

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

The Tokyo Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable

Rationale

- (1) The Tokyo Shinkin Bank (the “Bank”) is a large-scale shinkin bank headquartered in Toshima Ward, Tokyo with a fund volume of 1.2 trillion yen. It has primary operating bases in the areas with abundant business opportunities, including the Toshima, Itabashi, Nerima and Shinjuku wards of Tokyo and southern Saitama Prefecture. It focuses on deposit and loan operations and has a business model based on in-person sales, mainly offering fixed-term deposits, and swift loan arrangements. Core net business income has long been on an uptrend, backed by the aforementioned operating bases and business model. Capital adequacy relative to the risk amount is also increasing thanks to the accumulation of retained earnings. JCR assumes that core net business income and capital adequacy is most likely to keep improving, driven by domestic interest rate hikes.
- (2) Basic earnings capacity is relatively high. ROA based on core net business income stands in the upper 0.4% range, remaining high among entities in JCR’s A rating category. Driven by growth in interest on loans and discounts with an increase in loans, core net business income has long been on the rise. In the first half of the fiscal year ending March 2025 (FY2024), despite downward pressure from growth in financing costs due to deposit interest rate hikes and in personnel and other expenses, it showed slight year-on-year growth. Given the Bank’s track record of offsetting the repayment of COVID-related loans with the refinancing guarantee system and business loans, SME lending will probably remain solid for a while longer. Looking ahead, JCR views that core net business income will rise further thanks in part to the effect of an increase in revenues from loans and market investment assets as a result of domestic interest rate hikes.
- (3) Non-performing loans ratio under the Financial Reconstruction Act as of the end of September 2024 stood low in the lower 2% range. Credit costs have been consistently kept low relative to core net business income and were reversed in the first half of FY2024. Credits to the real estate leasing industry, which account for half of loans, have a large weight of other borrowers requiring caution partly because of conservative self-assessment. That said, given good coverage, favorable locations of the properties, strict screening and process management of credits, etc., credit costs are not likely to grow significantly for the time being even if inflation and interest rate hikes continue.
- (4) Risks in securities investment are contained. The Bank manages 70% of surplus funds as deposits, and thus securities-to-deposit ratio is low at around 15%. It builds the portfolio mainly with yen bonds and does not invest in foreign currency-denominated bonds. Interest rate risk and price fluctuation risk are both kept small relative to capital.
- (5) Capital adequacy is at a level decent for an entity in JCR’s A rating category. Core capital ratio adjusted for allowance for doubtful debts as of the end of September 2024 was in the lower 10% range. It is foreseeable that the stable accumulation of retained earnings will continue into the future, and JCR assumes that the capital level will keep improving despite growth in risk assets, especially loans to SMEs.

Akira Minamisawa, Kei Aoki

Rating

Issuer: The Tokyo Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable



Rating Assignment Date: March 6, 2025

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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