

Media Release:

Land Bank of Taiwan Ratings Affirmed At 'twAA+/twA-1+' On High Systemic Importance; Outlook Stable

May 20, 2024

Overview

- **Land Bank of Taiwan's** share of the local deposit market has declined in recent years under the bank's efforts to control funding costs and against strong growth from private banks. Nevertheless, we continue to assess Land Bank's funding as strong, given the bank's 100% government-owned background and still-strong domestic deposit franchise.
- We affirmed our 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings on Land Bank.
- The stable rating outlook reflects our view that Land Bank will largely maintain its deposit market share and high systemic importance over the next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings on Land Bank. The outlook on the long-term rating is stable.

Rationale

The affirmation reflects our forecast that Land Bank will maintain adequate capitalization over the next two years. In our view, Land Bank will maintain adequate capitalization over the next one to two years, as represented by a risk-adjusted capital (RAC) ratio of around 9%. The ratio was 9.5% as of Dec. 31, 2023. Land Bank has retained most of its earnings in recent years to meet regulatory capital requirements under the Basel III capital framework. We expect the bank to focus more on growth in small and mid-size enterprise lending over the next few years, to diversify its lending portfolio from the property sector which carries a higher risk weight under our RAC framework.

Land Bank's share of the domestic deposit market has declined but should stabilize in 2024.

Management efforts to control funding costs as well as competition from private banks have reduced Land Bank's share of domestic deposits over the last few years. As of Dec. 31, 2023, Land Bank ranked 10th with a 5.3% share of total system deposits, including postal savings. This compared with 5.7% or seventh ranking domestically in 2022. The management team has specifically focused on reducing costs related to expensive U.S.-dollar time deposits amid rapid interest rate hikes over the past few years.

We expect Land Bank to maintain its solid nationwide franchise over the next two years and expand its deposit share to support business growth. We also believe that Land Bank's 100% government-owned profile provides the bank with better funding capability to support such growth than for most peer domestic banks.

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We continue to assess Land Bank as holding high systemic importance in Taiwan's banking sector. The issuer credit rating on Land Bank is three notches higher than our assessment of the bank's stand-alone credit profile on a global scale. This echoes our view that the bank carries high importance to the Taiwan government and the domestic financial system. We believe the bank will receive financial support from the government in times of financial stress, given the bank's full government ownership and policy role to support real estate-related lending. We also expect this support to be timely to maintain confidence in the local financial market.

Nonetheless, we could reassess Land Bank's systemic importance if the bank's deposit market share continues to decline. Such a reassessment would indicate that the failure of Land Bank could still have a significant impact, albeit manageable, on Taiwan's financial system and economy.

Outlook

The stable rating outlook reflects our view that Land Bank will maintain its high systemic importance in Taiwan's financial sector as well as our view of the high likelihood of government support for the bank, if needed. The outlook also reflects our forecast that Land Bank will pursue a prudent capital policy and loan growth to maintain its RAC ratio above 7% over the next one to two years.

Downward scenario

We may lower the long-term rating on Land Bank if:

- The RAC ratio drops below 7%;
- The bank's asset quality materially deteriorates, with above-average credit losses or looser underwriting controls over the next one to two years; or
- Land Bank's share of the domestic deposit market continues to decline, which would indicate deterioration in the bank's systemic importance.

Upside scenario

We view the likelihood of an upgrade to be remote over the next one to two years. However, we could upgrade Land Bank if the bank improves its capitalization and sustainably maintains the RAC ratio above 10% over the next one to two years with signs of satisfactory asset quality and prudent capital management.

Ratings Score Snapshot

Issuer Credit Rating: twAA+/ Stable/ twA-1+

SACP: bbb

Anchor: bbb

- Business Position: Adequate
- Capital and Earnings: Adequate
- Risk Position: Adequate
- Funding: Strong
- Liquidity: Adequate

Support: +3

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- ALAC Support: 0
 - GRE Support: 0
 - Group Support: 0
 - Sovereign Support: +3
- Additional Factors: 0

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed

Land Bank of Taiwan

Issuer Credit Rating	twAA+/Stable/twA-1+
Unsecured Subordinated Debenture Issue Credit Rating	twA

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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