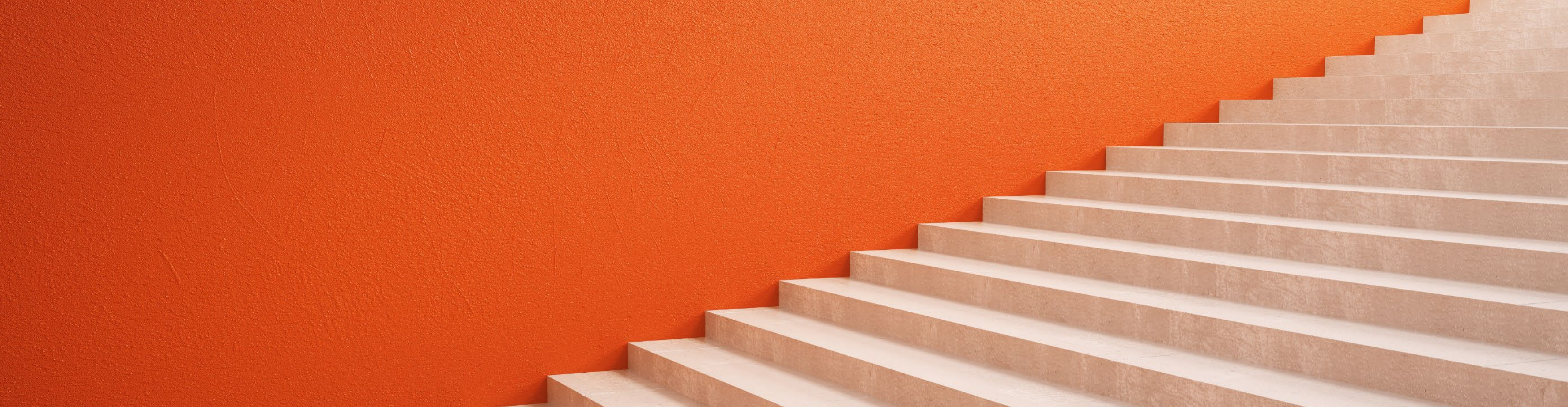

Taiwan Banking Update

Banks Remain Resilient Amid Uncertainty In 2025

S&P Global Ratings

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Financial Services Ratings

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This report does not constitute a rating action

