

Taipei Star Bank

Key Rating Drivers

Driven by Intrinsic Profile: Taipei Star Bank's (TSB) National Long-Term Rating reflects its low default risk relative to other domestic issuers in Taiwan. The rating is driven by its standalone credit profile but is constrained by its earnings profile. It also reflects Fitch Ratings' expectation that TSB will maintain a steady risk and financial profile, despite its lower capitalisation than most local peers, due to its modest internal capital generation.

OE Resilient to Higher Tariffs: We see sufficient headroom for the operating environment (OE) score against the pressure from US tariff hikes (see "[Taiwan Banks' Operating Environment Resilient to US Tariffs](#)", published 19 May 2025). We believe growing global demand for Taiwan's semiconductor and AI-related products, coupled with Taiwan's leading and irreplaceable position in these sectors, should partly mitigate the pressure from higher tariffs. The assigned 'a' OE score is in line with the implied 'a' category score.

Limited Franchise: TSB has a limited market position as its business model is less diversified than those of larger local peers. Net interest income made up 74% of its total revenue at end-2024. The bank operates a small branch network, mainly in the affluent Greater Taipei area, with a focus on property-related sectors. Its deposit and loan market shares were both around 0.1% as of end-2024.

Steady Risk Profile: The bank's continued focus on property-related lending is backed by real estate in the Greater Taipei area, where it has a long operating history. Single-borrower concentration remains high due to TSB's small scale. Its top-10 group borrowers exceeded 108% of equity at end-2024, and the majority are property-related. That said, property-related risks are mitigated by a high level of secured loans (97%) and sufficient collateral coverage from real-estate assets with a moderate loan-to-value ratio.

Manageable Asset-Quality Risk: We expect TSB's impaired-loan ratio to increase modestly in 2025-2026 from a low base, due to the potential impact of US tariffs affecting exports and the SME sector. We anticipate that this risk is manageable as the bank has only limited exposure to tariff-affected loans. TSB also maintains sufficient collateral coverage to mitigate asset-quality risk. Nevertheless, its high borrower and sector concentration constrains our asset-quality assessment, despite a lower impaired-loan ratio than the sector average.

Profitability Weaker than Peers: We expect profitability prospects to remain weak, because of TSB's smaller business scale and its high cost-to-income ratio. Its operating profit/risk-weighted asset ratio improved to 0.5% in 2024, from 0.3% in 2023, but this was mainly due to one-off disposal gains from the sale of an investment property in 2024.

Declining Capital Buffer: We expect TSB's capital buffer to gradually decline, given its higher loan growth relative to its limited internal capital generation, particularly in property-related loans, including acquisition, development and construction loans that have high regulatory risk weights of 150%-200%. This constrains our assessment of its capitalisation. The bank's common equity Tier 1 (CET1) ratio was stable at 10.1% by end-2024, aided by one-off disposal gains accounting for around 0.3% of risk-weighted assets.

Small Deposit Franchise: Our assessment of TSB's funding and liquidity profile is constrained by its small deposit franchise, notwithstanding the ample system liquidity in Taiwan. We expect the loan-to-deposit ratio to gradually increase to 75% in 2025 and 2026 (end-2024: 73%), driven by the bank's moderate loan growth and efforts to reduce the proportion of high-cost deposits.

Ratings

National Rating

National Long-Term Rating	A-(twn)
National Short-Term Rating	F1(twn)

Sovereign Risk

Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA
Country Ceiling	AAA

Outlooks

National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(March 2025\)](#)

[National Scale Rating Criteria \(December 2020\)](#)

Related Research

[Fitch Affirms Taipei Star Bank at 'A-\(twn\)'; Outlook Stable \(June 2025\)](#)

[Several APAC Banking Sector Outlooks Weaken Amid Trade War Exposures \(June 2025\)](#)

[Taiwan Banks' Operating Environment Resilient to US Tariffs \(May 2025\)](#)

[Taiwan Financial Sector M&A Rating Implications \(May 2025\)](#)

[Tariff War Adds to Risk Facing Some APAC Banking Sector Outlooks \(April 2025\)](#)

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Rating Sensitivities

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

Negative rating action may arise should TSB 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 take into consideration whether the overall credit profile has weakened relative to the national rating universe.

