

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

## THE OKAZAKI SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A  
Outlook: Stable

### Rationale

- (1) THE OKAZAKI SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Okazaki City, Aichi Prefecture with a fund volume of 3.4 trillion yen. It has high market shares for deposits and loans in Okazaki City. It also operates many branches in Nagoya City and other places, and has built a certain operating bases. Its rating is supported by the solid business bases as mentioned above, and the good capital level. JCR considered the Bank's fundamental earnings capacity was at a low level relative to the rating to date; however, it has improved to a reasonable level. JCR will keep an eye on whether the Bank will be able to maintain the earnings capacity and core capital ratio over the medium term.
- (2) The Bank's core net business income (excluding gains on cancellation of investment trusts, etc.; the same applies hereinafter) has been increasing since hitting the bottom in the fiscal year ended March 2017 (FY2016). The Bank has been reducing expenses, and also the efforts to strengthen securities investment and fee business for corporate customers have successfully yielded good results. For the fiscal year ended March 2021 (FY2020) and the first half of FY2021, increased interest on loans and discounts on the back of accumulated COVID-19 pandemic-related loans and decreased financing costs of foreign currencies also contributed to the increase. ROA based on the core net business income has improved to around 0.2%, which is a reasonable level considering the rating on the Bank. Despite the fact, since repayments of the pandemic-related loans will likely be made hereafter, trend in interest on loans and discounts should be watched. In addition, the market division often invests in overseas assets; therefore, where U.S. dollar short-term interest rates go up, JCR will also pay attention to the impact given to the foreign currency financing costs, among others.
- (3) The Bank's loan asset quality is generally good. While multiple borrowers with a large amount of credits were downgraded due to an impact of the pandemic, non-performing loans ratio disclosed under the Financial Reconstruction Act as of September 30, 2021 was decent in the upper part in 2%. Other borrowers requiring caution include the borrowers with a large amount of unsecured credits, but loans are basically diversified into small amounts. Also, the Bank sets aside loan-loss reserves in a conservative manner for some of the ailing borrowers. While attention needs to be paid to the impact of the pandemic, JCR assumes the Bank can sufficiently absorb the credit costs for the time being by the core net business income.
- (4) Slight caution is required for securities investment risk. The Bank has a large exposure to yen and foreign currency interest rates, and the amount of interest rate risk is large. The Bank is also increasing investments in domestic and foreign shares, and exposure to the share price fluctuation risk is also increasing. JCR views the Bank will be able to control the current level of risk amount given the diversified instruments in the portfolio and management stand to adjust the positions in a flexible manner, etc. Nevertheless, the Bank's future risk-taking activities should be monitored.
- (5) Adjusted non-consolidated core capital ratio (after deducting loan loss reserves, etc.) as of September 30, 2021 was at a favorable level, which was in the lower part of 12%. Risk assets may increase due to increased balance of housing loans and others; however, JCR assumes retained earnings will be accumulated in a reasonable pace for the time being and this will support the core capital ratio.

Tsuyoshi Ohishi, Ippei Koga

### Rating

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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/>).

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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.)

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