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.

Stable Operating Environment: We forecast Taiwan's economic growth to remain steady in 2026, after 8.7% in 2025. Exports of AI-related products and investments as well as lower tariff pressure should boost the economy, which will continue to support Taiwan banks' operating environment.

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 82% of its total revenue in 2025. The bank operates a small branch network, mainly in the affluent Greater Taipei area, with a focus on secured residential and construction loans. Its deposit and loan market shares were both around 0.1% as of end-2025.

Steady Risk Profile: The majority of TSB's residential and construction loans are 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 borrower groups amounted to 110% of equity at end-2025, with most exposures linked to the property sector. Property-related risks are mitigated by the high share of secured loans (93%) and sufficient collateral coverage from real estate assets, with moderate loan-to-value ratios.

Manageable Asset-Quality Risk: We expect TSB's impaired-loan ratio to increase modestly in 2026-2027 due to the bank's limited exposure to tariff-affected sectors and to the Middle East, as well as its focus on secured residential and construction loans in the domestic market. The bank also maintains sufficient collateral coverage to mitigate asset-quality risk. Nevertheless, high borrower and sector concentration constrain our assessment, despite an impaired-loan ratio below the sector average.

Profitability Weaker than Peers: We expect profitability to remain weak due to TSB's smaller business scale and high cost-to-income ratio. Its operating profit/risk-weighted asset (OP/RWA) ratio was stable at 0.5% in 2025, supported by higher loan growth, stronger yields on loans and bond investments, and lower credit costs, despite foreign-exchange losses on its own foreign-currency funds due to the Taiwan dollar's appreciation.

Narrowing Capital Buffer: We expect TSB's capital buffer to narrow gradually, 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.

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 remain stable in 2026-2027 from 76% at end-2025, supported by the bank's moderate loan growth and efforts to reduce the proportion of high-cost deposits.

Rating Sensitivities

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

Negative rating action may arise if TSB pursues rapid growth that leads to a sustained weakening in key financial metrics, such as an impaired-loan ratio rising towards 5%, OP/RWA falling below 0.3%, and a common equity Tier 1 (CET1) ratio dropping below 8.0% with no credible plan to return to current levels. Any negative rating action would also take into account whether its 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

Upgrade potential 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 OP/RWA rising towards 0.75% (2022-2025 average: 0.4%), while its CET1 ratio is maintained at above 10% (2025: 9.5%). 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

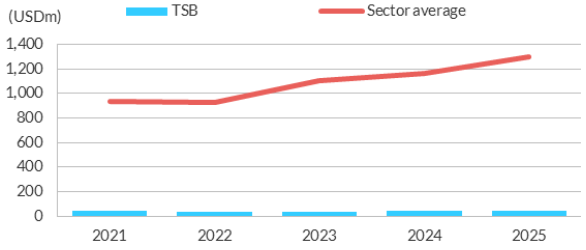
Operating Environment

Low unemployment, rising GDP and moderate inflation should support the sector's asset quality. TSB has minimal direct exposure to the Middle East and its loan exposure to sectors affected by the Iran conflict and US tariffs is limited.

Business Profile

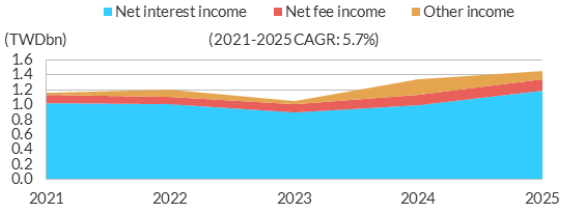
TSB has increased its focus on better-yield loans in recent years, such as home-equity, auto and construction loans, including urban redevelopment in the Taipei area. We expect TSB to maintain modest growth in its operating income in 2026, with the majority derived from net interest income, given its focus on lending.

Total Operating Income



Source: Fitch Ratings, Fitch Solutions, banks

Revenue Breakdown



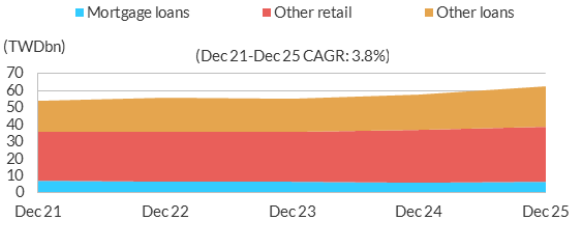
CAGR: compound annual growth rate
[a] Annualised
Source: Fitch Ratings, Fitch Solutions, TSB

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.

