

Media Release:

Taishin D.A. Finance Ratings Affirmed At 'twA+/twA-1'; Off Credit Watch On Protracted Group Merger Progress; Outlook Negative

February 13, 2025

Overview

- We believe it will take longer for the merger between Taishin FHC group and Shin Kong FHC group to close, and the merger may weaken the Taishin FHC's group credit profile.
- We affirmed our 'twA+' long-term and 'twA-1' short term issuer credit ratings on **Taishin D.A. Finance Co. Ltd.** and removed the ratings from CreditWatch. The ratings reflect the company's very strong capitalization, good financial flexibility, and our expectation of parent group financial support to the company, if needed.
- The rating outlook is negative, which follows the outlook direction on the ratings of its ultimate parent, Taishin FHC.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA+' long-term and 'twA-1' short-term issuer credit rating on Taishin D.A. Finance. At the same time, we removed the ratings from CreditWatch where we placed them with negative implications on Aug. 27, 2024. The outlook on the long-term rating is negative, which reflects our view that the ratings on Taishin D.A. Finance will move in tandem with the direction of the parent **Taishin Financial Holding Co. Ltd.** (Taishin FHC) group credit profile.

Rationale

The ratings affirmation reflects our view that Taishin D.A. Finance will maintain very strong capitalization over the next two years. The company's consolidated risk-adjusted capital (RAC) ratio was 14.9% as of the end of December 2024, up from 13.7% at the end of 2023, driven by an 8.1% decline in the company's China receivables. We assess Taishin D.A. Finance's capitalization on a consolidated basis, which includes its core auto finance business in Taiwan and its leasing subsidiary in China.

We forecast the risk-adjusted capital ratio will remain slightly above 15% over the next two years, under the group's supportive capital policy. We believe Taishin D.A. Finance will focus on expanding its Taiwan book and tightening its underwriting in China, amid the uncertain macroeconomic environment. Meanwhile, we forecast the company's consolidated return on average assets will remain at 0.4%-0.5% over the same period, which is lower than our projection

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Media Release: Taishin D.A. Finance Ratings Affirmed At 'twA+/twA-1'; Off Credit Watch On Protracted Group Merger Progress; Outlook Negative

of 1.5% for the domestic industry average due to the company's superior client profile. We also estimate Taishin D.A. Finance will record credit costs of between 1.0% and 1.3% over the period.

We believe it will take longer for the merger to close. We expect to take 12-18 months to determine the rating implication of the merger for the Taishin FHC group credit profile, compared with our previous estimate of 3-6 months. The merger remains subject to regulatory approval and there continues to be a lack of detailed post-merger business and financial plans. Nevertheless, we continue to hold the view that the merger could weaken Taishin FHC's group credit profile because the weaker Shin Kong FHC will constitute a significant portion of the post-merger group profile.

We continue to view Taishin D.A. Finance as a strategically important entity of Taishin FHC group. We believe the company complements the group's core banking operation by serving small and mid-sized corporates, and retail clients which the group sees as a strategic fit to its business operations. Therefore, the rating on Taishin D.A. Finance will move in tandem with the Taishin FHC group credit profile.

Outlook

The negative rating outlook reflects our view that integrating the financially weaker Shin Kong FHC group could weaken the post-merger Taishin FHC group credit profile. We also believe that Taishin D.A. Finance will remain a strategic important entity under the Taishin FHC group, and we expect the group will support Taishin D.A. Finance as needed. At the same time, we believe the finance company will maintain very strong consolidated capitalization with stable asset quality over the next two years.

Downward scenario

We may lower the long-term rating on Taishin D.A. Finance if:

- We lower our assessment of the overall group credit profile;
- Taishin D.A. Finance's consolidated risk-adjusted capital ratio falls consistently below 15%;
- The company's asset quality deteriorates to consistently below the domestic industry average; or
- We believe the importance of Taishin D.A. Finance to the parent group has weakened.

Upward scenario

We may revise the outlook back to stable if the merger does not materialize, or if Taishin FHC group can sustain its consolidated credit profile post-merger, while at the same time effectively managing the large-scale integration and capital needs of the group's combined life insurance unit.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - April 30, 2024
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021

Media Release: Taishin D.A. Finance Ratings Affirmed At 'twA+/twA-1'; Off Credit Watch On Protracted Group Merger Progress; Outlook Negative

- 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

- Media Release: Taishin FHC And Key Subsidiaries Ratings Affirmed; Off CreditWatch On Protracted Merger Progress
- Taiwan Ratings' Ratings Definitions – Nov. 11, 2021

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

Ratings List

Ratings Affirmed; CreditWatch Action; Outlook

	To	From
Taishin D.A. Finance Co. Ltd.		
Issuer Credit Rating	twA+/Negative/twA-1	twA+/Watch Neg/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.

Media Release: Taishin D.A. Finance Ratings Affirmed At 'twA+/twA-1'; Off Credit Watch On Protracted Group Merger Progress; Outlook Negative

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