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

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

Upside could come from a sustained improvement in profitability, which would likely arise from an improved franchise and increased competitiveness while its risk profile and buffers remain unchanged. This may be evident from its operating profit/risk-weighted asset ratio rising towards 0.75% (2021-2024 average: 0.4%), while its CET1 ratio is maintained at above 10% (2024: 10.1%). Changes in Fitch's perception of TSB's credit profile relative to the national rating universe could affect its National Ratings.

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

Company Summary and Key Qualitative Factors

Operating Environment

There is downside risk to our GDP forecast for Taiwan of 2.8% in 2025 and 2.5% in 2026 (2024: 4.8%) as exports and investments face global trade uncertainties. We expect pressures over the banks' profitability and asset-quality performance could begin to surface towards late 2025 and 2026 amid slower economic growth. Improving GDP and the moderate unemployment rate should mitigate potential asset-quality deterioration.

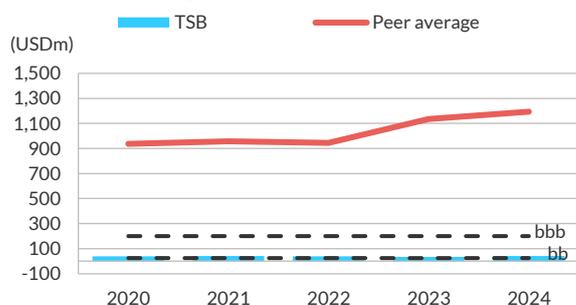
We forecast no change in the policy rate in 2025 and a small rate cut in 2026, which should have a limited impact on banks' net interest margins.

Business Profile

TSB has increased its focus on better-yield loans in recent years, such as revolving loans from SMEs and loans to the construction and property-investment sectors, including urban redevelopment in the Taipei area. The bank has also diversified its business into home equity loans, second mortgages and auto loans.

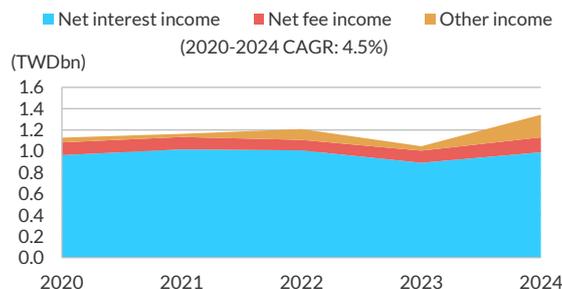
We expect TSB to maintain modest growth in its operating income in 2025, with the majority derived from net interest income, given its focus on lending.

Total Operating Income



Source: Fitch Ratings, Fitch Solutions, banks

Revenue Breakdown



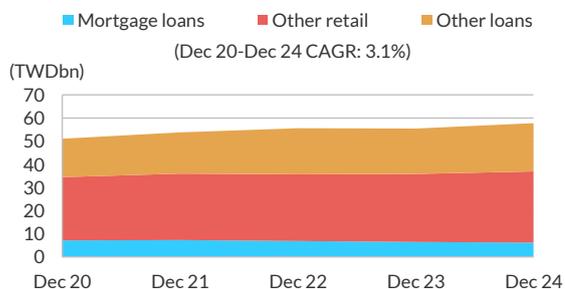
CAGR: compound annual growth rate
 Source: Fitch Ratings, Fitch Solutions, TSB

Risk Profile

We believe TSB's risk management is less sophisticated than that of higher-rated domestic peers, but it is sufficient for the bank's simple business model. TSB's concentration risk remains higher than that of rated peer banks in terms of single-borrower concentration and property-related exposures. Nonetheless, the bank has maintained low credit losses historically due to its high level of collateralisation.

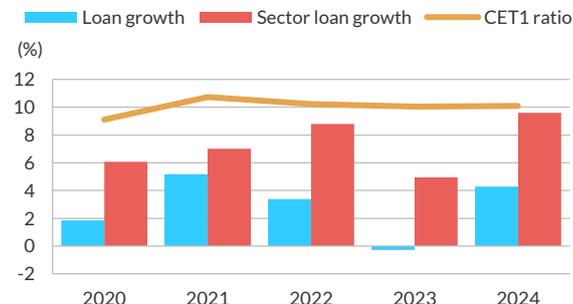
We expect the risk profile to remain stable, supported by its modest loan growth and highly collateralised structure. Most of its investments were in bonds and commercial papers with investment-grade ratings as of end-2024.