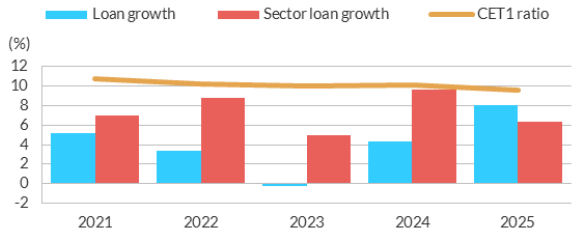
We expect the risk profile to remain stable, supported by its modest growth appetite and highly collateralised structure. The bank has modest market risk exposure. Market RWAs remained stable at around 4% of total RWAs in 2025. Most of its investments were in bonds and commercial papers with investment-grade ratings as of end-2025.

Loan Book Breakdown



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

Loan Growth



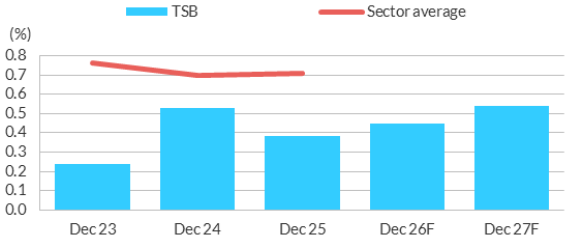
Source: Fitch Ratings, Fitch Solutions, TSB

Financial Profile

Asset Quality

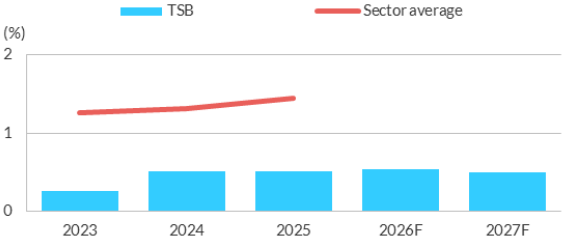
The bank's borrower concentration has risen slightly in recent years due to its expansion into larger urban redevelopment and land consolidation projects. However, it has maintained low impaired-loan ratios and credit costs by limiting asset-quality risk through secured lending with adequate collateral coverage, well-located property collateral, and a focus on 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

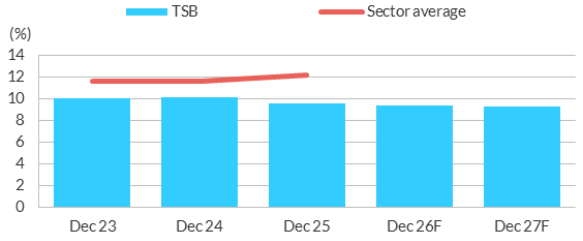
Earnings and Profitability

TSB's net interest margin (NIM) widened further in 2025 as the bank increased higher-yielding mortgages, construction loans and bond investments. We expect the increase to continue in 2026 and 2027. Higher NIMs and steady loan growth should support a stable OP/RWA ratio in 2026-2027. We expect loan impairment charges to remain low, as the bank made excess provisions in 2025 and expects to recover bad debt in 2026 and 2027.

Capitalisation and Leverage

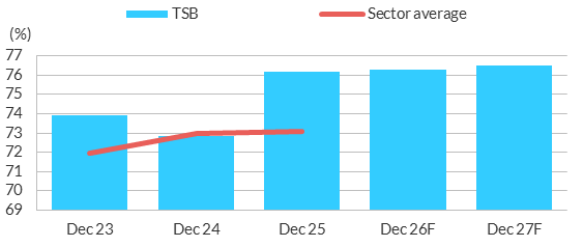
The bank's CET1 ratio declined to 9.5% by end-2025 from 10.1% at end-2024 due mainly to higher RWAs, despite stronger net profit and favourable other comprehensive investment valuations in 2025. We believe the bank's appetite for loan growth, high dividend payout (48% of 2025 net profit), and limited profit growth will constrain its capitalisation. However, TSB aims to maintain the ratio at 9% or above, which it views as adequate given its simple business model, against a minimum 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 92% of its total funding at end-2025. 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. That said, the bank's funding cost is comparable to that of similarly sized peers, and it maintained a healthy liquidity coverage ratio of 132% at end-2025, similar to the sector average of 134%.

