25 MAR 2024

Fitch Affirms Taipei Star Bank at 'A-(twn)'; Outlook Stable

Fitch Ratings - Taipei - 25 Mar 2024: Fitch Ratings has affirmed Taipei Star Bank's (TSB) National Long-Term Rating at 'A-(twn)' with a Stable Outlook. Fitch has also affirmed the National Short-Term Rating at 'F1(twn)'.

Key Rating Drivers

Driven by Intrinsic Profile: TSB's National Long-Term Rating reflects its low default risk relative to other domestic issuers in Taiwan. The rating is driven by the bank's standalone credit profile and is constrained by its business profile. It also reflects Fitch's expectation that TSB will maintain a steady risk and financial profile, although its capitalisation is lower than that of most local peers because of its modest internal capital generation.

Stable Operating Environment: The operating environment score of 'a' with stable outlook considers Taiwan's economic recovery and Fitch's expectation of stable interest rates. These, together with sustained low unemployment and improving GDP per capita, support the banking sector's business performance, although our assessment also takes into account the high level of competition in the sector. We forecast the economy to grow by 3.2% in 2024 and 2.6% in 2025 (2023: 1.3%), supported by improving demand for Taiwan's exports.

Relatively Small Franchise: TSB has a small franchise with a limited market position. The bank's business model is less diversified than those of larger local peers, with 85% of its total revenue derived from net interest income. TSB's deposit and loan market shares are around 0.1% each at end-2023. It has a small branch network that is focused on the affluent Greater Taipei area.

Steady Risk Profile: The bank continues to focus on property-related lending backed by real estate in the Greater Taipei area, where it has a long operating history. Single-borrower concentration remains high due to its small scale. Its top-10 group borrowers exceeded 102% of equity at end-2023 and the majority of them are property-related. That said, property-related risks are mitigated by its high level of secured loans (97%) and sufficient collateral coverage from real-estate assets with steady cash flows.

Moderate Asset-Quality Risk: We expect TSB's impaired-loan ratio to be flattish in 2024-2025 as the bank has only a small exposure to pandemic-related relief lending. TSB also maintains consistent collateral coverage to mitigate its asset quality risks. That said, its high borrower and sector concentration constrains our assessment of its asset quality despite its much low impaired-loan ratio compared to the sector average.

Profitability Weaker than Peers: We expect TSB's profitability to remain weaker than that of peers because of its small scale and high operating-cost leverage. The bank's operating profit/risk-weighted asset (OP/RWA) ratio dropped to 0.3% in 2023 from 0.4% in 2022 due to lower net interest income despite a net reversal of loan impairment charges.

Declining Capital Buffer: We expect TSB's capital buffer to decline, given its high growth relative to its limited internal capital generation. This constrains our assessment of its capitalisation. The bank's common equity Tier 1 (CET1) ratio slightly declined to 10% by end-2023, from 10.2% at end-2022 mainly due to higher growth in property-related loans, especially acquisition, development and construction loans, which have high regulatory risk weights at 150%-200%.

Small Deposit Franchise: Our assessment of TSB's funding and liquidity profile is constrained by its small deposit franchise, notwithstanding ample system liquidity in Taiwan. We expect its loan/deposit ratio to gradually rise in 2024 and 2025 towards 80%, driven by the bank's loan growth appetite and its intention to reduce its portion of high-cost deposits.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Negative rating action may arise should the bank pursue rapid growth, leading to a deterioration in key financial metrics for a sustained period, such as its CET1 ratio falling below 8.0% with no credible plan to return to existing levels. Any negative rating action would also consider whether TSB's overall credit profile has weakened relative to the national rating universe.

The National Short-Term Rating could be downgraded if the bank's National Long-Term Rating is downgraded to 'BBB+(twn)' or below.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Changes in Fitch's perception of TSB's credit profile relative to the national rating universe could affect its National Ratings.

Rating upside could come from a meaningful enhancement of the bank's franchise and business scope, resulting in a sustained improvement in profitability. This may be evident from its OP/RWA ratio rising towards 0.75% (2020-2023 average: 0.4%) while its CET1 ratio is maintained at above 10% (2023: 10.0%).

The National Short-Term Rating could be upgraded if the bank's National Long-Term Rating is upgraded to 'AA-(twn)' or above.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Taipei Star Bank	Natl LT	A-(twn)	Affirmed		A-(twn)
	Natl ST	F1(twn)	Affirmed		F1(twn)

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		

RATINGS KEY	OUTLOOK	WATCH
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Bank Rating Criteria (pub.15 Mar 2024) (including rating assumption sensitivity)

National Scale Rating Criteria (pub.22 Dec 2020)

Additional Disclosures

Solicitation Status

Endorsement Status

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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