratings on Taishin FHC, and Taishin Life Insurance Co. Ltd. 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 kept our ratings on Taishin Bank on CreditWatch with developing implications because we believe the rating direction for the bank could be positive, unchanged, or negative, subject to the execution of the merger. Our ratings on the bank could factor in potential government support following the merger, given the meaningful domestic deposit share of the combined entity.
- 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.

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Rating Action

Taiwan Ratings Corp. today kept its issuer credit ratings on **Taishin Financial Holding Co. Ltd.** (Taishin FHC), and **Taishin Life Insurance Co. Ltd.**, on CreditWatch with negative implications (see ratings list). At the same time, we kept our 'twAA-' long-term issuer credit ratings on **Taishin International Bank Co. Ltd.** (Taishin Bank) on CreditWatch with developing implications.

Rationale

The ratings on Taishin FHC remain on CreditWatch because the merger awaits further regulatory process and a merger with a financially weaker group has potential rating implications. The ratings were placed on CreditWatch on Aug. 27, 2024. This followed Taishin FHC's announcement of a planned merger with Shin Kong FHC.

The potential merger is likely to weaken Taishin FHC's group credit profile. 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 poses 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.

We kept our ratings on Taishin FHC, and Taishin Life on CreditWatch with negative implications, given that our ratings on the units will move in tandem with the group credit profile. Meanwhile, we kept our ratings on Taishin Bank on CreditWatch with developing implications, to reflect our view that the rating direction for the bank could be 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 could reach 5%-6%, in our estimation. However, the rating direction for Taishin Bank will be subject to the effectiveness and execution of the merger.

The merger plan has been approved by both shareholders' meetings of Taishin FHC and Shin Kong FHC on Oct. 9, 2024, and will be submitted for regulatory approval process in the next stage.

Credit Watch

We expect to resolve the CreditWatch placement on Taishin FHC group units when we have more clarity on how the deal develops, 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 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.

We may lower our ratings on Taishin FHC, and Taishin Life if we assess that the merger with Shin Kong FHC group weakens the group credit profile of the Taishin FHC group following the merger. 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 5%-6% range.

We may upgrade Taishin Bank if the merger materializes, and the credit profile of the post-merger banking unit has improved, in our view, with substantially expanded scale and earnings stability. We will factor in a degree of government support under such scenario, given the post-merger bank's moderate systemic importance, in our view.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, Apr 30 2024
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions - Nov. 15, 2023
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10 2021
- General Criteria: Group Rating Methodology, Jul 01 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, Mar 02 2022
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, Apr 07 2017
- General Criteria: National And Regional Scale Credit Ratings Methodology, Jun 08 2023
- General Criteria: Principles Of Credit Ratings, Feb 16 2011

Related Research

- Taiwan Ratings' Ratings Definitions – Nov 11, 2021

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

Ratings List

CreditWatch

Taishin Financial Holding Co. Ltd.

Issuer Credit Rating	twA+/Watch Neg/twA-1
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Taishin International Bank Co. Ltd.

Issuer Credit Rating	twAA-/Watch Dev /twA-1+
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Taishin Life Insurance Co. Ltd.

Issuer Credit Rating	twAA-/Watch Neg
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Financial Strength Rating	twAA-/Watch Neg
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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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