

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

THE OKAZAKI SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A
Outlook: Stable

Rationale

- (1) THE OKAZAKI SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Okazaki City, Aichi Prefecture with a fund volume of 3.2 trillion yen. The Bank has branches mainly in the Nishimikawa region and enjoys high market shares for deposits and loans especially in Okazaki City. It also has many branches in Nagoya City, thereby building a certain operating base there. Its rating is supported by these solid business bases and the good capital level relative to the rating. ROA based on core net business income excluding gains on cancellation of investment trusts, etc. standing at around 0.15% is a bit below the average for shinkin banks but is nevertheless improving steadily.
- (2) Fierce competition among financial institutions and low loan yields in Aichi Prefecture are pushing down profitability. Yet, core net business income (excluding gains on cancellation of investment trusts, etc.; the same applies hereinafter) has been constantly improving since hitting bottom in the fiscal year ended March 2017 (FY2016), thanks mainly to increases in interest and dividends on securities and fees/commissions, as well as cost reductions. The income grew also in the first half of FY2020 to 2.9 billion yen with a year-on-year increase of over 50%. A major contributing factor here is a decrease in the costs of foreign currency financing on the back of a drop in short-term interest rates in the US dollar market, but, as another factor, interest on loans and discounts, which previously was on the decline, is now growing. The Bank's efforts to actively provide financing support to the COVID-affected business operators contributed to revenue growth. Even though changes in interest on loans and discounts over the medium term and trends in interest and dividends on securities need to be monitored, JCR assumes that the Bank can maintain a certain level of core net business income for a while.
- (3) The Bank is increasing the exposure of foreign currency-denominated bonds to ensure earnings, and the amount of interest rate risk is large against capital. On the other hand, it is decreasing the amount of price fluctuation risk by reducing equity securities. Given that the redemption of relatively high-yield yen-denominated bonds is expected to continue, JCR will closely watch the Bank's risk-taking, including reinvestment in these bonds.
- (4) Non-performing loans ratio disclosed under the Financial Reconstruction Act as of September 30, 2020 was decent at around 2.5%. Other debtors requiring caution include the borrowers with large uncovered claims, but loans are basically diversified into small amounts. Also, the Bank sets aside loan-loss reserves in a conservative manner for some of the ailing borrowers, thereby providing reasonable coverage. While attention must be paid to the impact of the COVID crisis, JCR predicts that credit costs will stay at levels absorbable by core net business income.
- (5) Non-consolidated core capital ratio as of September 30, 2020 was 12.3%. Core capital ratio, which previously was on the downward trend, turned around from March 31, 2020, though slightly, with a decrease in risk assets as a result of reductions in equity securities, etc. Looking ahead, while there may be downward pressure on this ratio because of an increase in loans and risk-taking in the market division, JCR views that the relatively high core capital ratio will still be maintained for a while.

Tsuyoshi Ohishi, Ippei Koga

Rating

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Rating Assignment Date: February 22, 2021

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" (May 8, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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