Loan Book Breakdown



CAGR: compound annual growth rate
 Source: Fitch Ratings, Fitch Solutions, TSB

Loan Growth



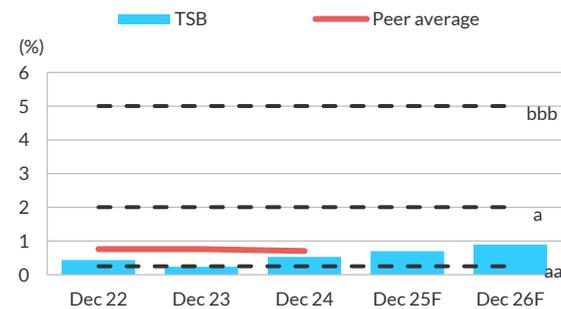
Source: Fitch Ratings, Fitch Solutions, TSB

Financial Profile

Asset Quality

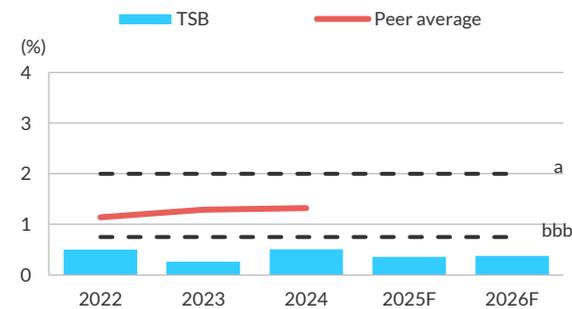
TSB's franchise primarily focuses on secured residential loans and property-related lending, as well as SME customers in the domestic market. The bank's borrower concentration has slightly increased in recent years due to its expansion into larger-scale urban redevelopment and land consolidation projects. However, it maintains low impaired-loan ratios and credit costs by mitigating asset-quality risk through secured loans with adequate collateral coverage and targeting lending to established construction firms in Taiwan.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

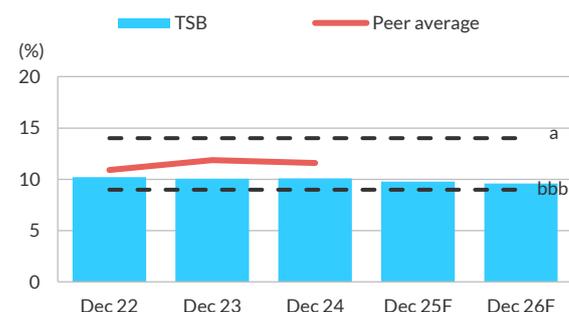
Earnings and Profitability

TSB's net interest margin widened in 2024 as it pursued higher-yielding property loans and bond investments. We forecast the operating profit/risk-weighted asset ratio to fall from a high base in 2024 (due to one-off gains) and to stabilise in 2025 and 2026. We believe stable core profitability, supported by steady interest margins and modest growth in fee income, could help offset potentially increasing credit cost pressures over 2025-2026.

Capitalisation and Leverage

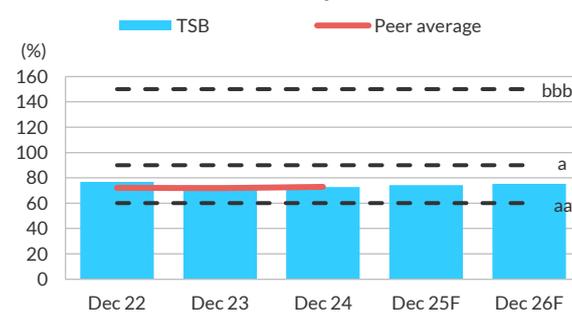
We forecast the CET1 ratio to decline to 9.8% by end-2025 and 9.6% by end-2026, from 10.1% at end-2024. We believe the bank's loan growth appetite, high dividend pay-outs and limited profitability growth will restrain its capitalisation. However, TSB aims to maintain the ratio at 9% or above, which it views as adequate for its simple business model, compared with a regulatory requirement of 7%.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

TSB is predominantly deposit-funded, with customer deposits making up 93% of its total funding at end-2024. It has a smaller deposit franchise, with only 0.1% market share, and a higher deposit concentration due to its limited business scale and operating locations. Its top 20 depositors accounted for over 20% of total deposits. That said, the bank's funding cost is comparable to that of similarly sized peers, and it maintains a healthy liquidity coverage ratio of 123% at end-2024, similar to the sector average of 125%.

Additional Notes on Charts

The forecasts in the charts reflect Fitch's forward view on the bank's core financial metrics as per Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macroeconomic forecasts, outlook at the sector level, and company-specific considerations. As a result, Fitch's forecasts may differ significantly from the guidance provided by the rated entity.

