

Media Release

Taiwan Cooperative Bank Ltd. And Holding Company Upgraded On Strong Capitalization; Outlook Stable

January 19, 2018

Overview

- Taiwan Cooperative Bank's capitalization has improved to a strong level from adequate previously, and we expect the bank's prudent growth strategy and capital management to help sustain it at this level.
- The ratings on Taiwan Cooperative FHC mainly reflect that of the banking subsidiary, which contributes about 90% of the group's consolidated risk profile.
- We are therefore raising our issuer credit ratings on Taiwan Cooperative FHC 'twAA-/twA-1+' and Taiwan Cooperative Bank to 'twAA+/twA-1+' as well as our issue credit ratings on the bank's various financial debentures.
- The stable outlook reflects our view that Taiwan Cooperative FHC group will maintain a stable consolidated credit profile and that the group will not engage in overly aggressive mergers or acquisitions in 2018-2019.

Rating Action

Taiwan Ratings Corp. today raised its issuer credit ratings on **Taiwan Cooperative Bank Ltd.** to 'twAA+/twA-1+' from 'twAA-/twA-1+', as well as the issue credit ratings on the bank's various financial debentures (see Ratings List). At the same time, we raised our issuer credit ratings on **Taiwan Cooperative Financial Holding Co. Ltd.** (Taiwan Cooperative FHC) to 'twAA-/twA-1+' from 'twA+/twA-1'. The outlook on the long-term ratings is stable.

Rationale

The upgrade action on Taiwan Cooperative Bank reflects recent improvement in the bank's capitalization to strong from adequate previously, and our view that the bank's capitalization will remain at this level. The upgrade on Taiwan Cooperative FHC reflects the rating action on the bank, which as the Taiwan Cooperative FHC group's flagship company, contributes about 90% of the group's consolidated risk profile.

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We project Taiwan Cooperative Bank's risk-adjusted capital (RAC) ratio before diversification to be above 10% for 2018-2019, given the bank's moderate business growth and prudent capital policy. The ratio was 11.0% as of the end of June 2017 up from 10.2% at the end of 2016.

Taiwan Cooperative Bank has adopted a more controlled growth strategy over the past few years to preserve its capital strength and meet its internal capital management policy. The bank has also had strong support from the holding company, including capital injections. We do not expect the bank's growth strategy to become more aggressive, given the need to maintain its regulatory Tier I capital ratio at 200 basis points above the regulatory minimum so that Taiwan Cooperative Bank can engage in overseas business. Moreover, we believe the holding company will not request an aggressive cash dividend payout from the bank so as to ensure its sufficient capital buffers are maintained.

The ratings on Taiwan Cooperative Bank and Taiwan Cooperative FHC continue to reflect our assessment of the group's good market position and established franchise in Taiwan's banking sector, as well as the group's satisfactory funding and liquidity profile. Counterbalancing factors include the group's mediocre profitability by global standards. The ratings on the bank also reflect the implicit support from the Taiwan government, given the bank's high systemic importance in Taiwan's banking system. In addition, the ratings reflect the holding company's relative subordination to its major operating subsidiaries.

Outlook

The stable outlook on Taiwan Cooperative Bank and Taiwan Cooperative FHC reflects our expectation that the bank's good business stability and market position will continue to support its funding and liquidity capabilities over the next two years. In addition, we expect the bank to adopt a moderate pace of growth and for the parent group to maintain prudent capital policies. These factors should help sustain the bank's risk-adjusted capitalization at a strong level. At the same time, we do not expect Taiwan Cooperative Bank's risk position to deviate greatly from the current adequate level. Moreover, we expect the group to maintain a stable consolidated credit profile and not to engage in overly aggressive mergers or acquisitions in 2018-2019.

Downward scenario

We may lower the long-term rating on Taiwan Cooperative Bank and the holding company if the bank fails to sustain its capitalization at a strong level over the next two years, as indicated by a RAC ratio consistently below 10%, due to aggressive business expansion or capital policy. We may also lower the rating if the bank's risk position deteriorates as shown by significantly increased credit costs due to weakened asset quality.

Upward scenario

We consider the possibility of an upgrade as remote in 2018-2019 considering the bank's capital policy and business growth plan.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013

- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- TRC Financial Services Sector Issue Credit Rating Criteria, www.taiwanratings.com - September 23, 2014
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - November 18, 2014

(Unless otherwise stated, these articles are published on www.standardandpoors.com, access to which requires a registered account)

Ratings List

Upgraded; Outlook

	To	From
Taiwan Cooperative Bank Ltd.		
Issuer Credit Ratings	twAA+/Stable/twA-1+	twAA/Positive/twA-1+
Unsecured senior debenture	twAA+	twAA
Unsecured subordinate debenture	twAA	twAA-
Unsecured subordinate debenture	twA+	twA

Taiwan Cooperative Financial Holding Co. Ltd.

Issuer Credit Ratings	twAA-/Stable/twA-1+	twA+/Positive/twA-1
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