

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

THE SAITAMAKEN SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable

Rationale

- (1) THE SAITAMAKEN SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Kumagaya City, Saitama Prefecture with a fund volume of about 3 trillion yen. With a branch network all across the prefecture where markets for both deposits and loans are large against the backdrop of diverse industrial bases, it has a certain presence in the prefecture, ranking third in terms of market share for loans there. The reasonable size of its business base and quality loan assets, as well as a stable earnings capacity, are supporting the Bank's rating. In addition, a decline in the core capital ratio after adjustment, which was an issue to be address, came to a halt, and the ratio has improved to a level commensurate with the rating.
- (2) Its core net business income (excluding gains and losses on cancellation of investment trusts; the same applies hereinafter) has been on a rise since the fiscal year ended March 2018 (FY2017) after bottoming out in FY2016. Although fees and commissions and other business profit are currently slowing down, there is contribution of an increase in net interest income with funds for responding to the COVID-19 pandemic, and cost cutting efforts. JCR sees that the Bank will be able to maintain a stable level of net core business income, supported by an increase in interest subsidies for loans responding to the pandemic and cost reduction including optimization of the branch network and streamlining of personnel. At the same time, JCR will pay attention whether the Bank is able to expand earnings through development and enhancement of its problem-solving ability, among others.
- (3) As of September 30, 2020, the Bank's non-performing loans ratio disclosed under the Financial Reconstruction Act stood at 1.65% (a partial direct write-off has not been conducted), far below the shinkin banks' average. Its loan quality is favorable as shown by loans diversified to small accounts and a small amount of uncovered loans for large debtors. It conservatively sets aside loan loss reserves for debtors with a large credit risk. In addition, it built up ordinary general provision for loan losses by reviewing the calculation method of allowance rates. Credit costs had been increasing so far as a result of downgrade in asset classification of some specified borrowers, but going forward, JCR needs to observe trends in credit costs due to the impact of pandemic.
- (4) In its securities investments, the Bank has been making efforts to rebalance its portfolio, from bonds to risk assets such as SCB Global Trust and investment trusts, ensuring relatively stable interest and dividends on securities (excluding gains and losses on cancellation of investment trusts). The amount of its interest rate risk is not so large against capital. Although balance in investment trusts has been significantly increasing, a majority of the trusts are bond-type or multi-asset-type ones, and the amount of the price fluctuation risk on equity securities is not large.
- (5) Its core capital ratio (on a non-consolidated bases) had been on the decline but rose to 8.37% as of September 30, 2020 from 8.11% as of March 31 2020. Risk assets on marketable securities are expected to grow going forward, but the Bank would be able to maintain the current level of core capital ratio thanks to a certain level of retained earnings.

Hajime Oyama, Atsushi Kato

Rating

Issuer: THE SAITAMAKEN SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: May 19, 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" (May 8, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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