Key Takeaways

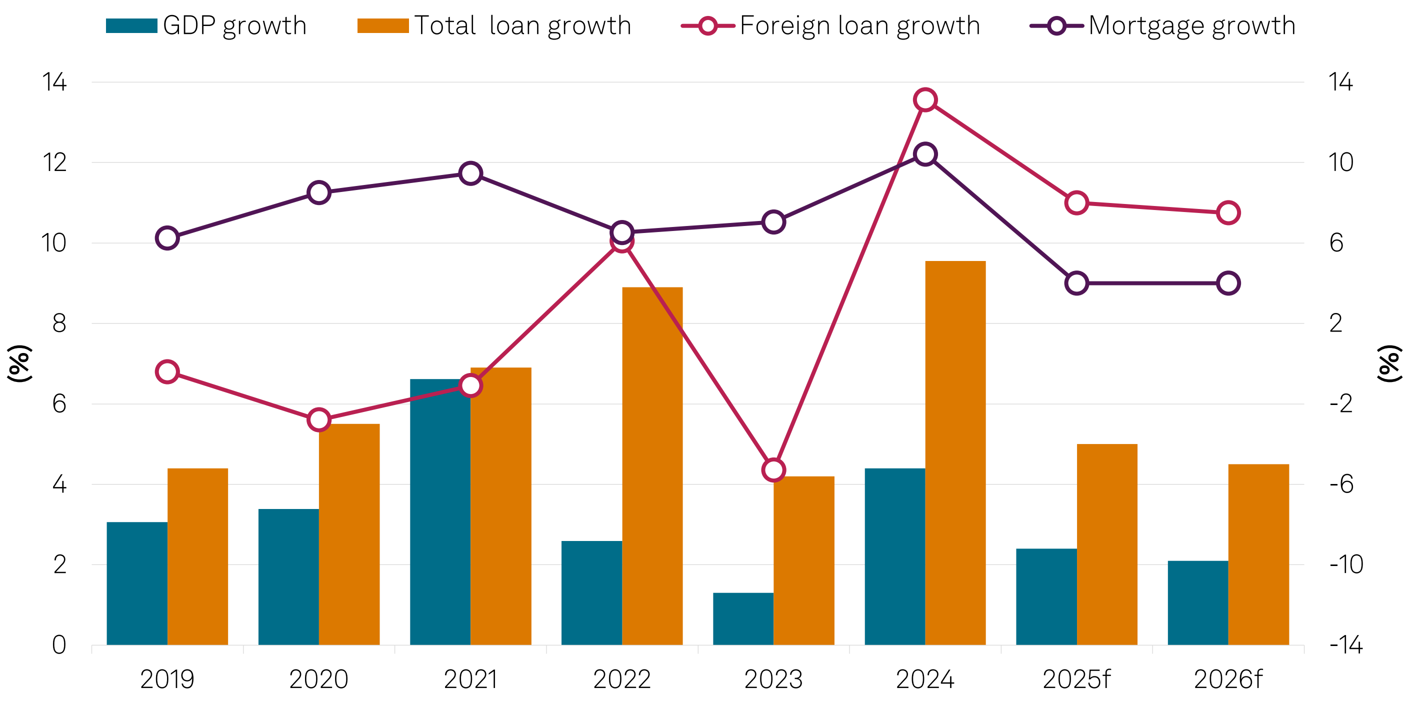
Taiwan's growing reliance on the U.S. economy exposes the domestic economy to higher risk of changes in U.S. policy. This could hit Taiwan households and businesses, and, in turn, banks.

Credit losses will increase on weaker sectors of the economy amid rising economic uncertainties.

Taiwan banks' have adequate-to-strong capital buffers to help alleviate market uncertainty.

