

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

Wakkanai Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A
Outlook: Stable

Rationale

- (1) Wakkanai Shinkin Bank (the "Bank") is a shinkin bank headquartered in Hokkaido's Wakkanai City with a fund volume of around 460 billion yen. Its rating is supported by the extremely high capital adequacy and stable business base with overwhelming market shares for loans and deposits in the primary service areas of Souya sub-prefecture and the vicinity. Amid concerns about the decline of regional economies, the Bank plays an important role in supporting local companies through generous responses, including financing-support loans in the COVID-19 pandemic. Although its fundamental earnings capacity is low, it has secured a certain level of profits by utilizing bond-related gains and losses. JCR thus believes that the Bank will be able to maintain affluent capital for the time being.
- (2) The Bank's earnings are supported by interests on surplus fund investment. With interest rates remaining at a low level, the Bank has been unable to offset the decline in interest and dividends on marketable securities (hereafter referred to as "securities"), which is stemming from redemption of high-yield bonds, through reinvestment. Mainly with this reason, the Bank recorded a slight loss in core net business income for the year ended March 2021 (FY2020) but stayed in the black if earnings related to bonds were added. Currently, the Bank is working to expand the volume of super-long-term JGBs and flexibly manage them, which has been leading to an increase in income and securement of gains on bond sales. Further, the decline in interest and dividends due to bond redemptions is expected to gradually narrow. Also given the utilization of unrealized gains on other securities, among others, the decline in earnings capacity is likely to come to a halt.
- (3) The securities investment portfolio is highly secured because public bonds account for a majority of it. At present, due to an increase in investment in super-long-term JGBs, the duration has lengthened, which makes the portfolio susceptible to fluctuations in interest rates. As a result, the amount of interest rate risk associated with bondholdings has increased significantly, but affluent capital and unrealized gains on securities holdings serve as a certain level of risk buffer.
- (4) The non-performing loans ratio disclosed under the Financial Reconstruction Act is slightly high at 4.73% as of the end of the first half of FY2021, through the rate is lower than the past level. The Bank's credit costs remain low even under the COVID-19 pandemic, partly because of the facts that its lendings are small and it is adopting a strict allowance method. While attention should be paid to future trends with uncertainty about the economic outlook, JCR believes that there is only a small concern that credit costs will largely increase.
- (5) The non-consolidated core capital ratio as of the end of the first half of FY2021 is 53.85%, a very high level. This is contributed by the facts that the most of the Bank's assets are low risk-weighted securities, mainly public bonds, and retained earnings are accumulated. In addition, the level of capital is high as compared to the total assets.

Hidekazu Sakai, Kota Matsuzawa

Rating

Issuer: Wakkanai Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: January 26, 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

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.)
