

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

## Osaka Shoko Shinkin Bank (security code: -)

### <Assignment>

Short-term Issuer Rating: J-1

### <Affirmation>

Long-term Issuer Rating: A-

Outlook: Stable

### Rationale

- (1) Osaka Shoko Shinkin Bank (the "Bank") is a shinkin bank headquartered in Osaka City with total funds of 780 billion yen. With Osaka City, which offers plenty of business opportunities, as its main operating base, the Bank has been building up its deposit and loan balances at a relatively fast pace. Although the investment and lending operations involve sizable risks, the ratings are supported by the Bank's good earning capacity and reasonable capital levels. JCR will continue to pay close attention to whether the Bank can maintain its earning capacity and capital adequacy while appropriately controlling investment and lending risks.
- (2) Earning capacity is favorable. As the Bank is promoting lending to middle-risk borrowers, the interest margin on deposit and loans is large. In addition, partly because of the fact that the loan-to-deposit ratio has remained at a relatively high level, ROA (based on core net business income) is in the 0.7% range, significantly higher than the average for shinkin banks. Core net business income is on an upward trend, mainly due to increases in interest on loans and interest/dividends on securities. Currently, deposit interest is growing antecedently due to increases in deposit interest rates, but as the proportion of variable interest rate loans is high, deposit yields on net interest rate spread are expected to improve soon as a result of the effects of base interest rates hikes. JCR sees that core net business income will remain strong going forward.
- (3) A high proportion of loan assets are those to the real estate industry, and there is also a concentration of credit among large borrowers. Many of the loans are to medium-risk borrowers, and the proportion of loans to borrowers requiring caution in total credit is also high. However, as a result of efforts to strengthen the screening structure and focus on collecting non-performing loans, the non-performing loans ratio disclosed under the Financial Reconstruction Act fell to 3.4% at the end of the first half of fiscal year ending March 2025. While the credit cost ratio has remained at a relatively high level in the past fiscal years, credit costs have consistently remained within the range of core net business income. Attention will be paid to whether the Bank can continue to control credit costs even in an environment of rising inflation and interest rates. In its departments engaging in market transactions, interest rate risk on yen-denominated bonds is limited, while the balance of investment trusts and other instruments is somewhat large relative to capital. The available-for-sale securities overall have maintained unrealized gains, but these gains are small.
- (4) The consolidated core capital ratio has been at a level above the 10% range, and remains at the same level even after adjusting for general loan loss allowance. Risk-weighted assets are expected to continue to expand due to factors such as increased loans, and the implementation of the finalization of Basel III may gradually reduce the capital level. However, JCR sees that high earning capacity will support capital accumulation and that a certain capital level will be maintained going forward.

Tsuyoshi Ohishi, Michiya Kidani

### Rating

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Rating Assignment Date: March 5, 2025

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" (October 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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