

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

The Amagasaki Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A

Outlook: Stable

Rationale

- (1) The Amagasaki Shinkin Bank (the “Bank”) is a large shinkin bank headquartered in Amagasaki City, Hyogo Prefecture with a fund volume of approximately 2.9 trillion yen. Having a highly dense branch network in the city, it enjoys the largest market share for both deposits and loans in the city. The business foundation is relatively strong as the Bank also has networks in the areas adjacent to the city in Hyogo Prefecture as well as in Osaka Prefecture. Although the Bank’s unrealized loss on the securities has been expanding due to a rise in interest rates in the U.S., and the capital level after deducting the loss declined, JCR determines that the Bank still maintains the capital adequacy commensurate with the A rating category under the present environment. Therefore, JCR has affirmed the rating on the Bank. The key factors for the rating decision are whether it can still restrain the credit costs, in addition to strengthening the earnings capacity, which is the issue from the past.
- (2) Core net business income excluding gains and losses on cancellation of investment trusts for the fiscal year ended March 2022 (FY2021) increased slightly more than 30% from the previous fiscal year to 6.1 billion yen. Due to decline in yield on loans, interest income on loans and discounts decreased. However, as a result of increasing the balance of primarily for foreign investment trusts in the securities investment, it substantially increased interest and dividend income. Going forward, a rise in foreign currency procurement costs and a decrease in dividend of investment trust can be expected because of the impact of rising interest rates in the U.S. An increase in costs due partly to system investment will also push down the performance. Since majority of foreign currency-denominated bonds held by the Bank are with floating rates; a certain amount of increase in the foreign currency procurement costs can be offset. JCR will closely watch how far the Bank can rise the fundamental earnings capacity through curbing decline in yield on loans and strengthening the non-interest business.
- (3) Non-performing loans ratio (“NPL”) under the Financial Reconstruction Act at the end of FY2021 increased 1.2 percentage points from the end of the previous fiscal year to 5.48%. It is still at a relatively high level considering the fact that the Bank makes conservative assessment for the borrowers who are largely affected by the COVID crisis. Meanwhile, the Bank conservatively sets aside allowance for loans for the large potentially bankrupt borrowers and keeps a high coverage ratio for NPL. The ratio of loans to the real estate industry to the total is relatively low, and the loan portfolio is well-diversified into small accounts. Credit costs have been at a low level in general and will unlikely increase substantially in the future, in JCR’s view.
- (4) In terms of securities investment, the Bank has strived to rebalance its portfolio by expanding investment targets to foreign bonds, investment trusts (including foreign investment trusts; the same applies to herein after), etc. so as to increase interest and dividend income. Consequently, the balance of investment trusts is also large relative to capital. Exposure to interest rate risk of yen-denominated ones is also relatively large to capital. As at the end of FY2021, valuation loss on available-for-sale securities was 4.8 billion yen (unrealized) and the amount further expanded. Due to the fact that foreign bonds held are primarily floating rate ones, concerns over loss-cutting, recording of impairment loss, etc. are limited for the foreseeable future. As for investment trusts, the Bank intends to hedge risks to a certain extent preparing for a rise in overseas interest rates while reducing the unrealized loss over the long-term.

- (5) Consolidated core capital ratio adjusted for valuation loss on securities, etc. was in the middle of 15% range as at the end of FY2021, a good level among regional financial institutions in JCR's A category. The Bank intends to increase risk assets to ensure a certain amount of revenue going forward, in addition to expanding valuation loss on securities at present. These will likely push down the capital level. That said, JCR views the Bank will be able to maintain a reasonable level as an A-rated bank for the time being after considering the factors mentioned above.

Atsushi Kato, Kei Aoki

Rating

Issuer: The Amagasaki Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: October 28, 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.

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.)
