Media Release

CTBC Asset Management Co. Ltd. Rated 'twA+/twA-1'; Outlook Stable

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Overview

- We view CTBC AMC as a strategically important entity to Taiwan-based CTBC FHC group.
- CTBC AMC operates in line with the group's core financial services and plays an important role in carrying out leasing in China and real estate business in Taiwan for the group.
- We are therefore assigning our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on CTBC AMC.
- The stable outlook reflects the outlook the parent group and our expectation that CTBC AMC will maintain its very strong capitalization and strategically important group status over the next two years.

Rating Action

Taiwan Ratings Corp. today assigned its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on CTBC Asset Management Co. Ltd. (CTBC AMC). The outlook on the long-term rating is stable.

Rationale

The ratings on CTBC AMC reflect the implicit support from the company's financially stronger parent, CTBC Financial Holding Co. Ltd. (CTBC FHC) group. The ratings also reflect CTBC AMC's very strong capitalization on a consolidated basis and adequate funding and liquidity supported by the group's resources. Counterbalancing factors include CTBC AMC's limited operating scale and moderate operating performance of CTBC AMC's business in Taiwan as well as leasing subsidiary, CTBC Leasing Co. Ltd. in China. CTBC AMC faces higher economic risks compared with other Taiwan-based nonbank financial institutions, which are mostly local based, as the result of its sizable credit risk exposure in China from its leasing business on a consolidated basis.

We believe CTBC AMC could benefit from timely and sufficient parent support, given its strategically important status with the CTBC FHC group. CTBC AMC operates in line with the group's core financial services and focuses on leasing in China and real estate business in Taiwan. In our opinion, the company has more flexibility than other group members to engage into property related management and investment, as well as accommodating the group's China leasing business though its fully owned subsidiary. CTBC FHC fully owns CTBC AMC and the subsidiary's reputation is closely linked with that of the parent group, given the similar naming and logo.

The group has demonstrated strong commitment to support its subsidiaries through close oversight. CTBC AMC is highly integrated with the group in many aspects including key business decisions as well as risk management. However, both CTBC AMC's leasing business in China and property business in Taiwan carry higher economic risks than for other group members. Nonetheless, CTBC AMC represents only a small proportion of the group's total capital base, at about 1.5% in 2018 and makes a limited profit contribution to the group.

Our 'bb' anchor for CTBC AMC reflects the company's business focus as a finance company (FINCO) in Taiwan and China. The anchor is a blend of 50% of the Taiwan FINCO anchor and 50% of the China FINCO anchor, given CTBC AMC's asset exposure, and is three notches below Taiwan's bank anchor and one notch below China's bank anchor. This is to reflect our view that FINCOs face higher economic and industry risk than banks. In addition, the reliance of FINCOs on wholesale funding and the lack of direct access to central bank funding weaken their risk assessment compared with banks', because banks benefit from retail and diversified funding sources. This is despite the fact that FINCOs in general have adequate profit margins and the market shares for leading players are relative stable, suggesting a certain level of entry barriers.

CTBC AMC operates under a financial holding company umbrella in Taiwan. This brings CTBC AMC under the jurisdiction of the Financial Supervisory Commission (FSC). For FINCOs in Taiwan that are regulated by the FSC, we generally apply a one notch uplift from the anchor when we determine the issuer credit rating. This is because we believe that FINCOs under the jurisdiction of the FSC operate under the same, albeit a less comprehensive framework, as banks. These FINCOs follow prudent financial requirements set by the FSC, but with reporting standards that are less robust than those for banks.

In our view, CTBC AMC's limited market size and mediocre operating performance record compared to peers in Taiwan and China constrained its business stability. As the asset management vehicle of the CTBC FHC group, CTBC AMC takes care of non-performing loans, property development projects, and real estate related rental and investments on behalf of the group. The company's operating size is relatively small compared with other domestic AMC companies with a holding company background in Taiwan, if we compared them in terms of NPL business scale and other real estate related business such as advanced collateral lending to property developers.

Although the company has reported stable rental income over the past two years, the overall profit contribution from such business remains limited. Meanwhile, CTBC AMC's leasing entity in China is also relatively small with a limited operating record compared with local peers in China. We view the company's leasing business in China to be somewhat volatile, considering its relatively limited scale in a competitive operating environment with higher economic risk. CTBC Leasing contributed about one third of CTBC AMC's consolidated net profit as of the end of December 2018.

We expect CTBC AMC's capitalization to remain very strong relative to its risk profile over the next two years. We also estimate the company's risk-adjusted capital (RAC) ratio before diversification according to S&P Global Ratings RAC methodology, to be consistently over 15% over the next two years on a consolidated basis. We already reflect the above-average corporate-risk charge associated with CTBC AMC's real estate investment when analyzing the company's risk-adjusted capitalization. At the same time, we have also factored in the strong growth momentum in the company's China leasing business and the potentially higher economic risk it may face.

We consider CTBC AMC's risk position to be moderate. We believe the company's small capital base compared with other Chinese leasing peers' exposes it to higher volatilities from unfavorable movements in its credit risk exposure. However, closer oversight by the bank holding group compared with other FINCOs could help to partly offset this volatility. At the same time, we expect CTBC Leasing's asset quality ratio to gradually improve after taking account of the write off of bad debts and portfolio adjustments. CTBC Leasing's asset quality is sensitive to single non-performing assets due to the company's limited lending base. Compared with other leasing companies and FINCOs in Taiwan and

China, CTBC AMC is subject to close and prudent oversight from its parent group, which is highly regulated by the FSC. We believe that our capital assessment largely captures the risks related to CTBC AMC's real estate investments, despite the higher concentration on this sector by its Taiwan operations.

We assess CTBC AMC has an adequate funding and liquidity profile despite the risks from its reliance on wholesale funding, which we view as sensitive to market liquidity and less stable than retail funding by local banks. Our assessment also reflects our view of the CTBC FHC group's adequate funding and liquidity profile, which could support CTBC AMC if needed. CTBC AMC has diversified unsecured credit lines with an average utilization below 50%. We expect the company to maintain its funding and liquidity profile through the support of the parent group franchise and we do not expect CTBC AMC to face any urgent unexpected liquidity needs in the coming two years.

Outlook

The stable outlook on CTBC AMC reflects our expectation that the company will maintain its very strong capitalization under the close oversight under the CTBC FHC group. The stable outlook also reflects our view that CTBC AMC will remain a strategically important entity to the parent group over the next two years.

Downward scenario

We may downgrade CTBC AMC if the company's very strong capitalization weakens materially due to overly aggressive growth, or its asset quality deteriorates materially as the result of unfavorable developments at its China leasing business over the next one to two years.

Upward scenario

We may upgrade CTBC AMC if we consider the company's importance to the parent group has enhanced as reflected by its higher capital representation within the group. We may also raise the long-term rating if there is material improvement in the company's business stability with no change in its very strong 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
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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

Ratings List

New Ratings

CTBC Asset Management Co. Ltd.	
Issuer Credit Ratings	twA+/Stable/twA-1