

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

The Tokyo Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable

Rationale

- (1) The Tokyo Shinkin Bank (the "Bank") is a large shinkin bank headquartered in Toshima Ward, Tokyo with a fund volume of 1.2 trillion yen. It has main operating bases in areas with abundant business opportunities, such as Toshima, Itabashi, Nerima and Shinjuku Wards in Tokyo as well as southern Saitama Prefecture. Under the strong leadership of its top management, the Bank focuses on deposit and loan operations, and has built a business model based on face-to-face sales mainly offering fixed-term deposits and swift loan arrangements. Factors reflected in the rating include the aforementioned operating bases and business model, relatively high profitability underpinned by such, the quality of loan assets and decent capital adequacy.
- (2) Until now, core net business income has been increasing for a long period of time, driven by growth in interest on loans on the back of an increase in the balance of loans. ROA (based on core net business income) in the fiscal year ending March 2023 (FY2022) was in the mid 0.4% range, which is high among shinkin banks in the A rating category. Core net business income in the first half of FY2023 was almost flat. In order to correct industry concentration in its loan portfolio, loans to the real estate industry are being carefully selected, and early repayments of COVID-19-related loans are increasing. These factors have led to a halt in the growth in loan balance. Going forward, expenses are expected to increase due to DX investment. However, once the early repayments of COVID-19-related loans have finished, the balance of loan is expected to increase, and JCR therefore sees that the Bank will maintain the current level of profitability for the time being.
- (3) Because half of the balance of loans are those to the real estate industry centered on leasing business, it is necessary to pay close attention to trends in credit costs when real estate market conditions worsen. However, given good coverage, favorable locations of the properties, and the strict screening / process management of credits, JCR considers that credit concentration on the industry has only a limited impact on credit costs for now. The ratio of disclosed claims under the Financial Reconstruction Act was in the upper 2% range as of the end of the first half of FY2023, which is below the average for shinkin bank, and the credit cost ratio is also kept low. Although the amount of other claims on borrowers requiring caution is large, JCR assumes that credit costs are not likely to grow significantly even in the future, partly because of sufficient coverage.
- (4) Risks in securities investment are contained. Because the Bank prioritizes loan operations, the securities-to-deposit ratio is low, in the mid 10% range. The Bank builds the portfolio mainly with yen-denominated bonds and decided not to invest in foreign-currency-denominated bonds. Interest rate risk and price fluctuation risk are small compared to capital.
- (5) The adjusted consolidated core capital ratio adjusted for land revaluation differences, etc. was just under 10% as of the end of FY2022, which is at a level commensurate with the rating. Going forward, although retained earnings will continue to accumulate, risk-weighted assets mainly in loans to SMEs are expected to increase and the current level of capital will likely be maintained.

Kengo Sakaguchi, Kei Aoki

Rating

Issuer: The Tokyo Shinkin Bank

<Affirmation>

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Rating Assignment Date: February 29, 2024

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" (February 1, 2024) 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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