To the extent that Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or M&A, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Financials

Summary Financials

	31 Dec 24		31 Dec 23	31 Dec 22	31 Dec 21
	Year end				
	(USDm)	(TWDm)	(TWDm)	(TWDm)	(TWDm)
	Audited - unqualified				
Summary income statement					
Net interest and dividend income	30	989.2	892.2	1,007.0	1,016.5
Net fees and commissions	4	141.4	113.7	98.1	118.1
Other operating income	7	213.3	41.9	101.6	29.1
Total operating income	41	1,343.9	1,047.9	1,206.7	1,163.7
Operating costs	31	1,002.7	944.1	959.7	929.1
Pre-impairment operating profit	10	341.1	103.8	247.0	234.5
Loan and other impairment charges	2	61.1	-35.7	-14.0	18.6
Operating profit	9	280.0	139.6	261.0	216.0
Other non-operating items (net)	n.a.	n.a.	n.a.	0.0	41.6
Tax	1	28.7	26.4	39.6	36.6
Net income	8	251.3	113.1	221.4	220.9
Other comprehensive income	-1	-20.8	94.9	-52.8	50.5
Fitch comprehensive income	7	230.5	208.1	168.6	271.4
Summary balance sheet					
Assets					
Gross loans	1,765	57,867.3	55,487.5	55,644.1	53,815.5
- Of which impaired	9	304.4	135.9	240.2	238.4
Loan loss allowances	21	698.0	628.9	664.4	615.3
Net loans	1,744	57,169.4	54,858.6	54,979.7	53,200.2
Interbank	129	4,244.7	4,274.0	3,444.1	3,793.6
Derivatives	18	603.9	741.5	613.1	439.9
Other securities and earning assets	807	26,447.0	25,174.4	25,157.8	30,825.4
Total earning assets	2,699	88,465.0	85,048.6	84,194.7	88,259.1
Cash and due from banks	61	1,996.9	2,369.8	2,282.2	1,593.7
Other assets	65	2,146.9	2,166.9	2,202.3	2,266.4
Total assets	2,825	92,608.8	89,585.3	88,679.2	92,119.1
Liabilities					
Customer deposits	2,424	79,461.8	75,070.6	72,560.1	71,937.0
Interbank and other short-term funding	151	4,952.4	6,233.9	7,475.0	11,419.5
Other long-term funding	37	1,210.0	1,400.0	1,900.0	1,900.0
Trading liabilities and derivatives	0	5.6	10.2	8.1	5.0
Total funding and derivatives	2,612	85,629.7	82,714.8	81,943.2	85,261.5
Other liabilities	32	1,042.1	1,084.9	1,004.6	1,140.7
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	181	5,937.0	5,785.6	5,731.4	5,716.9
Total liabilities and equity	2,825	92,608.8	89,585.3	88,679.2	92,119.1
Exchange rate		USD1 = TWD32.781	USD1 = TWD30.735	USD1 = TWD30.708	USD1 = TWD27.69

Source: Fitch Ratings, Fitch Solutions, TSB

Key Ratios

	31 Dec 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.5	0.3	0.5	0.4
Net interest income/average earning assets	1.1	1.1	1.2	1.2
Non-interest expense/gross revenue	74.6	90.1	79.5	79.8
Net income/average equity	4.3	2.0	3.9	3.9
Asset quality				
Impaired loans ratio	0.5	0.2	0.4	0.4
Growth in gross loans	4.3	-0.3	3.4	5.2
Loan loss allowances/impaired loans	229.3	462.9	276.6	258.1
Loan impairment charges/average gross loans	0.1	-0.1	0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	10.1	10.1	10.2	10.7
Fully loaded common equity Tier 1 ratio	10.1	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	6.4	6.5	6.5	6.2
Basel leverage ratio	6.9	6.8	6.9	6.5
Net impaired loans/common equity Tier 1	-7.2	-9.2	-8.0	-7.1
Funding and liquidity				
Gross loans/customer deposits	72.8	73.9	76.7	74.8
Gross loans/customer deposits + covered bonds	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	123.3	140.6	134.4	151.1
Customer deposits/total non-equity funding	92.8	90.8	88.6	84.4
Net stable funding ratio	121.3	125.2	117.5	123.8

Source: Fitch Ratings, Fitch Solutions, TSB

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