

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 a fund volume of 2.2 trillion yen. It has established certain operating bases in Tokyo's 23 wards and Tama area. The rating reflects evaluation on favorable profitability, capital adequacy, the quality of its well-secured loan assets, etc. Although its core net business income (excluding gains/losses on cancellation of investment trusts; the same hereinafter) has decreased significantly over the past few years, JCR believes that for the time being it will be able to maintain a level sufficient to absorb losses such as credit costs.
- (2) Although the ROA (on a basis of core net business income) for the fiscal year ended March 2024 (FY2023) was relatively high at just over 0.4%, it has been on a downward trend for long, and its advantage in terms of earnings is gradually fading. Core net business income fell 15% year on year due to a decrease in interest on loans and an increase in expenses. The outstanding loans to the real estate rental industry, which have relatively high yields, and COVID-19-related loans are declining. Going forward, increased procurement costs with higher deposit interest rates are expected to result in a decrease in core net business income. The key issue is whether the Bank can curb the decline in the deposit yields on net interest rate spread by passing on rises in market interest rates to its lending interest rates or increasing lending to SMEs by strengthening problem-solving marketing.
- (3) The non-performing loans ratio disclosed under the Financial Reconstruction Act stays at a decent level, standing at 2% as of the end of March 2024. Credit costs have remained low excluding the impact of precautionary provisions, and resulted in a reversal in FY2023, following the previous fiscal year. Loans to the real estate leasing industry, which accounts for a large proportion of loans, are extended to many borrowers requiring caution, but are well secured by real estate collateral. In addition, for borrowers requiring caution or at risk of bankruptcy, the Bank is conservatively setting aside loan loss reserves for relatively high-risk borrowers. Considering the current credit preservation situation and the effectiveness of small-lot diversification, a significant increase in credit costs is unlikely in the future.
- (4) Surplus funds are primarily managed as deposits, and the security deposit ratio (on a basis of average balance) is low at 6% in FY2023. The interest rate risk associated with the bonds held is low. Holdings of stocks and investment trusts are small, and price fluctuation risk is kept low relative to capital, hence risks associated with securities management are limited.
- (5) The consolidated core capital ratio adjusted for reserves for possible loan losses, etc. as of end-March 2024 was just under 13%. The Bank has a high level of capital margin relative to risks associated with its loan assets and securities. JCR believes that equity capital will steadily increase thanks to the accumulation of retained earnings.

Akira Minamisawa, Kei Aoki

Rating

Issuer: THE SEIBU SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A+ Outlook: Stable

Rating Assignment Date: October 4, 2024

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" (October 1, 2024) and "Banks" (October 1, 2021) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.



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