

Media Release

E.SUN Commercial Bank Ltd. Upgraded To 'twAA+/twA-1+' On Improved Systemic Importance; Outlook Stable

June 21, 2019

Overview

- E.SUN Bank has consistently increased its scale compared with other large private banks in Taiwan, while maintaining its above-average profitability and good asset quality.
- We now believe that E.SUN Bank's domestic operations are of moderate systemic importance to Taiwan's banking sector, which brings the bank a moderately high likelihood of government support, if needed.
- We are therefore raising our long-term issuer credit rating on E.SUN Bank to 'twAA+' from 'twAA' after incorporating one notch of government support. We also raised the issue credit rating on the bank's unsecured subordinated debentures without a non-viability clause to 'twAA' from 'twAA-'. At the same time, we affirmed the 'twA-1+' short term issuer credit rating on the bank as well as our 'twA+' issue credit rating on the bank's other outstanding debentures.
- The outlook on the long-term ratings is stable to reflect our expectation the bank will maintain a prudent capital policy and growth strategy over the next two years.

Rating Action

Taiwan Ratings Corp. today raised its long-term issuer credit rating on **E.SUN Commercial Bank Ltd.** (E.SUN Bank) to 'twAA+' from 'twAA', as well as the issue credit rating on the bank's legacy unsecured subordinated debentures without a non-viability clause to 'twAA' from 'twAA-'. The outlook on the long-term rating is stable. At the same time, we affirmed the 'twA-1+' short-term issuer credit rating on the bank and the 'twA+' issue credit rating on the bank's subordinated unsecured debentures with non-viability.

Rationale

The upgrade reflects our view that E.SUN Bank has enhanced its domestic operating scale to be comparable to that of other large scale private banks in Taiwan. The upgrade also reflects our expectation that E.SUN Bank will continue to grow its domestic market share in terms of deposits and assets, while maintaining above average profitability and good asset quality. In addition, we now assess E.SUN Bank to be of moderate systemic importance in Taiwan's banking system. This means we expect there is a moderately high likelihood the Taiwan government will provide financial support to the bank, if needed, to sustain stability in the banking system. As of the end of March 2019, E.SUN Bank ranked ninth in terms of domestic deposits with a 4.9% share and 10th in terms of total system assets with a

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4.6% share. However, we believe that any government support will only flow to the operating bank and not to the non-operating holding company, **E.SUN Financial Holding Co. Ltd.** (E.SUN FHC).

The ratings on E.SUN Bank continue to reflect the bank's strong capitalization, satisfactory fee income contribution with satisfactory management and execution of business strategies, and adequate risk position with good loss record. Counterbalancing these strengths are the bank's moderate geographic diversity and profitability compared with other regional banks.

Outlook

The stable outlook reflects our expectation E.SUN Bank is likely to maintain a risk-adjusted capital (RAC) ratio above 10% over the next two years, backed by the bank's prudent capital policy and growth strategy. We also anticipate the bank will maintain its sound asset quality and profitability despite its above-average business growth in recent years. In addition, we expect E.SUN Bank to continue to play a dominant role in terms of the E.SUN FHC group's overall risk profile.

Downward scenario

We may lower the long-term rating on E.SUN Bank if the bank fails to sustain its capitalization at a strong level. A RAC ratio consistently below 10% over the coming two years would indicate such weakening and could result from aggressive growth, for example double-digit risk-asset growth, and substantial growth in risk taking by the bank.

Upward scenario

Conversely, we may raise the rating if E.SUN Bank can demonstrate successful and continued business diversification, while growing its business scale.

The bank could achieve this by offering superior electronic payment or wealth management businesses relative to its Taiwan peers', which in turn provides solid advances for the bank's business position. The bank could also achieve such expansion by demonstrating a scale advantage through an established overseas network and diversified revenue streams in terms of products and geography. However, we believe an upgrade is unlikely over the coming one to two years because it will take time for the bank to achieve such developments and establish a track record in such endeavors.

Related Criteria

- 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
- 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
- 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

Upgraded/Affirmed

	To	From
E.SUN Commercial Bank Co. Ltd.		
Issuer Credit Ratings	twAA+/Stable/twA-1+	twAA/Stable/twA-1+
Subordinated Unsecured (Legacy, Without non viability)	twAA	twAA-
Subordinated Unsecured (With non viability)	twA+	twA+

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