

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

GIFU SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable

Rationale

- (1) GIFU SHINKIN BANK (the “Bank”), headquartered in Gifu City, Gifu Prefecture, is a large shinkin bank with a fund volume of 2.5 trillion yen and one of the leading companies in the shinkin industry. It has a certain presence, holding approximately 10% market shares for both loans and deposits in the Prefecture. The rating reflects its relatively good quality of loan assets, capital adequacy against the risk exposure, and others. The level and trend of core net business income (excluding gains and losses on cancellation of investment trusts) have been continuously improving. Since soundness of the loan assets has been maintained and the credit costs will unlikely expand substantially, JCR views the Bank will make progress in accumulating retained earnings.
- (2) While ROA based on core net business income is slightly low at around 0.2%, core net business income increased three consecutive fiscal years after hitting the bottom in the fiscal year ended March 2019 (FY2018), and achieved an increase of 15% over the year for FY2021. It was attributable to growing net fees and commissions and also net interest income remaining on uptrend due partly to strengthening securities investment. Currently, the Bank has been capturing demand of funds from SMEs in association with changes in operating environment primarily through carrying out problem-solving sales activities for business loans. For housing loans, the Bank pushes ahead of measures responding to interest rates in a flexible manner in consideration of the balances. As a result, the balance of loans will likely remain at around the current level for a while in the situation where scheduled repayments of loans executed under the COVID crisis are increasing. For non-interest area, income is also expected to grow in the solution-related area including business successions, M&As, etc. The Bank’s margin for reducing expenses is small; however, JCR views core net business income will likely remain steady given the elements mentioned above.
- (3) The non-performing loans ratio under the Financial Reconstruction Act has been on downtrend, and was at a reasonable level in the upper part of 2% as of March 31, 2022. The Bank made preventive reserves ahead of time preparing for the future situation for credit costs; the amount has been stable, hovering at a low level. Attention needs to be paid to changes in business conditions of borrowers associated with soaring raw material prices, among others. That said, JCR views the credit costs will remain within the range that can be sufficiently absorbed by the core net business income given the degree of dispersion of credits and security status.
- (4) Consolidated core capital ratio adjusted for general allowance for bad debts, etc. was in the middle part of 9% as of March 31, 2022. It may go below 9% where valuation loss on available-for-sale securities is deducted but still remains at a reasonable level as a bank falls under the A category. In the securities investment, the Bank’s exposure to interest rate risk has reasonably expanded due to expanding the investment targets to long-term bonds. Moreover, following the rise in interest rates in the U.S., market values of bonds and investment trusts have significantly fallen. JCR will closely watch whether the Bank will continue the investment giving more consideration to the balance between the risks involved and capital under the continuing uncertain market environment.

Tomohiro Miyao, Akira Minamisawa

Rating

Issuer: GIFU SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: November 1, 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/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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