

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

Wakkanai Shinkin Bank (security code: -)

<Rating Change>

Long-term Issuer Rating: from A to A-
Outlook: from Stable to Negative

Rationale

- (1) Wakkanai Shinkin Bank (the "Bank") is a shinkin bank headquartered in Wakkanai City, Hokkaido Prefecture with a fund volume of around 470 billion yen. Due to a rise in long-term interest rates, valuation losses on available-for-sale securities have expanded more than expected, significantly reducing capital adequacy. Hence, JCR has downgraded the long-term issuer rating on the Bank by one notch. Given that continued interest rate increases could further expand valuation losses and thereby further reduce the substantial capital level, the rating outlook has been changed to Negative. JCR will monitor trends in capital levels associated with fluctuations in market interest rates.
- (2) Earning capacity is low. With a loan-to-deposit ratio at a low level in the mid-10% range, earnings are supported mainly by interest income from surplus fund management. Because much of the portfolio consists of relatively low-yield instruments such as government bonds, ROA (on a core net business income basis) remains at a low level of around 0.1%. Although rising deposit yields are a factor putting downward pressure on core net business income, yields on bonds and deposits have also been trending upward, and JCR expects that the Bank will see an improvement over the medium term.
- (3) Most of securities in the portfolio are government bonds in the portfolio, which keeps the credit risk associated with investments subdued. On the other hand, because the Bank has made substantial investments in ultra-long-term government bonds, the quantity of risk in terms of interest-rate exposure relative to capital is large. With market interest rates rising, valuation losses on available-for-sale securities have significantly expanded. Recently, it has been shortening the maturities of purchased bonds, but bond outstanding is expected to increase, and JCR will continue to monitor trends in the quantity of risk.
- (4) Lending assets, taken as a whole, maintain a certain level of soundness. The ratio of disclosed claims under the Financial Reconstruction Act was at a somewhat high level, in the lower 5% range, at the end of September 2025. However, because a strict provisioning method is used, the coverage ratio for disclosed claims is high. Although credit-cost volatility is relatively high, JCR believes the risk of persistently elevated levels is limited, given the Bank's conservative reserving.
- (5) Capital adequacy has been deteriorating rapidly. The standalone core capital ratio at the end of September 2025 was just over 61%, which is extremely high. However, on an adjusted basis excluding valuation losses on available-for-sale securities, the ratio has been declining quickly. Because the Bank has a very high security-deposit ratio, valuation losses caused by rising interest rates have a considerably large impact relative to its capital. Although bond prices are expected to recover gradually over time owing to the roll-down effect, persistently rising interest rates could lead to additional valuation losses. JCR will continue to closely monitor developments.

Hidekazu Sakai, Shuntaro Takasawa

Rating

Issuer: Wakkanai Shinkin Bank

<Rating Change>

Long-term Issuer Rating: A- Outlook: Negative

Rating Assignment Date: February 4, 2026

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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