Loan Growth To Drop Moderately

Growth Will Likely Decline Slightly From A High Base In 2024

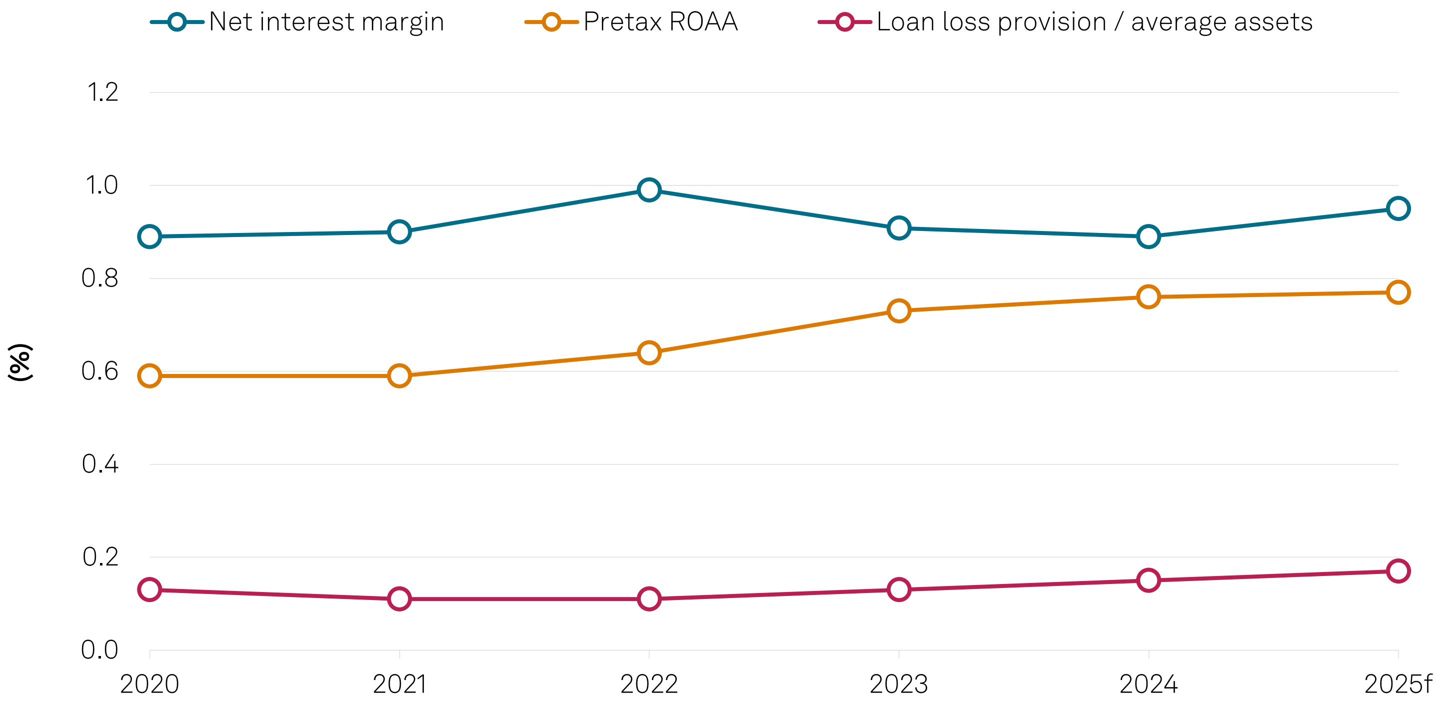


Sources: Financial Supervisory Commission, Taiwan Rating Corp. forecasts (f).

- Corporate and mortgage lending underpinned strong loan growth in 2024 due to a government-led preferential housing loan program and booming market conditions. Foreign currency loans also rebounded strongly on recovering corporate demand.
- We expect loan growth to moderate in 2025 amid heighted uncertainty. High economic uncertainty over U.S. policy direction could hit Taiwan households and corporates. Banks have also tightened their growth on property related lending based on risk awareness considerations and regulatory exposure limits.
- Overseas lending will see higher growth amid banks' pursuit for profitability and diversification.

Banks To Maintain Adequate Profitability In 2025

Rising Credit Costs Could Offset Banks' Improving NIM



ROAA--Return on average assets. Source: Financial Supervisory Commission. Taiwan Rating Corp. forecasts (f).

- Net interest margins (NIM) should improve in 2025 due to stronger growth in foreign loans and fewer trading swaps.
- Fee income is likely to be muted amid the volatile investment market. That's despite a stable stream of insurance product sales through banks' wealth management business.
- A rise in nonperforming assets could lead to a modest increase in credit costs. Higher economic volatility and somewhat heightened stress in the real estate sector could slightly increase bank's nonperforming asset recognition in 2025.

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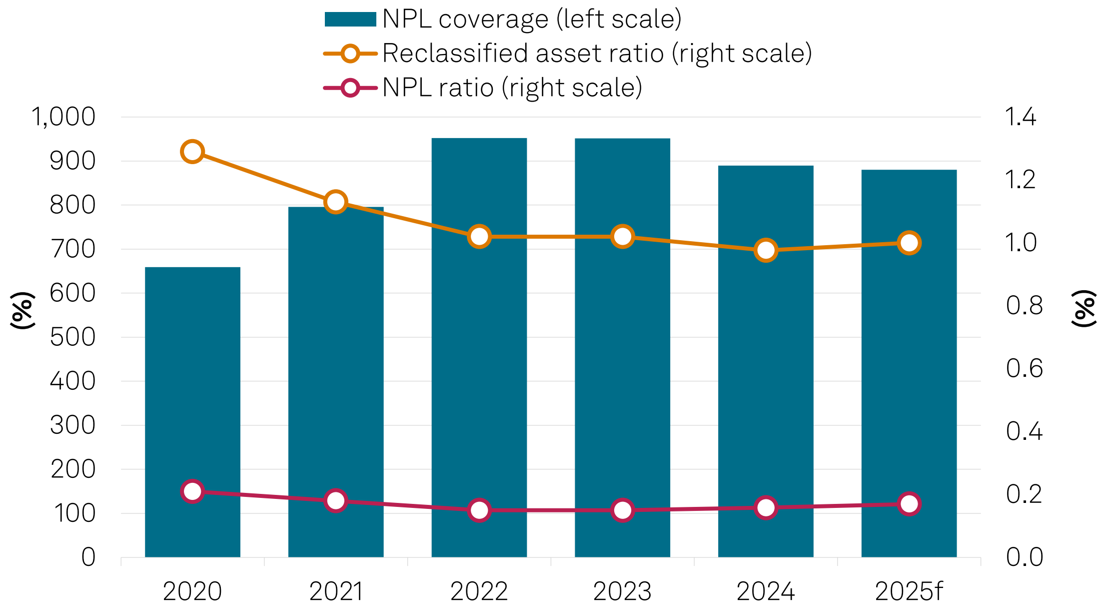
Credit Losses To Trend Up Slightly