Additional Notes on Charts

Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	31 Dec 22	31 Dec 23	31 Dec 24	31 Dec 25
	12 months	12 months	12 months	12 months
	(TWDm)	(TWDm)	(TWDm)	(TWDm)
Summary income statement				
Net interest and dividend income	1,007	892	989	1,188
Net fees and commissions	98	114	141	148
Other operating income	102	42	213	117
Total operating income	1,207	1,048	1,344	1,453
Operating costs	960	944	1,003	1,109
Pre-impairment operating profit	247	104	341	344
Loan and other impairment charges	-14	-36	61	35
Operating profit	261	140	280	310
Other non-operating items (net)	0	-	-	-
Tax	40	26	29	42
Net income	221	113	251	267
Other comprehensive income	-53	95	-21	103
Fitch comprehensive income	169	208	231	371
Summary balance sheet				
Assets				
Gross loans	55,644	55,488	57,867	62,515
– of which impaired	240	136	304	241
Loan loss allowances	664	629	698	744
Net loans	54,980	54,859	57,169	61,771
Interbank	3,444	4,274	4,245	2,913
Derivatives	613	742	604	467
Other securities and earning assets	25,158	25,174	26,447	25,239
Total earning assets	84,195	85,049	88,465	90,390
Cash and due from banks	2,282	2,370	1,997	4,203
Other assets	2,202	2,167	2,147	2,123
Total assets	88,679	89,585	92,609	96,717
Liabilities				
Customer deposits	72,560	75,071	79,462	82,055
Interbank and other short-term funding	7,475	6,234	4,952	5,991
Other long-term funding	1,900	1,400	1,210	1,610
Trading liabilities and derivatives	8	10	6	1
Total funding and derivatives	81,943	82,715	85,630	89,657
Other liabilities	1,005	1,085	1,042	878
Preference shares and hybrid capital	-	-	-	-
Total equity	5,731	5,786	5,937	6,182

Financial Statements

	31 Dec 22	31 Dec 23	31 Dec 24	31 Dec 25
	12 months	12 months	12 months	12 months
	(TWDm)	(TWDm)	(TWDm)	(TWDm)
Total liabilities and equity	88,679	89,585	92,609	96,717
Exchange rate	USD1= TWD30.7080	USD1= TWD30.7350	USD1= TWD32.7810	USD1= TWD31.4380

Source: Fitch Ratings, Fitch Solutions, TSB

Key Ratios

Ratios (%; annualised as appropriate)	31 Dec 22	31 Dec 23	31 Dec 24	31 Dec 25
Profitability				
Operating profit/risk-weighted assets	0.5	0.3	0.5	0.5
Net interest income/average earning assets	1.2	1.1	1.1	1.3
Non-interest expense/gross revenue	79.5	90.1	74.6	76.3
Net income/average equity	3.9	2.0	4.3	4.4
Asset quality				
Impaired loans ratio	0.4	0.2	0.5	0.4
Growth in gross loans	3.4	-0.3	4.3	8.0
Loan loss allowances/impaired loans	276.6	462.9	229.3	308.4
Loan impairment charges/average gross loans	0.1	-0.1	0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	10.2	10.1	10.1	9.5
Fully loaded common equity Tier 1 ratio	-	-	10.1	9.5
Fitch Core Capital ratio	11.0	10.9	-	-
Tangible common equity/tangible assets	6.5	6.5	6.4	6.4
Basel leverage ratio	6.9	6.8	6.9	6.8
Net impaired loans/common equity Tier 1	-8.0	-9.2	-7.2	-8.8
Net impaired loans/Fitch Core Capital	-7.4	-8.5	-	-
Funding and liquidity				
Gross loans/customer deposits	76.7	73.9	72.8	76.2
Gross loans/customer deposits + covered bonds	-	-	-	-
Liquidity coverage ratio	134.4	140.6	123.3	132.1
Customer deposits/total non-equity funding	88.6	90.8	92.8	91.5
Net stable funding ratio	117.5	125.2	121.3	123.5

Source: Fitch Ratings, Fitch Solutions, TSB

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

National Scale Rating Criteria (December 2020)
Bank Rating Criteria (May 2026)

Related Research

Fitch Affirms Taipei Star Bank at 'A-(twn)'; Outlook Stable (June 2026)
Reduced Economic Uncertainty Supports Taiwan Banks' SME Loan Quality (March 2026)
Taiwan Banks' Performance Supported by US Trade Agreement (January 2026)
Taiwan Tariff Relief Supports Exports, Highlights Supply-Chain Risks (January 2026)

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