

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 fund volume of over 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 is supported by good capital adequacy and the quality of loan assets that are well-diversified and covered by loan loss reserve, collateral, guarantees or other means. Although profitability is low, core net business income excluding gains on cancellation of investment trusts, etc. is sufficient relative to credit costs and will likely stay more or less at the current level.
- (2) Core net business income declined in the fiscal year ended March 2020 but turned around in FY2020, thanks to an increase in interest income with a sharp rise in the loan balance driven by COVID-related loans. FY2021 is likely to see a large decrease in earnings because of the redemption of yen bonds, but this decrease is expected to be small in FY2022 and beyond. Growth in the loan balance will likely keep pushing up interest into FY2021. Moreover, by providing financing assistance, the Bank is now successfully increasing the number of new borrowers in industries other than real estate, which previously has been a challenge, and is also setting up new bases specialized in corporate loans. Given, among others, that the Bank has been diversifying securities investment and working on cost reductions by, for instance, streamlining branch operations, it can maintain core net business income at the current level in JCR’s view.
- (3) Around half of loans are made to real estate companies, most of which are in the real estate leasing business. Some borrowers in this business have been reclassified into lower categories due to the COVID crisis, but only to a limited extent. Credits to real estate leasing companies will probably have only a limited impact on credit costs for now in light of good bad debt coverage and properties’ favorable locations. Non-performing loans ratio under the Financial Reconstruction Act is low, being in the lower 2% range as of March 31, 2021, and credit costs have been staying at low levels over the past few years. As loans are diversified into small claims and well-covered when the economic outlook is uncertain, a huge increase in credit costs appears to be unlikely.
- (4) In surplus funds management, the amount of interest rate risk is not small against capital, while that of price fluctuation risk associated with REITs, etc. is well controlled against capital. As regards multi-asset foreign securities whose balance is expanding, the portfolio ensures a certain level of risk control. Given the current investment plan, JCR assumes that investments will not result in excessive risk taking against capital.
- (5) Consolidated core capital ratio adjusted for general reserves for possible loan losses, etc. is fairly good, being in the upper 9% range as of March 31, 2021. As growth in the loan balance in FY2020 was attributable mainly to guaranteed loans, risk assets increased only marginally. Looking ahead, risk assets will likely expand with an increase in direct loans and the diversification of securities investment, thus pushing down core capital ratio. Even so, JCR predicts that the ratio will remain competitive for a while for the Bank as a regional financial institution in JCR’s A- rating category.

Kengo Sakaguchi, Kota Matsuzawa

Rating

Issuer: The Shiba Shinkin Bank

<Affirmation>

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Rating Assignment Date: October 21, 2021

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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