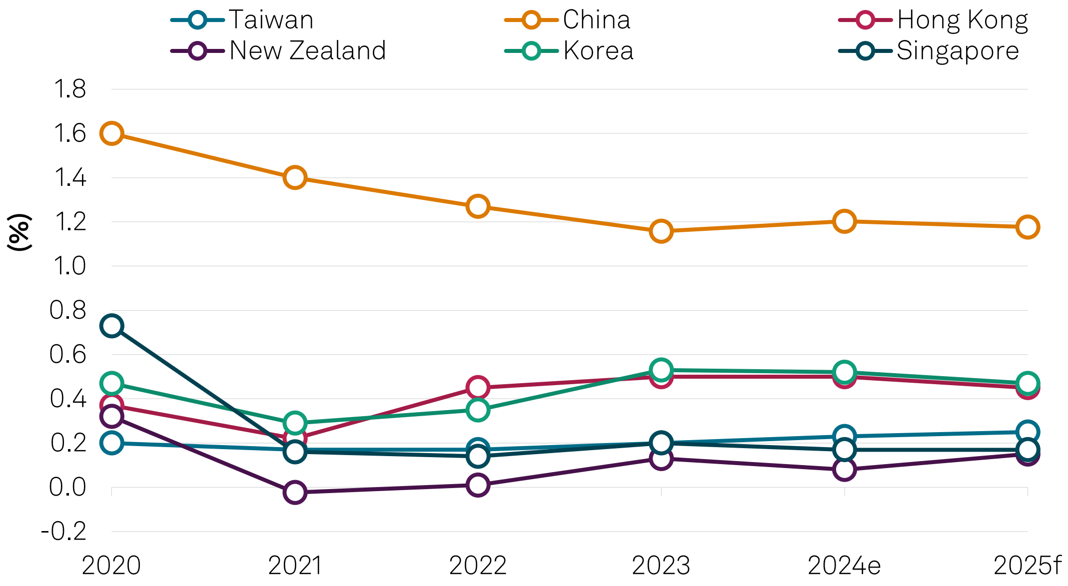
- Banks' asset quality should remain resilient in 2025.
- Credit costs will rise but remain manageable and low by regional comparison.

Asset Quality Metrics



Source: Financial Supervisory Commission. Taiwan Rating Corp. forecasts (f).

Credit Cost Comparison With APAC Countries



Sources: Taiwan Rating Corp. , S&P Global Ratings.

