

Media Release

Union Bank of Taiwan Co. Ltd. Ratings Affirmed At 'twA/twA-1' On Strong Capitalization; Outlook Stable

December 26, 2018

Overview

- The ratings on UBOT reflect the bank's strong capitalization, relatively small operating scale, and moderate risk position
- We are affirming our 'twA' long-term and 'twA-1' short-term issuer credit ratings on UBOT.
- The stable outlook reflects our expectation that UBOT's strong capital strength and adequate risk controls will help the bank to maintain a stable credit profile over the next one to two years.

Rating Action

Taiwan Ratings Corp. affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **Union Bank of Taiwan** (UBOT). The outlook on the long-term rating is stable. At the same time, we affirmed our issue ratings on the bank's various unsecured senior debentures (see Ratings List).

Rationale

The affirmation reflects UBOT's strong capital base relative to its risk profile as well as its adequate funding and liquidity profile. The bank's relatively small scale and higher risk concentration on the cyclical real estate sector than local peers' somewhat offset these strengths

We expect UBOT to maintain its strong capitalization in 2019-2020, which could provide a buffer for its credit profile against heightened economic and capital market volatility. As of the end of June 2018, the bank's risk-adjusted capital (RAC) ratio before diversification was 11.8% and we expect the ratio to remain above 10% for the next one to two years, given the bank's prudent capital policies. This is despite UBOT's higher growth appetite, intense industry competition, and the bank's New Taiwan dollar (NT\$) 1.58 billion investment to Line Pay, a mobile payment provider, via equity investment. We view UBOT's earnings capacity as moderate by global standards and constrained by intense competition as well as prevailing low interest rates in Taiwan.

Our assessment of UBOT's moderate risk position reflects on the bank's higher risk concentration on the cyclical real estate sector compared with domestic peers' and its above-average growth appetite in recent years. By local comparison, UBOT has a lower nonperforming loan ratio and its credit costs have been low in recent years, underpinned by the bank's adequate risk controls. Only time will tell if the bank can sustain its asset quality, given its above-average growth appetite over the coming one to two years during which time it intends to focus on small and medium enterprise lending. We

PRIMARY CREDIT ANALYST

Jack Yang
Taipei
+886-2-8722-5816
jack.yang
@spglobal.com
jack.yang
@taiwanratings.com.tw

SECONDARY CREDIT ANALYST

Eunice Fan
Taipei
+886-2-8722-5818
eunice.fan
@spglobal.com
eunice.fan
@taiwanratings.com.tw

believe sustaining good asset quality could help to offset the concentrated feature on the bank's loan portfolio.

Outlook

The stable outlook reflects our expectation that UBOT's prudent capital policies and adequate risk controls will help the bank to maintain a stable credit profile on a consolidated basis over the next one to two years. We also expect UBOT to maintain its market position, asset quality, and funding and liquidity profile at or close to current levels.

Upward scenario

We may raise the long-term rating on UBOT if the bank is able to sustain a satisfactory asset quality under rapid expansion, demonstrate prudent risk appetite, or improve its risk concentration on the real estate related sector.

Downward scenario

We could lower the rating if the bank's consolidated capitalization deteriorates due to aggressive business growth, high dividend payouts, or a significant increase in credit costs or trading losses that are beyond our previous expectation. A risk-adjusted capital (RAC) ratio before diversification below 10% would reflect such deterioration in capitalization.

Related Criteria

- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- 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
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- TRC Financial Services Sector Issue Credit Rating Criteria, www.taiwanratings.com - September 23, 2014

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Ratings List

Rating Affirmed

Union Bank of Taiwan

Issuer Credit Ratings	twA/Stable/twA-1
Issue Credit Rating	twA-
Issue Credit Rating	twBBB+

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