

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

THE OKAZAKI SHINKIN BANK (security code: -)

<Outlook Change>

Long-term Issuer Rating: A

Outlook: from Stable to Negative

Rationale

- (1) THE OKAZAKI SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Okazaki City, Aichi Prefecture with a fund volume of 3.5 trillion yen. In addition to having a high shares of deposits and loans in Okazaki City, it also has many branches in Nagoya and other places, giving it a certain operating base. The rating is supported by the depth of its local business base and the quality of its loan assets. On the other hand, the price of its securities holdings has fallen due to rising interest rates overseas, and its real capital level has declined. In addition, JCR sees that its earnings capacity will decline due to an increase in foreign currency financing costs and other factors. Based on the above, JCR revised the rating outlook from Stable to Negative. JCR will assess the Bank's efforts to improve its earnings capacity and real capital level and reflect them in the rating.
- (2) JCR believes that the level of core net business income (excluding gains (losses) on cancellation of investment trusts and other items, the same applies hereinafter) will decline for the time being. The Bank has a large amount of investments in assets denominated in foreign currencies, and JCR believes that higher foreign currency financing costs will put downward pressure on profit. In addition, the COVID-19 related loan repayments will progress, which will also put downward pressure on profit. On the other hand, a review of securities portfolio and reduction of expenses are expected to support profits to a certain extent. JCR will watch for the trend of earnings capacity.
- (3) The Bank's loan asset quality remains sound, with the non-performing loans ratio disclosed under the Financial Reconstruction Act in the high 2% range at the end of September 2022, a level that is not problematic. The amount of non-performing loans temporarily increased due to the COVID-19 pandemic, but the current trend has calmed down. The degree of diversification of the loan portfolio is high, due in part to the large balance of housing loans. The Bank has also adopted a conservative allowance method for some of its potentially bankrupt debtors. The current credit costs will be fully absorbed by the core net business income.
- (4) The amount of risk in securities investment is high. In recent years, the Bank has increased its exposure to foreign currency-denominated bonds and domestic and foreign equities at a fast pace. Mainly due to the rise in overseas interest rates, the unrealized losses on available-for-sale securities expanded to the equivalent of 30% of the core capital at the end of September 2022. The Bank is currently taking steps to reduce valuation losses, such as reduction of the balance of domestic and foreign bonds. At the same time, the Bank has maintained its stance of promoting investments, while carefully balancing risk and return, and has increased its balance of investment trusts and other investments.
- (5) The Bank's adjusted core capital ratio that is evaluated substantial by JCR has declined due to an increase in unrealized losses on available-for-sale securities. JCR will closely monitor whether the Bank can improve its real capital level through risk asset control and other measures.

Tsuyoshi Ohishi, Ippei Koga

Rating

Issuer: THE OKAZAKI SHINKIN BANK

<Outlook Change>

Long-term Issuer Rating: A Outlook: Negative

Rating Assignment Date: February 10, 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.

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

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