

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

Wakkanai Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A
Outlook: Stable

Rationale

- (1) Wakkanai Shinkin Bank (the "Bank") is a shinkin bank headquartered in Wakkanai City, Hokkaido with a fund volume of around 480 billion yen. When regional economies are feared to weaken because of shrinking population and so forth, the Bank plays a vital role as a financial institution that supports local companies. Its rating is supported by extremely strong capital adequacy and stable business base with overwhelming market shares for loans and deposits in the primary service area centered on Souya Subprefecture. While the impact of interest rate fluctuations on profitability and finances requires a certain level of attention, the Bank will likely improve its earnings going forward and can maintain abundant capital into the future in JCR's view.
- (2) The Bank's earnings are underpinned by interest income on surplus fund investment. Core net business income has been improving since hitting the bottom in the fiscal year ended March 2021 (FY2020), helped by a rise in interest and dividends on securities. It is expected to decline in FY2023 mainly due to temporary growth in expenses. That said, JCR assumes that the income will improve from FY2024 onward, on the grounds that further increases in interest and dividends are expected as the Bank is making progress in reshuffling its securities portfolio with relatively high-yield JGBs.
- (3) Securities investment is highly stable partly because the majority of the portfolio is made up of public bonds. Even though the amount of interest rate risk is large relative to capital as most investments are in ultra-long-term JGBs, the expansion of the risk amount is expected to be curbed as the maturities of JGBs as new investments are tending to become shorter. While unrealized losses on available-for-sale securities have increased due to higher market interest rates, the Bank maintains its financial base with sufficient capital serving as a risk buffer.
- (4) Non-performing loans ratio under the Financial Reconstruction Act as of September 30, 2023 stood somewhat high at a bit above 5%. That said, the coverage ratio of non-performing loans disclosed is high as the Bank has conventionally been adopting a strict allowance method. Credit costs have increased, but JCR finds it unlikely that they will grow much larger going forward partly because of conservative provisioning.
- (5) Non-consolidated core capital ratio as of September 30, 2023 was extremely high at 58.56%. Core capital ratio adjusted by JCR remains high, albeit a decline due to an increase in unrealized losses on available-for-sale securities. JCR assumes that the Bank can maintain sufficient capital into the future thanks to the fact that public bonds and other low-risk securities account for the bulk of the Bank's assets and also to the accumulation of retained earnings.

Hidekazu Sakai, Kyohei Yamamoto

Rating

Issuer: Wakkanai Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: February 14, 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" (February 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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