

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 470 billion yen. Its rating is supported by extremely high capital adequacy, and a 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 over the decline of regional economies due to shrinking population and other factors, the Bank plays an important role as a financial institution that supports local companies. While the impact of interest rate movements on earnings and finances should be monitored, JCR believes that its earning capacity is improving and the affluent capital will be maintained going forward.
- (2) The Bank’s earnings are supported by interest income on surplus fund investment. With the low interest rate environment becoming the norm, the Bank has been unable to offset a decline in interest and dividends on securities stemming from redemption of high-yield bonds, by reinvestment. As a result, core net business income declined to a slight deficit, but it returned to profitability in the fiscal year ended March 2022 (FY2021) and the first half of FY2022. The outstanding amount of bonds to be redeemed has been shrinking, and interest and dividends on securities have increased due to the combination of expanded investment in super-long-term JGBs and rising interest rates. Income calculated by core net business income plus realized gains/losses on bondholdings has also remained in the black. As its securities portfolio is expected to be replaced further with bonds with relatively high yield, earning capacity is expected to continue to improve moderately.
- (3) The securities investment portfolio is highly secured partly because public bonds account for a majority of it. With expansion in investment in super-long-term JGBs, the amount of interest rate risk relative to capital is large. Although unrealized losses on other securities have expanded in response to a rise in interest rates, the Bank’s financial base is maintained thanks to its affluent capital serving as a risk buffer.
- (4) The non-performing loans ratio disclosed under the Financial Reconstruction Act is on a downtrend, but it is slightly high at 4.12% as of the end of the first half of FY2022. The Bank’s credit costs remain low, partly thanks to small lendings and the adoption of a strict allowance method. While business conditions of borrowers need to be kept in mind, JCR believes that concern that credit costs will increase significantly is small.
- (5) At the end of September 2022, the non-consolidated core capital ratio was 57.20%. Even after deducting unrealized losses on other securities, and others, the level is extremely high. This is contributed by the facts that the most of the Bank’s assets are low risk-weighted securities, such as public bonds, and retained earnings are accumulated. In addition, the level of capital is high as compared to total assets.

Hidekazu Sakai, Kota Matsuzawa

Rating

Issuer: Wakkanai Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: February 14, 2023

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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