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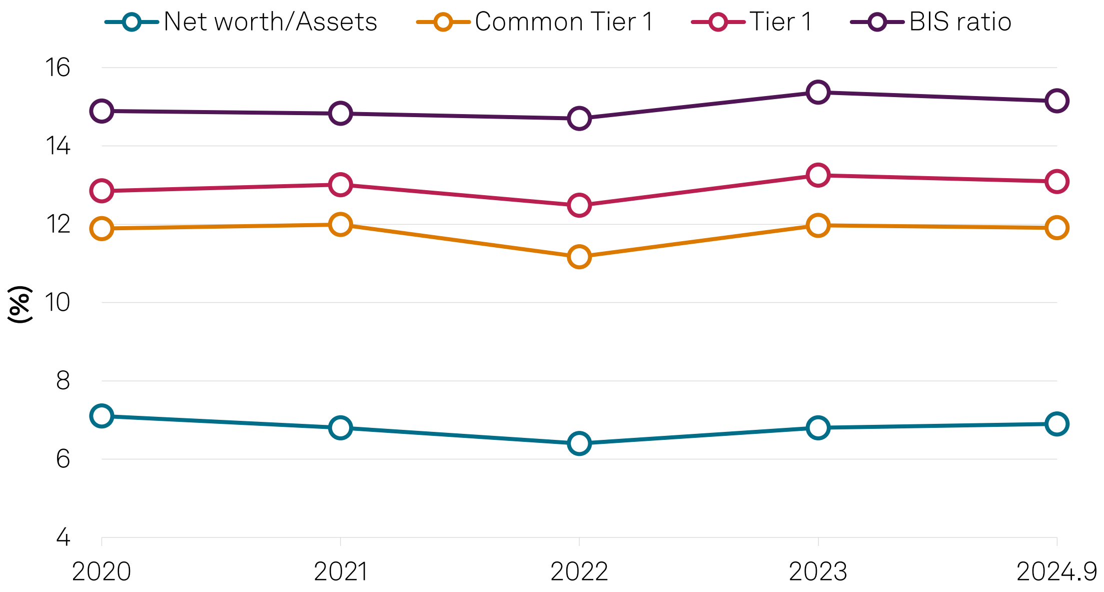
Banks' Capital Buffers Help Offset Risk

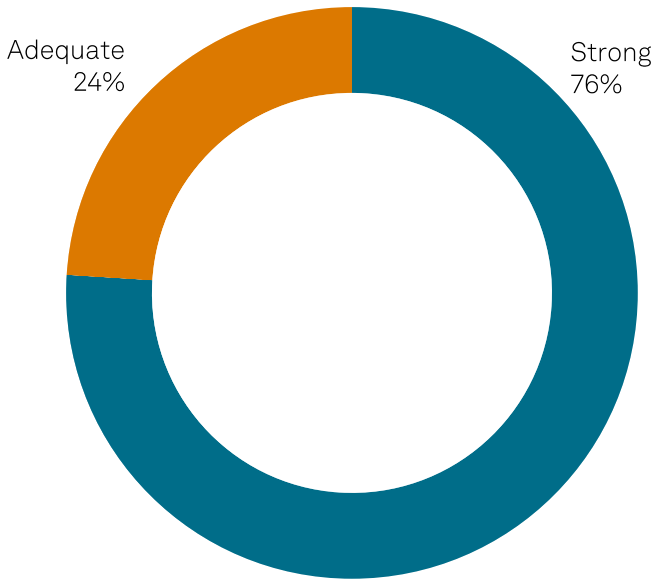
- We anticipate banks will execute prudent dividend policies in 2025 to maintain their capitalization.
- Most rated banks have strong capital and earnings, but buffers are thinner than average for some state-owned banks, given government budgetary constrains.

Banks' Regulatory Ratios



Sources: Financial Supervisory Commission. Taiwan Rating Corp.

