

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

THE ASAHI SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable
Short-term Issuer Rating: J-1

Rationale

- (1) THE ASAHI SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Taito Ward, Tokyo with a fund volume of 2.1 trillion yen. While there are many business opportunities in Tokyo, competition is fierce. Even so, the Bank has a certain share for deposits and loans in Taito and Edogawa wards, its primary sales areas. Factors reflected in the ratings include the good business base, decent capital adequacy and well-covered loan assets. Even though earnings capacity has been declining mainly due to growing costs associated with foreign currency-denominated bond investment, JCR views it possible for the Bank to improve it over the medium term on the back of rises in domestic interest rates, etc.
- (2) Core net business income (excluding gains on cancellation of investment trusts) is falling after hitting its recent peak at 10.6 billion yen in the fiscal year ended March 2022 (FY2021), coming down to 4.8 billion yen in FY2023 because of an increase in the costs of foreign currency financing as well as in expenses for the Bank's centennial anniversary projects. It is expected to stay almost flat in FY2024 with the elimination of such anniversary-related expenses, etc., offsetting the negative impact of high foreign currency financing costs and growth in interest on deposits due to interest rate hikes. Even though growth in loans will be stagnant going forward because of the Bank's profitability-oriented sales activities, interest on loans is likely to increase thanks to improved yields. Given also that foreign currency financing costs are expected to shrink and so forth, JCR assumes that core net business income will turn around going forward.
- (3) Non-performing loans ratio under the Financial Reconstruction Act is on the rise, standing at a bit over 4% as of March 31, 2024. Other assets requiring caution still account for as much as over 30% of gross credit exposure. On the other hand, the ratio of coverage by guarantees, etc. is high, and the uncovered amount is small. Provision ratio is also high because of provisions based on the cash flow deduction method, exceptional provisions to prepare for the default of borrowers amid the COVID crisis and so forth. JCR views that credit costs are not likely to grow large for a while thanks to sufficient coverage and conservative provisions.
- (4) Securities-to-deposit ratio is low in the lower 10% range, but, as foreign currency-denominated bonds account for as much as over 30% of the securities portfolio, foreign currency financing costs are dragging down profits. That said, interest rate risk associated with yen-denominated bonds is under control, and price fluctuation risk is not so large. Looking ahead, while the outstanding balance of foreign currency-denominated bonds will decrease with redemption, the Bank intends to increase bond holdings, mainly yen-denominated bonds. Therefore, JCR will pay close attention to changes in the amount of each risk and profitability.
- (5) Consolidated core capital ratio adjusted by JCR as of March 31, 2024 was just below 9%, which is comparable to that of regional financial institutions in JCR's A- rating category. Given also the exceptional provisions for COVID responses, the Bank secures a reasonable level of a buffer against risks. Although risk assets are highly likely to increase partly because of growth in loans not guaranteed by credit guarantee corporations, JCR assumes that the Bank can still maintain its capital at around the current level with the steady accumulation of internal reserves.

Kengo Sakaguchi, Kyohei Yamamoto

Rating

Issuer: THE ASAHI SHINKIN BANK

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Rating Assignment Date: November 8, 2024

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" (October 1, 2024) 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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