



# NEWS RELEASE

May 20, 2010

## R&I Assigns BBB+: The Senshu Ikeda Bank, Ltd. Sub Bonds No.7 & 8

Rating and Investment Information, Inc. (R&I) has announced the following:

**ISSUER:** The Senshu Ikeda Bank, Ltd. (Sec. Code: Unlisted)  
Unsec. Sub Bonds No.7 & 8  
New Issue

**R&I RATING:** **BBB+ (Assigned)**

### **RATIONALE:**

The Senshu Ikeda Bank, Ltd. (Unlisted, Issuer Rating: A-) was established on May 1, 2010 through a merger between The Bank of Ikeda, Ltd. and The Senshu Bank, Ltd. under Senshu Ikeda Holdings, Inc. (Sec. Code: 8714). R&I assigned BBB+ to the bonds listed below, a notch lower than the Issuer Rating, in view of their subordinate status under the bond agreements.

Senshu Ikeda Bank has its main operational base in Osaka Prefecture and the Hanshin Region, which form one of the strongest economic zones in Japan. Although its market share of deposits and loans in Osaka and Hyogo Prefectures is only a small percent, the bank has decent market presence primarily in northern Osaka and the Hanshin Region, as well as in southern Osaka. R&I is keeping an eye on to what extent the bank will be able to dig up potential demand in its operational base by making the most of the strengths of former Bank of Ikeda and former Senshu Bank.

Senshu Ikeda Bank's loan portfolio can be characterized by a large proportion of housing loans, which accounts for around 50% of total lending. As it is an urban-oriented regional bank, the ratio of lending to the real estate leasing sector is also slightly high. Due to intensifying competition in the housing loan market, as well as relatively high land prices in northern Osaka and the Hanshin Region, on which the bank plans to place more focus, the loan to value ratio (LTV) and the debt to income ratio (DTI) tend to be large, which could lead to deterioration of the asset quality. For this reason, appropriate management of the loan portfolio is becoming more important than ever. It is also essential for the bank to strengthen risk management according to its scale which expanded as a result of the merger and the risk taking policy. As to the market operations, R&I considers that the possibility of heavy losses on investment in marketable securities has become quite small, which is attributable to reduction of market risk by former Bank of Ikeda before the merger.

With the ratio of preferred stock to Tier I capital being high, the bank's capital adequacy is still at issue. Nevertheless, its risk resilience has improved to a level corresponding to the A zone thanks to reduction in market risk and capital increase. As the bank intends to contain market risk continuously in the future, R&I expects the risk resilience to continue improving steadily.

Overall, the asset quality is at a sound level, although there remain some negative factors, such as large borrowers under the harsh business environment. Upside risk for the credit costs also remains as a negative factor, and the risk may arise when the real estate market in the operating areas becomes sluggish. In the operations of housing loans, whose high proportion in total lending had contributed to enhancing the asset quality, the percentages of delinquency and subrogated payment of loans are both on the rise. Senshu Ikeda Bank intends to improve the asset quality by applying tighter lending standards for loans. R&I will keep an eye on whether the bank can make progress in improvement.

Return on total assets (ROA) based on the combined pre-provision profit of former Bank of

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**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan  
Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp>

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Ikeda and former Senshu Bank (excluding net bond related profit) falls below the average for regional banks. The group reported a net loss for the fiscal year ending March 2010 due partly to a decrease in interest income resulting from a policy rate change and reversal of deferred tax assets by former Senshu Bank. With the burden of dividend payments for preferred stock being heavy, accumulation of retained earnings is difficult. The merger of the two banks, however, has improved the balance of deposits and loans and has allowed Senshu Ikeda Bank to reduce borrowing costs as well as low-yield loans. Over the medium term, integration of head office functions and reduction of systems-related expenses can also be expected.

The deposit base, particularly the individual one, in the operational base is stable. Liquidity is ample.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's Credit Rating" and "R&I's Analytical Approach to Hybrid Securities and Financial Institutions". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

## R&I RATINGS:

**ISSUER:** The Senshu Ikeda Bank, Ltd. (Sec. Code: Unlisted)

LONG-TERM ISSUE RATING:	Issue Date	Redemption	Issue Amount (mn)
Unsec. Sub. Bonds No.7	Sep 29, 2006	Sep 29, 2016	Yen 15,000
Unsec. Sub. Bonds No.8	Mar 20, 2007	Mar 17, 2017	Yen 5,000

**R&I RATING:** BBB+ (Assigned)

**ISSUER RATING:** A-

**RATING OUTLOOK:** Stable

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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