

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

## **SBI SECURITIES Co., Ltd. (security code: -)**

### <Rating Change>

Long-term Issuer Rating:	from A- to A
Outlook:	Stable
EMTN Program:	
(Senior notes):	from A- to A
(Subordinated notes):	from BBB+ to A-

### *Rationale*

- (1) SBI SECURITIES Co., Ltd. (the “Company”) is an online securities firm under the umbrella of SBI Holdings, Inc. (“SBIHD”). Factors reflected in the ratings include the creditworthiness of the SBI Group (the “Group”) in consideration of the core role the Company plays in the Group and also the Company’s own solid business base in the online securities industry, high resistivity against downward pressure on profits thanks to the fairly well-diversified business mix and low risk amount relative to capital.
- (2) SBIHD made Shinsei Bank, Limited (“Shinsei Bank”) a consolidated subsidiary in December 2021. While Shinsei Bank is likely to maintain a certain level of independence even after the consolidation by remaining listed and so forth, three of its full-time directors, including President and CEO, will be nominated by the Group; therefore, JCR assumes that Shinsei Bank will operate in line with the Group’s strategies as an entity positioned as a key to the Group’s sustainable growth. Looking ahead, Shinsei Bank intends to pursue synergies by, for instance, mutually referring customers with the Company and other group companies.
- (3) The Group’s earnings capacity is increasing, especially for the financial services business mainly conducted by the Company as the core entity. The Company’s performance will likely remain firm into the future, as shown by the steady expansion of the customer base and diversification of earnings sources. For businesses other than financial services, banking operations in South Korea are good, and the deficit in bio-related businesses is becoming smaller, making the Group’s earnings capacity more stable. Moreover, the consolidation of Shinsei Bank, which operates the corporate business, where the Group is weak, in addition to the bank and non-bank businesses and generates revenues mostly from steady sources, is expected to help expand the customer base and business portfolio, resulting in the greater diversification and stability of the Group’s earnings capacity. Based on the above, JCR upgraded the Company’s long-term issuer rating to A while raising the evaluation of the Group’s creditworthiness.
- (4) The Company has strength in its face-to-face sales through SBI MONEY PLAZA Co., Ltd. (“SBI MONEY PLAZA”) and IFAs (independent financial advisors) and versatile customer contact points including crypto asset exchange service providers, in addition to the low commission fees and collaboration with SBI Sumishin Net Bank, Ltd. It has a solid business base with the No. 1 position in the online securities industry in terms of the number of accounts, assets in custody and stock brokerage market share for individual investors, and the number of accounts and assets in custody have been increasing fairly rapidly. The Company has also been proactive in expanding its customer base through alliances beyond the boundaries of the Group; for instance, it is seeing steady development in the investment trust savings service using the credit cards of Sumitomo Mitsui Card Co., Ltd. under the capital and business alliance with the SMBC Group and is yielding positive results in the operation of the shops co-managed by regional financial institutions and SBI MONEY PLAZA. Moreover, it enjoys a certain presence in initial public offering and underwriting operations in the corporate-related business, which is defined as a priority area, and its consulting business for financing and M&A matters is also firm. Efforts are also being made to expand business domains, including entry into the real estate finance business.
- (5) The Company is in the process of eliminating commissions, mainly those for online trading, and is thus becoming less reliant on domestic stock brokerage commissions in terms of consolidated net operating revenue. On the other hand, the weight of commissions from other brokerage services and revenues from foreign currency-denominated bond transactions, FX and the corporate-related

business is tending to increase, and thus earnings sources are well-diversified among online securities firms. Despite the impact of market fluctuations, profits have been firm in recent years, and earnings capacity is fairly good. Net operating revenue grew 5% over the year to 157.0 billion yen in the fiscal year ended March 2022. As contributing factors, financial balance improved with the accumulation of margin transactions, and commission income from foreign stock brokerage and trading income from foreign currency-denominated bonds were good, which more than offset a decrease in domestic stock brokerage commissions because of the aforementioned no-commission measures and stagnant crypto asset trading due to market deterioration. Trust fees are also growing steadily, helping stabilize the earnings. Consolidated ordinary profit improved only marginally due to an increase in expenses but still reached 62.0 billion yen. No-commission measures are expected to keep placing downward pressure on net operating income into the future, but this can be covered by other earnings sources than trading commissions. Given also that the break-even point is kept at a relatively low level, JCR assumes that the earnings will remain solid going forward, too.