Taiwan Banking Sector's Capital And Earnings Score

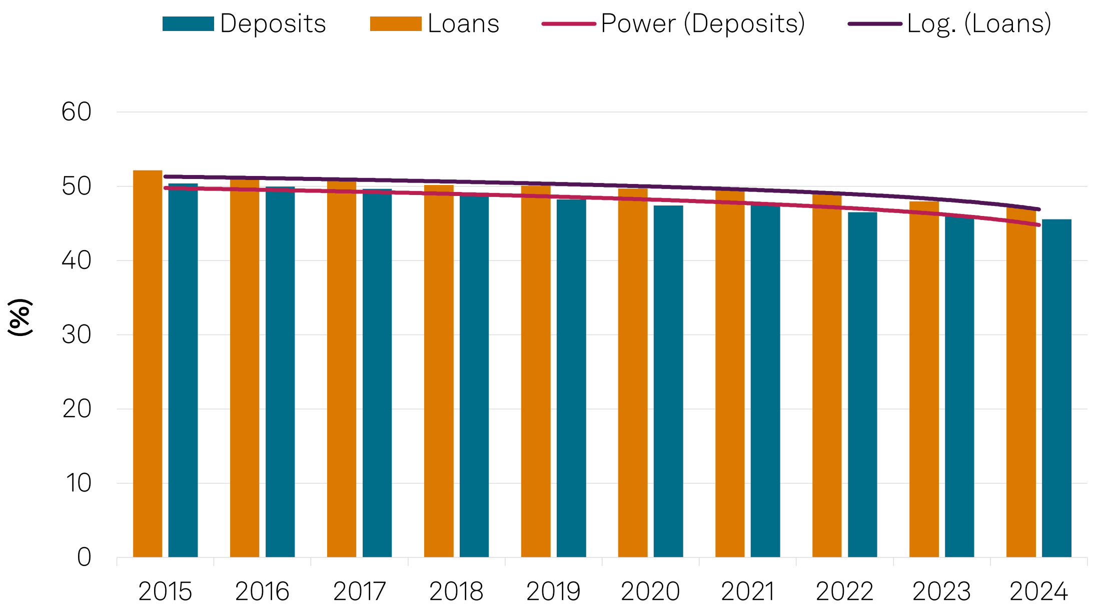


Source: Taiwan Rating Corp.

Competitive Dynamics Are Showing Signs Of Improvement

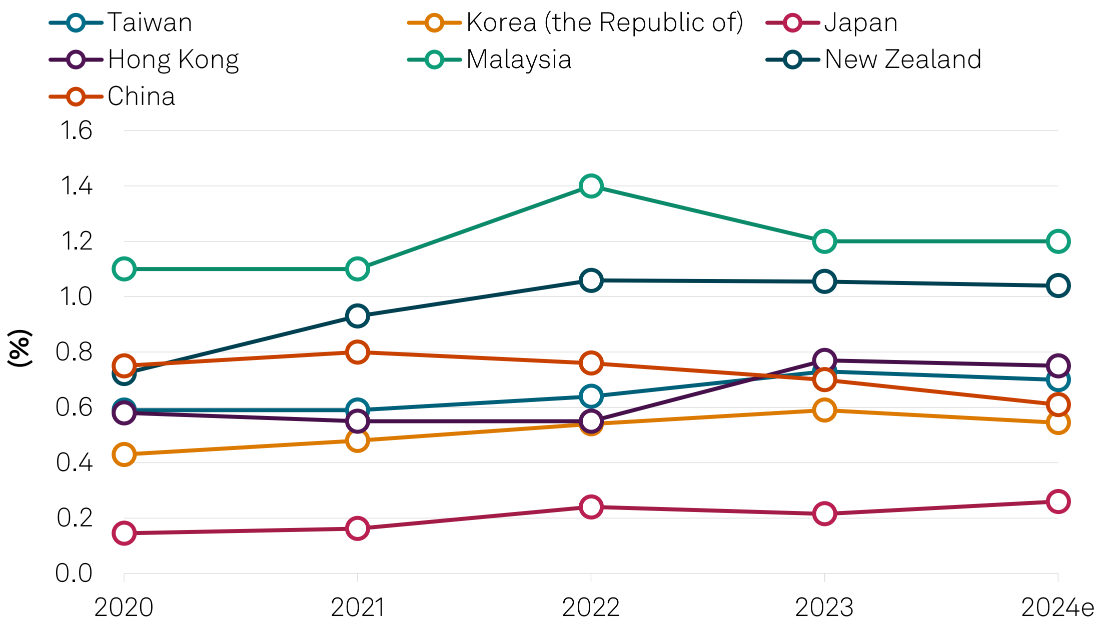
- Loan and deposit market shares for government-owned banks have trended down over the past decade but remain sizable.
- M&As have reduced competitor numbers, but structural changes in competitive dynamic require further meaningful consolidations.
- Profitability remains low but resilient relative to regional banks.

