

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

THE OKAZAKI SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A
Outlook: Negative

Rationale

- (1) THE OKAZAKI SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Okazaki City, Aichi Prefecture. Having a fund volume of 3.5 trillion yen, it is one of the largest shinkin banks in Japan. In addition to having a high shares of deposits and loans in Okazaki City, it also has many branches in Nagoya and other places, giving it a certain operating base. It has been expanding balance of foreign-currency-denominated bonds, etc. at a fast pace, making the Bank's performance and substantial capital level more susceptible to the external environment than that in the past. Presently, risk factor as mentioned above has realized placing downward pressure on the rating. However, JCR views that the earnings will recover going forward, and has affirmed the rating on the Bank while retaining the outlook of Negative under the judgment that it is reasonable to determine the degree and the speed of improvement.
- (2) For the first half of the fiscal year ending March 2024 (FY2023), core net business income (excluding gains (losses) on cancellation of investment trusts) substantially dropped to 0.5 billion yen from 4.8 billion yen a year earlier. While earnings from transactions with customers are generally stable, profit and loss related to securities investment has deteriorated. An increase in foreign currency procurement costs, a reduction in the balance of securities in consideration of such cost increases as mentioned, etc. are having effects. Going forward, JCR views that core net business income will recover through accumulating yen-denominated interest assets, redemption of foreign currency-denominated bonds with loss margin and other factors.
- (3) The Bank's loan asset quality is good. Non-performing loans ratio disclosed under the Financial Reconstruction Act was at a restrained level in the middle of 2% range at the end of September 2023. Assets are sufficiently secured by guarantees, etc. and the Bank also has adopted a conservative allowance method for some of its potentially bankrupt borrowers. Degree of diversification in the loan portfolio is high partly on the back of high composition ratio of the balance of housing loans. JCR views that the credit costs will likely remain at a constrained level for the foreseeable future.
- (4) The Bank's risk exposure in the securities investment is high. At the end of September 2023, valuation losses on available-for-sale securities reached the size equivalent to one fourth of the core capital. The Bank has been working to control risk such as reducing the balance of domestic and foreign bonds; however, it still keeps the policy for ensuring reasonable earnings through securities investment. While it makes judgments on risk taking in light of its management strength, JCR views that the Bank's stance engaging in risk-taking activities is aggressive.
- (5) The Bank's substantial capital level has declined due to expansion of valuation losses on available-for-sale securities and other factors, and its adjusted unconsolidated core capital ratio at the end of September 2023 was somewhat low for a shinkin bank in the A rating category. JCR believes that impacts of market price fluctuations of securities need to be watched for the time being.

Tsuyoshi Ohishi, Ippei Koga

Rating

Issuer: THE OKAZAKI SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A Outlook: Negative

Rating Assignment Date: February 2, 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.



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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