- (6) Consolidated net assets as of the end of March 2022 were 248.4 billion yen, and consolidated capital adequacy ratio stood decent at 320.5%. As the Company has been focusing on the corporate-related business in recent years, counterparty risk is on an uptrend. However, the business size is not yet so large, and the Company keeps its risk-taking in proprietary investments to a limited level, though increasing gradually, by basically engaging in trading based on customer order flow. Looking ahead, it intends to concentrate on margin transactions for U.S. stock and the real estate business, but, as it plans to maintain capital at a certain level, JCR finds no major concerns. Risks from FX and crypto asset trading operated by the Company's own group companies are controlled by cover transactions. In terms of financing, the Company secures direct financing tools such as bonds and bank borrowings and has sufficient assets that can be used for financing. Therefore, there is little concern about liquidity. On a separate note, the Group is expanding investments and consequent financing, especially in the asset management business. Accordingly, it should be noted that the Group's management strategies strongly affect the Company's management policies, earnings and finances.

Kengo Sakaguchi, Tatsuya Shimizu

## Rating

Issuer: SBI SECURITIES Co., Ltd.

### <Rating Change>

Long-term Issuer Rating: A	Outlook: Stable
Program Name:	Euro Medium Term Note Programme
Maximum Issuable Amount:	Equivalent of JPY 150 billion
Rating:	A (senior notes), A- (subordinated notes)

Rating Assignment Date: July 11, 2022

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), "Securities" (May 8, 2014) and "Rating Methodology for Financial Groups' Holding Companies and Group Companies" (March 29, 2019) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

A program rating is assigned to evaluate the creditworthiness of a program. The credit standing of an individual note issued under the program may be regarded as the same as that of the rated program. However, JCR does not consider the credit standing of the individual note as the same as that of the program, in the cases where the principal and interest payments of the individual note rely on the credit standing of a third party rather than the issuer of the program and notes (e.g. credit linked notes and exchangeable notes). JCR usually does not assign a rating to the individual note issued under the program, unless the issuer solicits a rating.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)



## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

### Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	SBI SECURITIES Co., Ltd.
Rating Publication Date:	July 14, 2022

1

The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2

The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3

The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

#### A) Business Bases

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

#### B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

#### C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.
- A) Audited financial statements presented by the rating stakeholders
- B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

### B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

### C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

**D) Related Parties' Status and Stance of Support/ Assistance for the Issuer**

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

**E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract**

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

**F) Rise and Fall in General Economy and Markets**

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

**G) Various Events**

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

**12**

Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

**13**

Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

**A) Business Bases**

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

**B) Financial Grounds and Asset Quality**

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset

quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

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Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

**Japan Credit Rating Agency, Ltd.**

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## The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
SBI SECURITIES Co., Ltd.	Issuer(Long-term)	December 1, 2017	A-	Stable
SBI SECURITIES Co., Ltd.	Issuer(Long-term)	September 28, 2018	A-	Stable
SBI SECURITIES Co., Ltd.	Issuer(Long-term)	October 10, 2019	A-	Stable
SBI SECURITIES Co., Ltd.	Issuer(Long-term)	October 23, 2020	A-	Stable
SBI SECURITIES Co., Ltd.	Issuer(Long-term)	October 25, 2021	A-	Stable
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme	January 19, 2018	A-	
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme	September 28, 2018	A-	
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme	October 1, 2018	A-	
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme	October 10, 2019	A-	
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme	October 23, 2020	A-	
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme	October 25, 2021	A-	
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme(subordinated)	October 1, 2018	BBB+	
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme(subordinated)	October 10, 2019	BBB+	
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme(subordinated)	October 23, 2020	BBB+	
SBI SECURITIES Co., Ltd.	Euro Medium Term Note Programme(subordinated)	October 25, 2021	BBB+	



## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Tomohiro Miyao, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

宮尾 知浩

Tomohiro Miyao

General Manager of Financial Institution Rating Department

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