

JCR Affirmed AA-/Stable Rating on Sr.debts of Sony Bank

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Rationale

- (1) Sony Bank Inc. (the "Bank") is an Internet-specialized bank with the 100% voting rights being held by Sony Financial Holdings Inc. (SFH), which is a holding company of the Bank. It has strengths in foreign currency deposits and housing loans. The Bank has been expanding its business by providing unique products and services on the back of the good brand image. The rating for the Bank reflects its stand-alone proper business base as an Internet-specialized bank, relatively good asset quality, a certain level of capital adequacy and conservative financial management in consideration for the soundness. Besides, JCR incorporates a possibility of support from SFH Group, in which Sony Life Insurance Co., Ltd. is the core company, into the rating for the Bank. Whether or not the Bank can increase the degree of the contribution to the earnings of the Group through an appropriate risk management, its position and the degree of participation in the Group will be the important points in determination of the rating for the Bank hereafter.
- (2) The primary sources of earnings are revenue from fund management such as investment in securities and housing loans. The stability in its top-line earnings has increased due to expansion in volume of housing loans and control over fund procurement costs. However, the Bank's profitability measured by ROA is low because of its characteristic as seen in data-processing industry, which is required to make system investments uninterruptedly, in addition to the fund management policy with reduced risk. Due to low interest rates, tough competition and customers' high preference for rates on both loans and deposits, it is not easy for the Bank to improve profitability. Also, Sony Bank Securities Inc., a subsidiary of the Bank, has been incurring loss, placing downward pressure on the consolidated net income of the Bank.
- (3) The quality of loans is good with the claims disclosed under the Financial Reconstruction Act being extremely low. The housing loans accounting for majority of the loans are well controlled with the low default rates and collateral, although these loans are not guaranteed. Although there is a possibility that the credit costs related to the housing loans may increase in the future owing to the sluggish personal income and lapse of time after the loan execution, JCR thinks that the credit costs can be limited to a manageable level. For loans to corporate customers, the Bank makes loans cautiously by setting an upper limit on the loan amount per corporate customer centering on major leading companies. Loan exposure per corporate customer, however, is large against the earnings, and the balance is expanding. Therefore, JCR will watch closely the credit management by the Bank.
- (4) The Bank takes a conservative stance for its investments in securities and has few complicated structured products. As the Bank is characterized by its large investments in foreign bonds, it cannot escape from being impacted by turmoil in Europe. JCR still thinks, however, that the Bank can manage the challenge. Credit exposures to GIIPS, which are peripheral EU countries, are limited to 1.6 billion yen.
- (5) The consolidated Tier I capital ratio was 9.81% at the end of September 2011. The ratio of deferred tax assets to the Tier I capital is small, and the quality of equity capital is good. Although rapid expansion in business tends to constrain an increase in Tier I ratio, the Bank has been maintaining the capital level above a certain level by implementing capital reinforcement. As the Bank sells housing loans with interest rate type being freely switched over from one to another, it is important that the Bank control the interest rate risk. The risk amount at the moment seems to be within the scope of the financial strength. JCR will pay attention to whether or not the Bank can continue to conduct cautious risk management because it aspires strongly to expand its business including loans to corporate customers.

Rating

Issuer: Sony Bank Inc.

Senior debts: AA- Outlook: Stable



Outline of the method for the determination of the credit rating is posted as "Rating Methodology (Financial Institutions)" on JCR's home page (<http://www.jcr.co.jp>). The rating methodology is subject to additions and changes. In such cases, however, these additions and changes are shown in chronological order. Please check the release date of this press release against that of the rating methodology (i.e., the date when such methodology became effective) and then refer to the rating methodology above.

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