

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

The Awa Bank, Ltd. (security code: 8388)

<Affirmation>

Long-term Issuer Rating: AA-
Outlook: Stable

Rationale

- (1) The Awa Bank Ltd. (the "Bank") is a regional bank headquartered in Tokushima City, Tokushima Prefecture with a fund volume of more than 3 trillion yen. Leveraging its business model specializing in SME financing, the Bank is expanding its business not only in the prefecture, but also in the Kanto and Kansai areas. In April 2021, it started a comprehensive business alliance with Nomura Securities Co., Ltd. ("Nomura Securities") in the financial product brokering business, working to strengthen the non-interest businesses mainly through expansion of the balance of custody assets. JCR favorably evaluates its high share of deposits and loans in the prefecture, the robust business foundation, and profitability and capital adequacy kept high amid a harsh business environment. Meanwhile, its quality of assets is being under a downward pressure due to the COVID-19 pandemic. Whether credit costs can be adequately absorbed with core net business income is an attention point for the time being.
- (2) Core net business income (excluding gains on cancellation of investment trusts; the same applies hereafter) increased year on year in the first half of the fiscal year ended March 2022 (FY2021), following on from FY2020. ROA (based on core net business income) is 0.4% on an annualized basis, which is favorable compared to other leading regional banks. In addition to the growth in loans under the COVID-19 pandemic and a decrease in foreign currency funding costs, an increase in non-interest income is serving as an earnings drivers. The Bank is reallocating resources from the inside to the outside of the prefecture, steadily increasing the number of close customers in the Kanto and Kansai areas. Moreover, the Bank in recent years has been steadily expanding the outstanding balance through ship financing, on which it has stepped up efforts. Lendings, mainly to SMEs, are expected to remain firm and the degree of decline in yields is falling, which would keep interest income solid. Moreover, because the balance of assets under custody has been growing at a significantly faster pace than the previous year after the commencement of the alliance with Nomura Securities, there is plenty of room to expand non-interest income. JCR will pay attention to whether these factors for higher earnings will lead to further improvement in core net business income.
- (3) The non-performing loans ratio disclosed under the Financial Reconstruction Act is in the mid-2% range, slightly higher than the average for regional banks. While its loans are well diversified into small lots due to the high weight of SME loans, credit costs tend to increase during economic downturns. In FY2020, credit costs rose to mid-30% of core net business income mainly due to downgrades in loan category. Also in FY2021, the costs are planned to be at around the same level as the previous fiscal year. As loans to borrowers requiring caution are on an increasing trend amid the COVID-19 pandemic, JCR will closely monitor developments in the near term. On the other hand, there is no significant change in the amount of outstanding securities, and the interest rate risk of bonds is kept small relative to capital. Although the risk of stock price fluctuations is high, a large amount of unrealized gains serve as a buffer.
- (4) The consolidated core capital ratio adjusted for allowance for loan losses, etc. as of September 30, 2021 stood at in the lower 11% range. Equity capital is sufficient against risks on loan assets and securities. JCR assumes that the Bank going forward will maintain a decent capital level as an entity in JCR's AA rating category through steady profit accumulation.

Hidekazu Sakai, Akira Minamisawa

Rating

Issuer: The Awa Bank, Ltd.

<Affirmation>

Long-term Issuer Rating: AA- Outlook: Stable



Rating Assignment Date: January 27, 2022

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) and "Banks" (October 1, 2021) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)



INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	The Awa Bank, Ltd.
Rating Publication Date:	January 31, 2022

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) 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 Rule 17g-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) 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.

E) 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.

F) 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/>

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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.

E) 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.

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
The Awa Bank, Ltd.	Issuer(Long-term)	March 31, 1997	A+	
The Awa Bank, Ltd.	Issuer(Long-term)	August 10, 1998	A+	
The Awa Bank, Ltd.	Issuer(Long-term)	February 17, 2000	AA-	
The Awa Bank, Ltd.	Issuer(Long-term)	May 11, 2001	AA-	
The Awa Bank, Ltd.	Issuer(Long-term)	August 22, 2002	AA-	
The Awa Bank, Ltd.	Issuer(Long-term)	October 1, 2003	A+	
The Awa Bank, Ltd.	Issuer(Long-term)	October 25, 2004	A+	
The Awa Bank, Ltd.	Issuer(Long-term)	October 7, 2005	A+	
The Awa Bank, Ltd.	Issuer(Long-term)	September 15, 2006	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	September 21, 2007	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	September 18, 2008	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	September 18, 2009	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	October 21, 2010	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	October 14, 2011	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	October 15, 2012	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	October 8, 2013	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	September 29, 2014	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	October 1, 2015	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	October 27, 2016	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	October 27, 2017	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	November 16, 2018	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	December 6, 2019	AA-	Stable
The Awa Bank, Ltd.	Issuer(Long-term)	December 4, 2020	AA-	Stable

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

I, Shozo Matsumura, 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.

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Shozo Matsumura

General Manager of Financial Institution Rating Department

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026