

Media Release

Rating On Class B Notes Of Standard Bank CBO 2007-1 Raised On Improved Credit Profile

February 5, 2018

Overview

- The credit profile of this transaction has improved after the full repayment of the only bond supporting this transaction in late December 2017.
- The transaction is now supported by the Taiwan government for an expected refund of the withheld interest income tax on the matured bond, and Land Bank of Taiwan for the time deposit investment with the bank on the repaid principal of the matured bond.
- We believe the rating of the Class B notes should not be higher than that on Land Bank of Taiwan or the Taiwan government.
- The replacement languages on the bank account provider, Land Bank of Taiwan, and the rating on the bank can support a 'twAA' rated transaction.
- We are raising our rating on the Class B notes to 'twAAp (sf)' from 'twAA-p (sf)'

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Rating Action

Taiwan Ratings Corp. today raised its rating on the Class B notes issued by **Standard Bank Cash Flow CBO 2007-1 Special Purpose Trust** (Standard Bank CBO 2007-1) to 'twAAp (sf)' from 'twAA-p (sf)'.

Rationale

The upgrade on the Class B notes of Standard Bank CBO 2007-1 reflects the credit risk exposure of the notes, after the full repayment of the only bond supporting this transaction in late December 2017. As of Jan. 31, 2018, the repayment source for the Class B notes include the Taiwan government for an expected refund of the withheld interest income tax on the matured bond, and **Land Bank Of Taiwan** for the time deposit investment with the bank on the repaid principal of the matured bond. Our rating on the Class B notes reflects the constraint from Land Bank of Taiwan, which we rate at 'twAA'.

The repayment of the matured bond issued by KGI Bank came with a withheld interest tax for the interest portion of the bond. According to respective tax rulings in Taiwan, the transaction's trustee can claim such withheld amount from relevant tax authorities. Although there is no concrete timing for the tax refund, we believe it will take place within 2018-2019 and the full amount may be received before the legal maturity date of this transaction. Our view is also underpinned by the trustee's experience of receiving such a tax refund within an even shorter time horizon. The tax refund is part of the repayment source for the Class B notes and we therefore deem the Taiwan government as the credit source when considering the rating on the Class B notes.

The principal collection from the matured bond has been put into a time deposit with Land Bank of Taiwan with a maturity date before the next principal repayment date on the Class B notes, which will be March 2018. We consider this time deposit exposure as a substantial direct support counterparty risk or a direct credit source for the repayment of the Class B notes, despite the exposure period is fewer than 365 days. This is because the invested amount represents almost all of the outstanding Class B notes, and any sudden decline in the credit risk on the deposit bank could result in corresponding credit deterioration of Class B notes, before the investment could be replaced. With this, we believe the rating on the Class B notes should not be higher than that on Land Bank of Taiwan (twAA/Stable/twA-1+).

The liquidity reserve is held with Land Bank of Taiwan as a bank account provider. The documented replacement languages and the ratings on Land Bank of Taiwan can in our view support a 'twAA' rated transaction.

We also believe the current liquidity reserve is sufficient to meet transaction expenses even without other liquidity support, by the transaction's legal maturity date.

We believe the loss assumption and the respective sensitivity test on this transaction are not applicable because the credit sources on this deal are directly related to the creditworthiness of Taiwan government and Land Bank of Taiwan.

As a rating agency, we do not conduct separate due diligence checks on the data or information received.

Related Criteria & Research

Related Criteria

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com, Nov. 18, 2014
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, October 9, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, October 9, 2014
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013

Related Research

- Assessing Credit Quality By The Weakest Link, Feb. 13, 2012

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

Ratings List

Upgraded

To

From

Standard Bank Cash Flow CBO 2007-1 Special Purpose Trust

Class B

twAAp (sf)

twAA-p (sf)

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