

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

THE SEIBU SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A+
Outlook: Stable

Rationale

- (1) Headquartered in Nakano Ward, Tokyo, THE SEIBU SHINKIN BANK (the "Bank") is a large shinkin bank with total funds of 2 trillion yen. It has established certain operating bases in Tokyo's 23 wards and Tama area. Two years have passed since the Bank received an administrative penalty from the Financial Services Agency on the grounds of the inappropriate credit risk management system for loans to investment properties, etc. Its business management system has been developed and strengthened. Under a new sales structure based on individual company management, the Bank is expanding support activities such as business support for customers and problem solving. Its credit rating reflects industry-leading-level profitability, favorable loan assets, and capital adequacy. Although fundamental earnings have declined, JCR believes that profitability will remain at the higher level in the A range for the time being, given the highly profitable loan portfolio centered on loans to the real estate leasing businesses (real estate loans).
- (2) Core net business income-based ROA is at a high level of slightly above 0.6% in the fiscal year ended March 2021 (FY2020). Over the past two years, however, interest income on loans has fallen sharply, and core net business income has continued to decline. Outstanding loan balance decreased significantly in FY2019 due to constraints on operating activities from administrative penalty, etc. As a result, the average balance did not reverse in FY2020 despite an increase in COVID-19-response loans. As the Bank is taking stricter attitude to real estate loans, growth in loan balances may become sluggish going forward. In addition expenses are expected to increase for expansion of system investment. To stabilize fundamental earnings is an issue to address, and JCR will pay attention to whether the Bank can accumulate highly profitable loans in a variety of industries through business support activities, and on initiatives in non-interest businesses and securities investment, which it has not previously focused on.
- (3) Its non-performing loans ratio disclosed under the Financial Reconstruction Act is on an uptrend, but still at a favorable level of 1.8% as of March 31, 2021. In recent years, loans to borrowers requiring caution have increased significantly because of a conservative review of the borrower classification of real estate loans. That said, for real estate loans and borrowers affected by the COVID-19 pandemic, precautionary provisions have been made for those with relatively high risks, which has strengthened conservation. Accordingly, credit costs increased somewhat in the past three fiscal years, but all of them accounted for 30% of the core net business income. Given the effectiveness of small-lot diversification and conservation of the loan portfolio, it is unlikely that credit costs will increase significantly going forward. Meanwhile, surplus operating funds are basically deposited, and the securities-to-deposit ratio (based on average balance) standing low at 3% in FY2020. Its 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. was in the latter half of the 10% range as of March 31, 2021. The Bank has a sufficient amount of equity capital relative to risks associated with loan assets and securities investment. It is easy to expect to secure net income, and capital would steadily increase through the accumulation of retained earnings.

Hidekazu Sakai, Akira Minamisawa

Rating

Issuer: THE SEIBU SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A+ Outlook: Stable

Rating Assignment Date: September 16, 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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