20-D-0589
September 11, 2020

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

THE SEIBU SHINKIN BANK (security code: -)

<Outlook Change>
Long-term Issuer Rating: A+
Outlook: from Negative to Stable

Rationale

(1) Headquartered in Nakano Ward, Tokyo, THE SEIBU SHINKIN BANK (the “Bank”) is a large shinkin bank with a total funds of 2 trillion yen. It has established certain operating bases in Tokyo’s 23 wards and Tama area. The Bank received in May 2019 an order to improve its business operations from the Financial Services Agency on the grounds of the inappropriate credit risk management system for loans to investment properties and the insufficient management system to avoid transactions with anti-social forces, etc. Over the past year, JCR has paid attention to the effectiveness of the Bank’s new business operation system based on its business improvement plan, and confirmed that the management structures have been solidified in terms of governance and risk control and they are working without any problem. For the sales front, the Bank broke away from its traditional attitude that places earnings above everything else and is expanding support activities such as business support and problem solution for customers by thoroughly separated management of each client company. Meanwhile, the Bank is highly likely to maintain the high-earnings structure for the foreseeable future. Even while the COVID-19 pandemic is prolonged, it is likely to ensure income after credit cost deduction. In addition, its risk resistance has increased thanks to the improved core capital ratio. Based on these factors, JCR has changed the rating outlook on the Company to Stable.

(2) In the fiscal year ended March 2020 (FY2019), the core net business income decreased more than 10% from the previous period mainly because of a decrease in lending balance due to constrained loans for real estate leasing businesses (real estate loans), but ROA based on this income was maintained at a high level, around 0.65%. Thanks to its highly profitable loan portfolio centered on real estate loans and loans for measures against the COVID-19 pandemic now substantially increasing, the fundamental earnings will stay solid for the foreseeable future in JCR’s view. The Bank plans to implement prudent lending operations with consideration given to the balance with deposits, enhancing approach to businesses other than real estate. It also intends to enhance efforts for non-interest businesses it had not focused on so far. JCR will pay attention to whether the business models will take root and bring in earnings early.

(3) Its non-performing loans ratio disclosed under the Financial Reconstruction Act is on an uptrend, but at a favorable level, somewhat above 1.7% as of March 31, 2020. Following real estate loans in FY2018, the Bank increased allowance for some borrowers affected by the COVID-19 pandemic in order to enhance credit preservation as a preventative measure in FY2019. Although its credit cost somewhat increased for two consecutive years, it stayed 30% of core net business income in the both years. As the Bank conservatively revised the classification of debtors for real estate loans, caution-needed loans have significantly increased, but they are diversified into small claims and well-covered. Hence, even amid the stagnant domestic economy, credit cost will unlikely expand substantially, in JCR’s view. Meanwhile, surplus operating funds are basically deposited, and the securities-to-deposit ratio (based on average balance) standing low at 4% in FY2019. Interest rate risk associated with bond holdings is extremely low, and price fluctuation risk is also constrained with small investment trust holdings.

(4) The consolidated core capital ratio adjusted for reserves for possible loan losses, etc. stood at around 10% as of March 31, 2020, improved more than 1 point from the previous period mainly thanks to a decrease in risk assets. The Bank has sufficient equity capital relative to risks associated with loan assets and securities investment. Since most of the loans associated with measures against the COVID-19 pandemic currently growing are guaranteed by credit guarantee associations, the loans would not be a factor to increase risk assets.

Hajime Oyama, Akira Minamisawa

Rating
Issuer: THE SEIBU SHINKIN BANK

<Outlook Change>
Long-term Issuer Rating: A+ Outlook: Stable

Rating Assignment Date: September 9, 2020

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status 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 methodology for determination of the credit rating is shown as "JCR's Rating Methodology" (November 7, 2014) and "Banks" (May 8, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

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