

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

The Amagasaki Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A
Outlook: Stable

Rationale

- (1) The Amagasaki Shinkin Bank (the "Bank") is a large shinkin bank headquartered in Amagasaki City, Hyogo Prefecture with a fund volume of 2.8 trillion yen. With a well-established branch network in the city, it enjoys the largest market share for both deposits and loans among regional financial institutions there and also has certain business bases in areas adjacent to the city as well as in Osaka Prefecture. Factors reflected in the rating include relatively firm business bases, loan assets that are well covered and diversified into small claims and a good capital level. Meanwhile, the enhancement of fundamental earning capacity remains a challenge as ROA (based on core net business income excluding gains on cancellation of investment trusts) is below the average of shinkin banks.
- (2) Core net business income excluding gains on cancellation of investment trusts for the fiscal year ended March 2021 (FY2020) decreased 0.2 billion yen over the year to 4.7 billion yen despite growth in loan balance with COVID-related loans, because lower yields pushed down interest on loans and discounts, on top of which interest and dividend on securities also dropped. It is expected to turn around in FY2021 thanks to brisk securities investment, but interest on loans and discounts will likely shrink again. Looking ahead, JCR will closely watch whether the Bank can enhance the earnings capacity of its main business by fulfilling consulting and regional trading company functions, carrying out business reforms and so forth when costs are projected to increase due to system investment.
- (3) Non-performing loans ratio ("NPL") under the Financial Reconstruction Act at the end of FY2020 stood higher than shinkin banks' average at 4.28%, up 0.60 percentage points from a year earlier, partly because of the conservative assessment of borrowers who were drastically affected by the COVID-19 pandemic. Meanwhile, the Bank conservatively sets aside allowance for loans for the large potentially bankrupt debtors and keeps a high coverage ratio for NPL. With the ratio of loans to the real estate industry to the total being low, the loan portfolio is well-diversified into small accounts. Credit costs have been at a low level if the increase attributable to the conservative allowance was excluded and are not likely to grow significantly in the future, either.
- (4) In terms of securities investment, the Bank has been striving to rebalance its portfolio by expanding investment targets to include foreign securities, investment trusts, etc. so as to increase interest and dividend income. Consequently, the balance of investment trusts is large relative to capital. The interest rate risk amount is also somewhat large relative to capital. However, because the amount of securities-related risks measured by VaR is not large, the Bank intends to continue taking risks, thus requiring attention to future developments.
- (5) Consolidated core capital ratio adjusted for reserves for possible loan losses, etc. being in the 16% range as of March 31, 2021 is at a good level for a regional financial institution in JCR's A rating category. As the Bank intends to continue taking risks in securities investment, the adjusted core capital ratio will likely decline going forward but can still be maintained at a relatively high level in JCR's view.

Hajime Oyama, Atsushi Kato

Rating

Issuer: The Amagasaki Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: October 27, 2021

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

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

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.)

Copyright © Japan Credit Rating Agency, Ltd. All rights reserved.