

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

The Tokyo Shinkin Bank (security code: -)

<Assignment>

Long-term Issuer Rating: A-
Outlook: Stable

Rationale

- (1) The Tokyo Shinkin Bank (the “Bank”) is a large-scale shinkin bank headquartered in Toshima Ward, Tokyo with a fund volume of 1.2 trillion yen. It has primary operating bases in the areas like Tokyo’s Toshima, Itabashi, Nerima and Shinjuku wards and southern Saitama Prefecture, where business opportunities are abundant. Under the strong leadership of its top management, it focuses on deposit and loan operations and has a business model based on in-person sales, centering on fixed-term deposits, and swift loan operations. Factors reflected in the rating include the aforementioned operating bases and business model, relatively high profitability underpinned by such, quality of loan assets and decent capital adequacy.
- (2) Driven by growth in interest on loans and discounts, core net business income has long been on an uptrend. Not only loan balance has expanded with an increase in loans to the real estate industry and COVID-related loans, but also loan yield is improving moderately in recent years. Overhead ratio is low thanks to the efficient branch network, personnel allocation, etc., and expenses have been levelling off despite business expansion. Consequently, ROA based on core net business income for the fiscal year ended March 2022 (FY2021) stood relatively high in the upper 0.4% range. Meanwhile, the Bank has since FY2019 been strictly selective in loans to the real estate industry to correct concentration on certain industries in the loan portfolio. Because of this and the end of COVID-related loans, the increase in loans is decelerating. Therefore, core net business income is likely to stop growing for now, but JCR assumes that the current level of profitability will still be maintained.
- (3) Half of loans are accounted for by those to the real estate industry, mainly leasing companies. Even though attention must be paid to changes in credit costs when the real estate market is in a slump, JCR considers that, given good coverage, favorable locations of the properties and strict screening and process management of credits, credit concentration on this industry has only a limited impact on credit costs for now. Non-performing loans ratio under the Financial Reconstruction Act in the upper 2% range as of September 30, 2022 falls below shinkin banks’ average. Loans outstanding to debtors classified as other debtors requiring caution account for as much as 50% of the total, which however is mainly attributable to conservative self-assessment. Partly because of sufficient coverage, credit costs in recent years have been kept low. Future economic uncertainty requires attention, but JCR assumes that credit costs are not likely to grow sharply even in the future.
- (4) Because the Bank prioritizes loan operations, securities-to-deposit ratio is low, below 20%. Given conservative investment stance, the Bank builds the portfolio mainly with yen bonds and is determined to not invest in foreign bonds. Interest rate risk is not so high relative to capital, and price fluctuation risk is contained.
- (5) Consolidated core capital ratio adjusted for land revaluation differences, etc. as of March 31, 2022 stood at around 9.5%. As the increase in risk assets has been constrained with the accumulation of internal reserves and growth in COVID-related guaranteed loans, the capital level has been improving constantly. Currently, a temporary increase in deposits is pushing up risk assets, but, given strictly selective loans to the real estate industry, risk assets are hardly likely to keep growing significantly. JCR views that the capital level will continue improving with a further accumulation of internal reserves.

Kengo Sakaguchi, Kei Aoki

Rating

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Rating Assignment Date: February 9, 2023

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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