

Nov 12, 2021

## R&I Affirms AA-, Stable: State Street Trust and Banking Co., Ltd.

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

**ISSUER:** State Street Trust and Banking Co., Ltd.  
**Issuer Rating:** AA-, Affirmed  
**Rating Outlook:** Stable

### RATIONALE:

State Street Trust and Banking Co., Ltd. (SSTB) is effectively a wholly-owned subsidiary of State Street Bank and Trust Co., the core bank of the U.S.-based State Street Corp. group. As a trust bank primarily focusing on asset administration services for Japanese clients, SSTB has a high degree of strategic importance in the group, and its rating directly reflects the entire group's creditworthiness. R&I has affirmed the rating at AA- based on the robustness of the group's franchise and the stability of its basic earning capacity, among others.

In 2021, the group announced a proposed acquisition of the Investor Services business of the U.S.-based Brown Brothers Harriman & Co. (BBH). Successful completion of the acquisition will likely increase the group's assets under custody (AUC) by US\$5.4 trillion, making it the world's largest custodian. The transaction is expected to boost pre-tax income by around 10% with net synergies in the third year following its closing targeted by end-2021. It will also help diversify earnings sources geographically through AUC growth in Ireland, Luxembourg, Japan and Latin America in addition to the U.S. R&I will keep an eye on whether the acquisition progresses as planned.

As of end-September 2021, the size of the group's investment securities portfolio increased year-on-year to approximately US\$113.6 billion. The U.S. government and agency related securities and commercial mortgage-backed securities, among others, grew. Loan balances also rose, driven by short-term fund finance loans. The allowance for credit losses increased to US\$148 million due to the COVID-19 pandemic in 2020, but declined to US\$117 million at end-September 2021 thanks mainly to a reserve release. Although about 60% of the allowance for credit losses is related to leveraged loans, approximately 82% of the group's loans are rated as investment grade. The impact of the leveraged loans is therefore limited.

The group's risk resilience still has room for improvement in order to satisfy the requirements for the AA rating category. As of end-September 2021, its consolidated standardized Common Equity Tier 1 (CET1) ratio rose by 1.1 percentage points from a year earlier to 13.5%, largely reflecting the issuance of common stock to finance the proposed acquisition of BBH Investor Services and a temporary suspension of share repurchases. If the group completes the acquisition by year end as scheduled and resumes its share repurchase program during the April-June 2022 period, the CET1 ratio will likely fall to close to the lower end of the 10-11% target range. Attention needs to be paid to the implications of the acquisition for the group's risk resilience.

There are no concerns about the group's liquidity. Its funding consists mainly of corporate deposits from custody clients, and dependence on short-term funding from markets is limited. The average liquidity coverage ratio for the July-September 2021 period was around 105%. While the net stable funding ratio (NSFR) rule became effective in July 2021, R&I believes that the group will be able to comfortably meet the requirements.

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

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**R&I RATINGS:**

**ISSUER:** State Street Trust and Banking Co., Ltd.  
**Issuer Rating**

**RATING:** AA-, Affirmed

**RATING OUTLOOK:** Stable

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