

Media Release:

Kings Town Bank International Lease Corp. Assigned 'twBBB+/twA-2' Ratings; Outlook Stable

December 21, 2020

Overview

- We view Kings Town Bank International Lease as a strategically important entity to Taiwan-based King's Town Bank.
- Kings Town Bank International Lease complements King's Town Bank's financial services by providing leasing services to small and mid-size enterprise clients.
- We are assigning our 'twBBB+' long-term and 'twA-2' short-term issuer credit ratings on Kings Town Bank International Lease.
- The stable outlook reflects the outlook on the parent bank and our expectation that Kings Town Bank International Lease will maintain its adequate capitalization and strategically important group status over the next two years.

Rationale Action

Taiwan Ratings Corp. today assigned its 'twBBB+' long-term and 'twA-2' short-term issuer credit ratings on Kings Town Bank International Lease Corp. The outlook on the long-term rating is stable.

Rationale

The ratings on Kings Town Bank International Lease reflect our view of implicit support for the company from its financially stronger parent King's Town Bank, based on our view that Kings Town Bank International Lease is a strategically important member of the group. The ratings also reflect the company's adequate capitalization and adequate funding and liquidity supported by the bank's resources. Counterbalancing factors include Kings Town Bank International Lease's limited operating scale in Taiwan's finance and leasing industry and moderate risk position due to some single name concentration.

We consider Kings Town Bank International Lease to be strategically important to the King's Town Bank group. The financing company complements the bank's strategy to serve small and mid-size corporates in Taiwan. King's Town Bank fully

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owns Kings Town Bank International Lease, whose reputation is closely linked with that of the parent bank, given the similar naming and logo. Like its parent bank, the leasing company has demonstrated good profitability relative to its peers in Taiwan. Kings Town Bank International Lease represents only a small proportion of the bank's total capital base, at about 2% as of 2019, and makes a limited profit contribution to the bank.

Our 'bb+' anchor for Kings Town Bank International Lease reflects the company's business focus as a finance company (FINCO) and also the fact the Financial Supervisory Commission (FSC) regulates Kings Town Bank International Lease through its parent bank, Kings Town Bank. The anchor is two notches below the anchor for Taiwan banks, reflecting our view that the finance sector faces higher economic and industry risk than banks do.

We consider FINCOs in Taiwan under the FSC's jurisdiction are subject to prudent financial requirements and reporting standards that are not as robust as those for banks. The regulatory oversight for Taiwan FINCOs is under the same framework as banks, and is less comprehensive. In general, we assess FINCOs as having adequate profit margins and the market shares for leading players are relative stable, suggesting a certain level of entry barriers. However, the reliance of Taiwan FINCOs on wholesale funding and the lack of direct access to central bank funding weaken their risk assessment compared with banks, which benefit from retail and diversified funding sources.

Kings Town Bank International Lease is a small to mid-size finance company that provides financing services to small and mid-size enterprises in Taiwan. Established in 2015, the company recorded rapid growth over the past five years. As a late comer to the market, the company focuses on real estate collateralized lending and has developed other niche lending using its know-how of the core value of its clients. To seek business diversity, the company is developing specialized equipment financing business, aside from the company's usual financing and loans business.

In our view, Kings Town Bank International Lease has adequate capitalization under the company's full earnings retention strategy. As of the end of 2019, Kings Town Bank International Lease's risk-adjusted capital (RAC) ratio was 8.1%. Our base-case expectation for Kings Town Bank International Lease is for strong business growth in 2020 similar to that over the past few years, but to slow down to mid-to-high teens due to the company's enlarged base. Kings Town Bank International Lease has recorded an above-average operating performance over the past four years with a return on average assets above 2%. With good earnings and no cash dividend payout to support further growth, we believe the company is likely to sustain its RAC ratio at above 7% over the coming two years, which is our lower threshold for adequate capitalization. Kings Town Bank International Lease has sizable exposure to the real estate sector and such exposure consumes more of its capital under our risk adjusted capital framework. We do not expect Kings Town Bank International Lease to further increase its exposure to the real estate sector in the coming two years.

We assess Kings Town Bank International Lease's credit risk mechanism and controls as adequate, but weakened by higher single-name concentration in its credit portfolio. We anticipate the company will maintain an adequate underwriting

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discipline in spite of the company's higher inherent credit risks than local banks have. The financing company's ratio of non-performing loans (defined as loans that are 90-day overdue) was 2.2% in 2019, which shows improvement following the company's efforts to tighten underwriting controls and write off non-performing loans. We expect the ratio to remain close to the peer average of 2%-3% over the next two years with close monitoring from the parent bank. Kings Town Bank International Lease has somewhat higher single-name concentration in its credit exposure than its peers have, partly due to the pure corporate client nature of its business.

Kings Town Bank International Lease's membership of the financially stronger King's Town Bank group will continue to support the financing company's satisfactory funding and liquidity profile, despite its wholesale funding nature. Kings Town Bank International Lease's funding sources include bank loans and commercial paper. The company has a balanced mix in short-term and long-term funding. We believe the company has adequate funding sources relative to its potential funding needs. In addition, Kings Town Bank International Lease has an adequate liquidity management mechanism to manage future cash outflow needs, in our view. Hence, we do not foresee the company will have any difficulty to retain sufficient funding over the next two years, given ample liquidity in Taiwan's financial market.

Outlook

The stable outlook on Kings Town Bank International Lease reflects the company's strategic important group status to King's Town Bank. We believe the bank will provide support to the financing company when needed. The stable outlook also reflects our expectation that Kings Town Bank International Lease will slow down its business growth and retain all its profits on the book over the next two years.

Upside scenario

We could raise the rating on Kings Town Bank International Lease if King's Town Bank demonstrate solid track record on asset quality and investment control/discipline over the next two years. We could also raise the rating if King's Town Bank improve its capitalization to very strong level, which is likely to be remote.

Downside scenario

We could lower the rating if King's Town Bank's credit profile weakened due to deteriorated capitalization caused by business expansion or unexpected operating losses over the next two years.

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 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
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014

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- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

New Ratings

Kings Town Bank International Lease Corp.

Issuer Credit Rating

twBBB+/Stable/twA-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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