

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 1.1 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 reflects relatively good capital adequacy and the quality of loan assets that are well-diversified and secured by collateral and/or guarantees. Going forward, an increase in fund procurement cost along with an increase in interest rates of deposits will be the factor placing downward pressure on earnings, but JCR sees core net business income (excluding gains and losses on cancellation of investment trusts, etc., the same applies hereinafter) will likely remain steady because yield on fund management is continuing to improve.
- (2) ROA based on core net business income is in the middle of 0.2% range. It is at an average level of regional financial institutions in the rating of A categories by and large. Core net business income has been relatively stable. For the fiscal year ended March 2024 (FY2023), it remained at a level on par with that for the previous fiscal year. Interest and dividends on securities decreased, but as for loans, interest income continued to increase as yields on loans were in an upward trend due in part to the positive outcome of the efforts of setting interest rates focusing on profitability. In the future, increases in deposit interest and expenses are expected to be the factors placing downward pressure on earnings, and the loan balance has also weakened due to repayments of COVID-19-related loans. However, an improvement in yields on loans and surplus fund management due to rising market interest rates will likely support the earnings. Therefore, JCR sees the Bank will be able to maintain current level of profitability.
- (3) Non-performing loans ratio under the Financial Reconstruction Act was low in the middle of 2% range. Credit cost has remained at a low level, and was reversed for FY2023. As for loans to real estate leasing companies with high composition ratio relative to the entire loans, there are many borrowers classified in the borrowers requiring caution, but the credits are secured by real estate. Furthermore, loan assets are diversified into small claims, and also considering the fact that provisions have been conservatively made to borrowers with relatively high risk, credit costs will unlikely become a large amount in the future as well.
- (4) In securities investment, the Bank reduced the balance of bonds in FY2023 anticipating rising interest rates, and its interest rate risk exposure associated with domestic bonds was at a relatively suppressed level against the equity capital. The Bank owns many multi-asset foreign securities, and decline in market value was halted in FY2023. Consequently, the valuation loss is not so large relative to the equity capital. Given the policy of maintaining the balance of securities at a current level for the time being, market risk will continue to be appropriately controlled, in JCR's view.
- (5) Consolidated core capital ratio adjusted for valuation loss on available-for-sale securities, etc. was in the upper 10% range at the end of March 2024. The Bank will appear to increase the equity capital steadily through accumulation of retained earnings, and will probably maintain it at a good level as a regional financial institution in A categories in the future as well.

Akira Minamisawa, Kei Aoki

Rating

Issuer: The Shiba Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: October 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" (October 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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