Media Release:
The Shanghai Commercial & Savings Bank Ltd.
Ratings Affirmed At 'twAA/twA-1+'; Outlook Stable

December 20, 2023

Overview
− In our view, The Shanghai Commercial & Savings Bank Ltd. (SCSB) has strong capitalization and manageable credit costs that it is likely to maintain over the next one to two years.
− We have revised our upside rating trigger to reflect our view that SCSB will maintain adequate asset quality on a consolidated basis on par with the peer average over the next two years.
− We have affirmed our 'twAA/twA-1+' issuer credit ratings on SCSB.
− The stable rating outlook reflects our view that SCSB will keep its capitalization at a strong level over the next two years, along with satisfactory risk controls and adequate liquidity.

Rating Action
Taiwan Ratings Corp today affirmed its 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on SCSB. The outlook remains stable. At the same time, we affirmed our 'twA+' issue credit rating on the bank's subordinated unsecured debenture.

Rationale
The global economic downturn has slightly weakened the asset quality of SCSB's overseas operation, albeit still comparable to the asset quality of its local peers in Taiwan and Hong Kong. The bank's consolidated nonperforming loan ratio was around 0.37%, with a stand-alone nonperforming loan ratio of 0.17% at the end of June 2023. SCSB's impaired assets, including other substandard loans, have increased over the past two years on a consolidated basis under the weakening global economy. We view the bank's asset quality to be roughly on par with the other local peers operating in the Taiwan and Hong Kong banking segments. Nonetheless, SCSB's prudent underwriting policy, adequate risk controls with high-quality collateral, and focus on transactional-based lending will continue to support its adequate risk position over the next two years.

We see SCSB maintaining strong capitalization over the next two years. We forecast the bank's consolidated risk-adjusted capital (RAC) ratio will remain above 10% over the next two years. Strong earnings amid the current high interest rate environment as well as the bank's proactive capital management support this view. That's despite the potential for a slight increase in the bank's credit provisions over the next two years compared with its historical level up to 2021.
The bank's business position will remain adequate supported by its niche operating model. The ratings on SCSB continue to reflect our view of the bank’s better geographical diversification compared with its domestic banking peers. This is because of the stable profit contribution from SCSB's Hong Kong subsidiary, and from SCSB's established niche position in the offshore banking business.

**Outlook**

The stable rating outlook reflects our expectation that SCSB will retain strong capitalization, satisfactory risk controls, and adequate liquidity over the next two years. We also forecast the bank will maintain its good franchise in trade finance and cross-strait corporate banking, and a stable retail banking presence that ensures stable business flow and adequate funding capacity at its Taiwan and Hong Kong operations.

**Downward scenario**

We may lower the ratings on SCSB if the bank pursues aggressive growth that hurts its asset quality and weakens its capitalization over the next two years. A RAC ratio continuously below 10% would indicate a deterioration in capitalization.

**Upward scenario**

We could raise the ratings on SCSB if the bank strengthens its capitalization while at the same time, maintains its RAC ratio above 15% over the next two years. Possible sources of this improvement include higher retained earnings with improving earnings capacity and prudent business expansion.

**Ratings Score Snapshot**

Issuer credit rating: twAA/Stable/twA-1+
Stand-alone credit profile: bbb+
Anchor: bbb
- Business position: Adequate (0)
- Capital and earnings: Strong (+1)
- Risk position: Adequate (0)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable rating analysis: 0

Support: 0
- ALAC support: 0
- GRE support: 0
- Group support: 0
- Sovereign support: 0

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
- 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
- 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

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<tr>
<td>Issuer Credit Rating</td>
<td>twAA/Stable/twA-1+</td>
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<tr>
<td>Unsecured Subordinated Debenture (with NVCC)</td>
<td>twA+</td>
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NVCC - Non viability contingent capital.

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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