Market Share Of Government-owned Banks Is Declining



Source: Taiwan Ratings Corp.

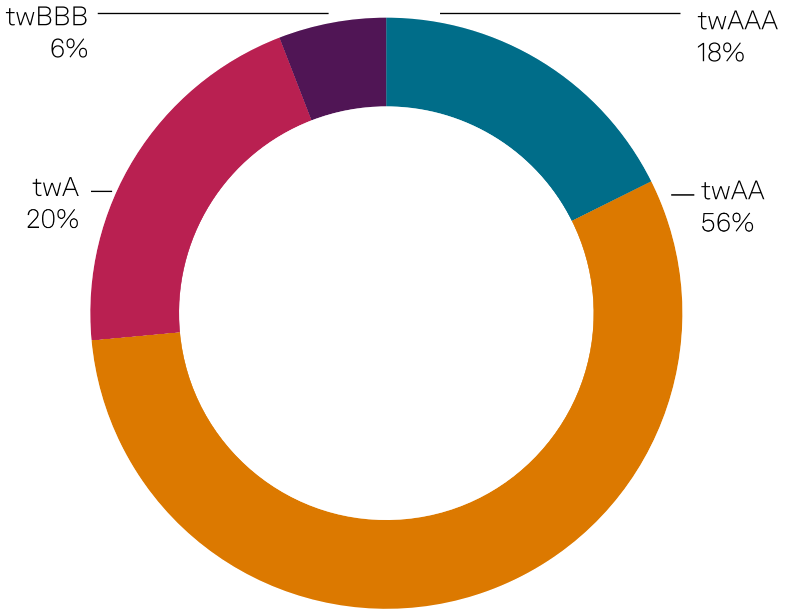
Low Profitability By Regional Comparison



Source: Taiwan Ratings Corp.

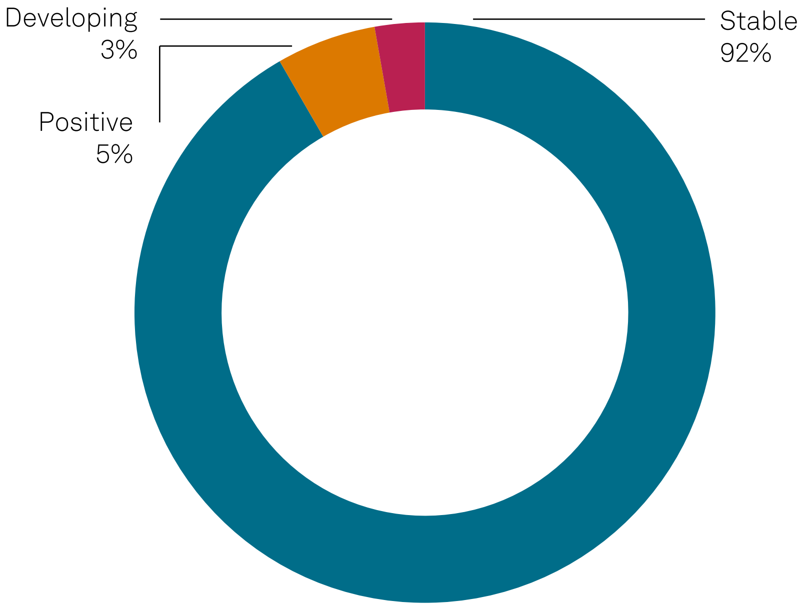
Ratings Remain Resilient With Mostly Stable Outlooks Despite Uncertainty

Taiwan Banking Sector Rating Distribution



Data are as of March 19, 2025. Source: Taiwan Ratings Corp.

Taiwan Banking Sector Outlook Distribution



Data are as of March 19, 2025. Source: Taiwan Ratings Corp.

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