

King's Town Bank Co., Ltd.

Update

Key Rating Drivers

Support-Driven Ratings: King's Town Bank Co., Ltd.'s (KTB) ratings are driven by its recently assigned Shareholder Support Rating (SSR) and are equalised with the ratings of its new parent, SinoPac Financial Holdings Company Limited (SPH, BBB+/Stable). This reflects Fitch Ratings' expectation of a high likelihood of extraordinary shareholder support, underpinned by our assessment of SPH's intrinsic credit profile and that KTB will be an integral part of SinoPac group's banking franchise after its merger with Bank SinoPac (BSP, BBB+/Stable) in 2026.

BSP is a key subsidiary for SPH, making up 91% of its consolidated assets at end-1Q25. We expect the merger to enhance SPH's banking franchise in Taiwan, with cross-selling synergies boosting business volume and diversifying its operation through broader loan concentration and geographical presence.

Low Default Risk on National Scale: KTB's National Ratings are at the high end of the scale, reflecting 'Very Low' default risk relative to domestic issuers. The Stable Outlook is in line with the Outlook on the Long-Term Issuer Default Rating.

Operating Environment Resilient to Higher Tariffs: Taiwan's 'a' operating environment (OE) score is in line with the implied 'a' category score. We believe there is sufficient headroom for the OE score to withstand pressure from US tariffs, which should be mitigated by strong global demand for Taiwan's semiconductor and artificial intelligence-related products, coupled with its leading and irreplaceable position in these sectors.

Modest Franchise: KTB has a modest franchise in Taiwan's highly fragmented banking system. We expect synergies to gradually crystallise following the merger; BSP's expertise in retail banking and wealth management and KTB's SME-focused business should enhance the combined entity's overall franchise.

Market Risk Exposure Above Peers: KTB has higher exposure to market risk than its small-bank peers, due to its larger appetite for foreign bond and stock investments. We expect the associated risks to gradually subside upon integration with BSP, as BSP has a more moderate risk appetite and a larger scale to absorb potential risk.

Sound Asset Quality: We expect KTB's higher concentration of SME borrowers and larger exposure to foreign bond investments relative to peers will subside after the merger, as BSP's larger and more diversified asset portfolio will help reduce concentration risk.

Earnings and Profitability: We expect the combined entity's operating profit/risk-weighted assets ratio to decline relative to KTB's (2.1% in 2024), due to the change in asset mix. Nonetheless, this should lead to more stable profitability for the combined entity, bolstered by BSP's robust recurring earnings from net interest income and fees.

Capital Buffers Aligned with Risk Profile: The combined entity's common equity Tier 1 (CET1) ratio is likely to decline relative to KTB's (16.1% at end-2024) following the merger. BSP's CET1 ratio was 10.7% at end-2024 and the enlarged risk-weighted asset base of the combined entity will lower overall capitalisation. However, we expect the combined entity will align its capital buffers with its risk profile.

Stable Liquidity: We expect the bank's loan/deposit ratio to remain largely stable in 2025 (77% at end-1Q25), as it plans to maintain steady operations amid the pending merger. The merger with BSP should broaden KTB's deposit base and further strengthen the combined entity's funding and liquidity profile, aided by SPH group's stronger deposit franchise.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F2
Shareholder Support Rating	
bbb+	
National	
National Long-Term Rating	AA-(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	
Long-Term Foreign-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Highest ESG Relevance Scores

Environmental	2
Social	3
Governance	3

Applicable Criteria

- Bank Rating Criteria (March 2025)
- National Scale Rating Criteria (December 2020)

Related Research

- Fitch Upgrades King's Town Bank's Rating and Bank SinoPac's Government Support Rating (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

IDRs and SSR

Any negative rating action on SPH's Viability Rating could trigger a similar move on KTB's SSR and Long-Term IDR. Negative rating action on KTB's SSR and Long-Term IDR could also result from a lower parental support propensity if its strategic importance to the group has been reduced; for example, if SPH does not proceed with the merger between KTB and BSP or upon a large reduction in SPH's ownership stake. However, we do not expect a decline in support propensity to occur in the near term, considering the ongoing integration between KTB and BSP.

Short-Term IDR

KTB's Short-Term IDR could be downgraded if its Long-Term IDR is downgraded to 'BBB' or below or if the parent's Short-Term IDR is downgraded.

National Ratings

A downgrade of KTB's National Ratings would arise from a weakening in its overall credit profile relative to the rated universe of issuers in Taiwan.

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

IDRs and SSR

Positive rating action on SPH's Viability Rating would trigger an upgrade of KTB's SSR and Long-Term IDRs, provided support propensity remains unchanged.

Short-Term IDR

KTB's Short-Term IDR could be upgraded if its Long-Term IDR is upgraded to 'A-' or above.

National Ratings

Strengthening in the bank's credit profile relative to the rated universe of issuers in Taiwan could lead to an upgrade of its National Ratings.

Support Assessment

Shareholder Support	
Shareholder VR	bbb+
Total Adjustments (notches)	0
Shareholder Support Rating	bbb+
Shareholder ability to support	
Shareholder Rating	bbb+/ Stable
Shareholder regulation	Equalised
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

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