

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

THE SEIBU SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A+
Outlook: Stable

Rationale

- (1) Headquartered in Nakano Ward, Tokyo, THE SEIBU SHINKIN BANK (the "Bank") is a large shinkin bank with a fund volume of 2.2 trillion yen. It has certain operating bases in Tokyo's 23 wards and Tama area. Having received an administrative penalty from the Financial Services Agency on the grounds of the inappropriate credit risk management system for loans to investment properties, etc. in May 2019, it worked to improve and strengthen the business management system. The rating reflects the industry-leading level of profitability, good loan asset quality and sufficient capital adequacy.
- (2) ROA based on core net business income remained high at a bit over 0.5% in the fiscal year ended March 2022 (FY2021). However, core net business income (excluding gains on cancellation of investment trusts; hereinafter the same) fell 10% over the year to 12.7 billion yen due in part to a decrease in interest on loans and an increase in costs associated with the transition of the core banking system. Loan balance has declined as COVID-related loans have ended and the Bank takes a cautious stance on loans to real estate leasing businesses, which used to be an earnings driver, consequently pushing down loan yields. Downward pressure on interest on loans is likely to continue for a while longer, mainly due to a decline in loans to real estate leasing businesses. Given that the Bank has shifted its focus to a community-based sales strategy, whether it can halt the decline in core net business income by, for instance, accumulating high-quality loans in a wide range of industries and strengthening non-interest businesses will be watched.
- (3) Non-performing loans ratio disclosed under the Financial Reconstruction Act is rising but still stays at a decent level, standing at 2.4% as of March 31, 2022. Because the Bank has conservatively reviewed the debtor classification of loans to real estate leasing businesses over the past few years, the outstanding balance of assets requiring caution is somewhat large. That said, of the assets requiring caution, precautionary provisions are made for the loans to real estate leasing businesses and COVID-affected borrowers that are with relatively high risks. Even though credit costs grew to as much as around 30% of core net business income as a result, the ratio declined to a bit below 20% in FY2021 as the impact of the above precautionary provisions ceased. Given the effective diversification into small amounts and coverage, credit costs are not likely to grow large even in the future. Risks from securities investment are limited. Securities-to-deposit ratio (based on average balance) for FY2021 was low at less than 4%, and interest rate risk and price fluctuation risk associated with the bonds held are both low relative to capital.
- (4) Consolidated core capital ratio adjusted for reserves for possible loan losses, etc. as of March 31, 2022 was decent at around 11.5%. Given, among others, that the Bank is cautious about loans to real estate leasing businesses, risk assets are not likely to increase significantly, and JCR assumes that the capital level will improve with the accumulation of retained earnings.

Hidekazu Sakai, Kei Aoki

Rating

Issuer: THE SEIBU SHINKIN BANK

<Affirmation>

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Rating Assignment Date: August 24, 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/>).



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