

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

## The Shiba Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A-  
Outlook: Stable

### Rationale

- (1) The Shiba Shinkin Bank (the "Bank") is a large shinkin bank headquartered in Minato Ward, Tokyo with a fund volume of 1.2 trillion yen. Its main operating bases are established in favorable locations such as Minato, Ota and Shinagawa wards in Tokyo, and Yokohama and Kawasaki cities in Kanagawa Prefecture. The rating is supported by good capital adequacy and the quality of loan assets that are well-diversified and secured by collateral and/or guarantees. Although profitability is low, JCR views core net business income excluding gains and losses on cancellation of investment trusts, etc. will remain at a sufficient level relative to credit costs.
- (2) Core net business income increased two fiscal years in a row for the fiscal year ended March 2022 (FY2021). Interest and dividends decreased due to a decrease in the balance of securities, and personnel expenses also rose as the number of employees increased, etc. However, an increase in interest on loans and discounts contributed to the performance recovery since the balance of loans was still on uptrend after the loans relating to the COVID-19 came to the end due to the Bank's efforts of developing new customers in the areas where it had not yet established businesses, among others. Going forward, interest and dividends on securities may decrease if the situation where it is difficult to ensure interest income from a gap between short- and long-term interest rates in the U.S. continues for a long period of time. Having said that, JCR views core net business income will likely be steady due to cost reductions through improving efficiency of the branch management and implementing DX in day-to-day operations in addition to the support of interest on loans.
- (3) Loans to real estate companies accounts for slightly less than 50% of the entire balance, and most of which are in real estate leasing business. Attention needs to be paid to the trend in credit cost when real estate market conditions deteriorate; however, JCR sees an impact of credit concentration to the real estate companies on the credit costs is limited at present since loans are well secured and properties are in good locations. Non-performing loans ratio under the Financial Reconstruction Act was low at 2% as at the end of March 2022, and credit costs have been staying at low levels over the past few years as loans are diversified into small claims and well-secured. Uncertainties involved in the future economic conditions need to be watched; however, JCR believes the credit costs will unlikely largely expand in the future as well.
- (4) In surplus funds management, the Bank's exposure to interest rate risk is not small against capital, while that of price fluctuation risk associated with REITs, etc. is well controlled against capital. The Bank has been increasing multi-asset foreign securities. JCR will closely watch the future trend since valuation losses are expanding.
- (5) Consolidated core capital ratio adjusted for general allowance for bad debts, etc. had been on recovery, standing at slightly more than 10% as at the end of March 2022. Going forward, in addition to expected increase in risk weighted assets due partly to diversified way of securities investments, valuation losses on securities are also growing at present. On the other hand, the Bank has been increasing capital between FY2021 and FY2022, and retained earnings will also likely continue to increase in the future. JCR believes the Bank will be able to maintain the capital at a comparable level as a regional financial institution falling under JCR's A- category for the foreseeable future.

Kengo Sakaguchi, Kei Aoki

### Rating

Issuer: The Shiba Shinkin Bank

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Rating Assignment Date: November 11, 2022

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014) and "Banks" (October 1, 2021) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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