

Media Release:

Chang Hwa Commercial Bank Ltd. Ratings Affirmed At 'twAA+/twA-1+' On Sustained Capital Strength; Outlook Stable

October 30, 2024

Overview

- **Chang Hwa Commercial Bank Ltd.'s** (Chang Hwa Bank) capital position is likely to remain strong over the next two years despite a dip in the risk-adjusted capital (RAC) ratio to less than 10%.
- In our view, the Taiwan-based bank's stable asset quality, adequate credit reserves, and prudent capital policy with good financial flexibility will underpin its capital strength.
- We affirmed our 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings on Chang Hwa Bank.
- The outlook on the long-term rating is stable.

Rating Action

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

Rationale

Chang Hwa Bank will likely maintain strong capitalization over the next two years. Our view is underpinned by the bank's stable asset quality, satisfactory loan loss reserves, and prudent capital policy with good financial flexibility.

Chang Hwa Bank's RAC ratio dipped to 9.9% as of June 30, 2024, from 10.2% as of end-2023. A RAC ratio of 10% is the typical threshold for our strong capital and earnings assessment. We attribute the dip to the bank's faster loan growth compared with the historical level, particularly from mortgage lending, in the first half of 2024.

We expect Chang Hwa Bank to apply prudent strategies while undertaking business expansion and investments and be flexible in dividend payouts over the next two years. This, coupled with the bank's stable earnings structure and adequate credit reserves, should help it to sustain capitalization at a strong level.

Our ratings on Chang Hwa Bank continue to reflect our assessment of the bank's good domestic market position supported by an established banking franchise, and a satisfactory funding and liquidity profile. The ratings also reflect a moderately high level of support from the Taiwan

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government, given the bank's moderate systemic importance in Taiwan's banking system. Counterbalancing factors include continuing competitive pressure on Chang Hwa Bank's profitability and the bank's concentrated revenue structure by international standards.

Outlook

The stable rating outlook reflects our view of a moderately high likelihood that Chang Hwa Bank will receive support from the Taiwan government in times of financial stress, given the bank's moderate importance in Taiwan's banking system.

Chang Hwa Bank's capitalization will likely remain strong over the next two years, given the bank's prudent business strategy and capital management. The bank's stable asset quality, sufficient credit reserves, and prudent capital policy with a higher profit retained ratio will be additional supporting factors.

The outlook also reflects our view that Chang Hwa Bank will maintain its satisfactory market position in the domestic banking industry with a stable market share and steady profits. We also expect the bank to uphold its asset quality with prudent credit provisioning.

Downward scenario

We view the likelihood of a downgrade to be low over the next two years.

Upward scenario

We also view the likelihood of an upgrade to be low over the same period considering the bank's current business strategy and capital policy.

Related Criteria & Research

Related Criteria

- 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
- 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: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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

Ratings Affirmed

Chang Hwa Commercial Bank Ltd.

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