23-D-0281
June 28, 2023

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

# The Bank of Nagoya, Ltd. (security code: 8522)

<Affirmation>

| | |
|---|---|
| Long-term Issuer Rating: | A |
| Outlook: | Stable |
| Bonds (Tier 2 with loss absorption clause): | A- |

*Rationale*

(1) The Bank of Nagoya, Ltd. (the "Bank") is a regional bank II headquartered in Nagoya City, Aichi Prefecture with a fund volume of 4.4 trillion yen. Operating in Aichi Prefecture where a large number of financial institutions penetrate in the market, it steadily secures the market share of 5% for deposits (excluding Japan Post Bank) and 8% for loans. It is the only regional bank in the Tokai region, which has a branch also in China's Nantong City. Factors reflected in the ratings include decent earnings capacity backed by steady lending operations, etc., the quality of loan assets that are well-diversified into small amounts and secured, and other factors. Since the level of core capital has declined while the basic earnings remain stable, JCR will watch the trend in the core capital level going forward.

(2) Aichi Prefecture is one of the areas where competitions are the most intense in Japan for financial business and the Bank's loan yield is low. Due to this, ROA based on core net business income is slightly lower at the middle of 0.2% range; however, core net business income excluding gains on cancellation of investment trusts for the fiscal year ended March 2023 (FY2022) was at a decent level, 12.3 billion yen (12.7 billion yen for the previous fiscal year), through building up of assets under the management and others. Due to strong growth of SME lending and housing loans, an impact of decreased earnings entailing from decline in yield was eliminated and interest on loan increased for three fiscal years in a row. Expansion of fee income from loans with covenants, a decrease in deposit insurance premiums, etc. also supported the profits, and a rise in fund procurement costs for investment in foreign bonds has almost been absorbed. Foreign currency procurement costs may grow and squeeze profits for FY2023 as well. However, the Bank is working on the initiatives for strengthening the sales force through improving operational efficiency, manpower reallocation, etc. JCR views that core net business income will remain steady over the medium term through enhancing the balance of loans and others.

(3) Although non-performing loan ratio disclosed under the Financial Reconstruction Act has been on increase, it was at a level, which does not give a rise of concern, standing at 2.4% as at the end of March 2023, and loans have been highly secured through taking advantage of loans with guarantee from credit guarantee corporations. Along with deterioration in performance of borrowers, loans extended to borrowers classified under the borrowers requiring caution are increasing; however, the ratio of categorized assets is kept low. For receivables with unique inherent risks, such as LBO loans, the Bank conducts careful credit management following the strict screening process. Credit costs have long been contained relative to both the loan balance and core net business income and are not likely to grow large in the future as well, in JCR's view.

(4) Partly because of the low security-to-deposit ratio, slightly below 20%, exposure to interest rate risk involved in yen-denominated bonds has been curbed against capital. Although attention needs to be paid to interest rate risk of foreign bonds and price fluctuation risk of investment trusts, which are on increase along with increasing the balance of holdings, the Bank has ample valuation gains on stockholdings, which will work as risk buffer. For private equity funds with liquidity risk, the Bank is increasing their balance while diversifying investments within a certain funding limit.

(5) Consolidated Tier 1 ratio as at the end of March 2023 was 9.9%. When adjusted for accumulated other comprehensive income, which JCR asses as core, it comes to the lower 8% range, which is relatively low for a regional bank in JCR's "A" rating category. The ratio is on decrease because of expansion of risk assets as a result of increased lending. As the pace of expansion of risk assets is fast, core capital level may be declining in the future as well.

Michiya Kidani, Kei Aoki

*Rating*
Issuer: The Bank of Nagoya, Ltd.

<Affirmation>
Long-term Issuer Rating: A Outlook: Stable

| Issue | Amount (bn) | Issue Date | Due Date | Coupon | Rating |
|---|---|---|---|---|---|
| Callable Bonds no. 3 (Tier 2 with loss absorption clause) | | | | | |
| | JPY 10 | Oct. 12, 2018 | Oct. 12, 2028 | (Note 1) | A- |
| Callable Bonds no. 4 (Tier 2 with loss absorption clause) (green bonds) | | | | | |
| | JPY 10 | Dec. 13, 2019 | Dec. 13, 2029 | (Note 2) | A- |

Notes:
1. 0.40% until and including October 12, 2023. 6M Euroyen LIBOR + 0.24% after that date.
2. 0.44% until and including December 13, 2024. 6M Euroyen LIBOR + 0.45% after that date.

**Rating Assignment Date: June 26, 2023**

**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" (November 7, 2014), "Banks" (October 1, 2021) and "Rating Methodology for Financial Institutions' Capital and TLAC Instruments" (April 27, 2017) 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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# Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

| | |
|---|---|
| Issuer: | The Bank of Nagoya, Ltd. |
| Rating Publication Date: | June 28, 2023 |

## 1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

## 2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

## 3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases
The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality
The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions
The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

## 4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

## 5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

## 6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

## 7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

## 8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

・ The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

・ JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.

・ JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

・ If the credit rating is an Indication, please see the report for Indication.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

・ JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.

・ JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

## 12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

## 13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the order of seniority in repayment of interests and principal. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches if the issuer's financial structure differs so much and thereby the balance between debts shifted so greatly. Rating change is also possible in case of the financial products for which non-payment of interest/ principal is contractually permissible, if and when the assumptions made at the time of its determination turns out to be inaccurate. The change of the credit rating is assumed to be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

## 14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

・ The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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JCR

# The Historical Performance of the Credit Rating

| Issuer Name | Issue Name | Publication Date | Rating | Outlook/Direction |
|---|---|---|---|---|
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | March 31, 2005 | A+ | |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | June 5, 2006 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | June 5, 2007 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | May 27, 2008 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | August 28, 2009 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | August 27, 2010 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | September 22, 2011 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | November 16, 2012 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | January 31, 2014 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | February 9, 2015 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | January 27, 2016 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | January 30, 2017 | A+ | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | February 16, 2018 | A+ | Negative |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | February 18, 2019 | A | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | December 24, 2019 | A | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | February 25, 2021 | A | Stable |
| The Bank of Nagoya, Ltd. | Issuer(Long-term) | April 15, 2022 | A | Stable |
| The Bank of Nagoya, Ltd. | Bonds no.3(Subordinated) | October 5, 2018 | A | |
| The Bank of Nagoya, Ltd. | Bonds no.3(Subordinated) | February 18, 2019 | A- | |
| The Bank of Nagoya, Ltd. | Bonds no.3(Subordinated) | December 24, 2019 | A- | |
| The Bank of Nagoya, Ltd. | Bonds no.3(Subordinated) | February 25, 2021 | A- | |
| The Bank of Nagoya, Ltd. | Bonds no.3(Subordinated) | April 15, 2022 | A- | |
| The Bank of Nagoya, Ltd. | Bonds no.4(Subordinated) | December 6, 2019 | A- | |
| The Bank of Nagoya, Ltd. | Bonds no.4(Subordinated) | December 24, 2019 | A- | |
| The Bank of Nagoya, Ltd. | Bonds no.4(Subordinated) | February 25, 2021 | A- | |
| The Bank of Nagoya, Ltd. | Bonds no.4(Subordinated) | April 15, 2022 | A- | |

Attachment

# Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Tomohiro Miyao, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

宮尾 知浩

Tomohiro Miyao
General Manager of Financial Institution Rating Department

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