

Bulletin:

SCSB's Credit Provision Won't Weaken Capitalization

July 10, 2024

Taiwan Ratings Corp. believes an additional credit provision by **The Shanghai Commercial & Savings Bank Ltd.** (SCSB) is unlikely to weaken the bank's strong capitalization over the next one to two years.

SCSB (twAA/Stable/twA-1+) recently announced a credit provision of approximately Hong Kong dollar (HK\$) 1.49 billion, about new Taiwan dollar (NT\$) 6.2 billion. This is for substandard loans at its 57.6%-owned Hong Kong subsidiary, Shanghai Commercial Bank Ltd. The latest credit provision follows an earlier provision of HK\$1.35 billion for substandard loans in late 2023.

While the increased credit provision will negatively affect SCSB's 2024 profits, we do not expect any impact on the bank's capitalization this year, given SCSB's solid capital base and slower loan growth than we previously forecast. We expect SCSB's consolidated risk-adjusted capital ratio will remain above 10% during 2024-2025 after factoring in the additional credit provision. This is because we forecast the bank will generate consolidated preprovision operating income of NT\$28 billion-NT\$32 billion annually over the same period to support its growth, potential credit losses, and maintain strong capitalization.

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