

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

## Seibu Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A+  
Outlook: Stable

### Rationale

- (1) Headquartered in Nakano Ward, Tokyo, Seibu Shinkin Bank (the "Bank") is a large shinkin bank with fund volume of 1.8 trillion yen and certain presence in Tokyo's wards and Tama area. It is constantly opening branches mainly in the wards, where there are many business opportunities, to expand the operating base, and its loan growth rate is one of the highest in the industry. JCR positively views, along with other factors, that the Bank retains high profitability by increasing the core net business income amid tough business conditions, including lingering low interest rates, and steadily posts a net income backed by good loan asset quality and that the equity capital is sufficient relative to the actual amount of risks associated with loan assets and securities.
- (2) The Bank captures customers' fund needs for effective real estate use etc. mainly through its proposal-based sales activities to help find solutions and is significantly increasing SME lending thanks to its pricing that appropriately reflects risks. The increase in interest on loans and discounts in the fiscal year ended March 2018 (FY2017) was the largest one in recent years partly because of the curbed decline in the loan yield, while the core net business income marked a new record at 14.4 billion yen, growing by nearly 40% from the previous year. ROA based on this income stands high in the upper 0.6% range. Given, among others, that the Bank has been increasing loans while retaining fairly high yield and that the downward pressures on the yield are weakening, JCR views that the Bank can remain competitive in the industry in terms of ROA.
- (3) Non-performing loans ratio disclosed under the Financial Reconstruction Act is low, being in the 0.9% range as of March 31, 2018. The ratio of categorized loans other than normal assets to the total credits is well-controlled, and the credit costs stay low. Total loans are accounted for as much as 40% by those to the real estate leasing industry, but JCR sees the loan asset quality is not likely to deteriorate significantly as the Bank makes credit decisions under strict screening standards, its portfolio is well-diversified into small claims and well-covered by mortgages, etc. On the other hand, the amount of surplus funds is small, 80% of which is deposited; therefore, the securities-to-deposit ratio (based on average balance) is low at 6%. Amid the lingering ultra-low interest rate environment, the Bank is reducing bond investments, resulting in extremely small interest-rate risks associated with the bond holdings. Price fluctuation risks are also constrained as the Bank does not hold a large amount of stocks or investment trusts.
- (4) Given the well-covered loan assets and not much risk-taking in securities investment, JCR concludes that the Bank has sufficient equity capital as a risk buffer. As a recent trend, the core capital ratio has been declining because of a huge increase in risk assets. However, the consolidated core capital ratio adjusted for reserves for possible loan losses, etc. as of March 31, 2018 rose slightly from a year before to the upper 8% range, as a result of an increase in investments in capital during the year. Even though the current situation will likely continue, where the core capital ratio can hardly be improved, JCR considers it highly probable that the Bank will raise the ratio as necessary as it is constantly studying ways of improvement.

Hajime Oyama, Akira Minamisawa

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Rating Assignment Date: June 8, 2018

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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