

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

GIFU SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable

Rationale

- (1) GIFU SHINKIN BANK (the “Bank”) is a large shinkin bank headquartered in Gifu City, Gifu Prefecture with a fund volume of 2.6 trillion yen. It is one of the leading companies in the shinkin industry. It has a certain presence with market shares of around 10% for both loans and deposits in the prefecture. Factors reflected in the rating include relatively good loan asset quality and capital adequacy relative to risks. The key factor for the rating decision is whether the Bank can raise the actual capital level further while keep improving the core net business income (excluding gains and losses of cancellation of investment trusts).
- (2) ROA based on core net business income was around 0.25% for the fiscal year ended March 2024 (FY2023). Core net business income is in an uptrend, and for FY2023, it increased 15% from the previous fiscal year due to an increase in fees and commissions and a decrease in expenses. Going forward, an increase in interest on deposits entailing from rising interest rates and other factors are expected to place downward pressure on profits. However, due partly to the Bank’s efforts to increase contact points with customers to strengthen the initiatives supporting their core businesses under a sales promotion structure clearly defining the roles of corporate and individual sales, lending to small- and medium-sized enterprises is increasing. Fee income has also remained steady due to strengthening sales of customer assets, and the Bank’s initiatives toward M&As, syndicated loans, etc. In response to rising market interest rates, yields on loans and surplus fund management are also expected to rise. JCR will pay close attention to whether the Bank can strengthen the fundamental earning capacity through offsetting an increase in interest on deposits by these factors to improve earnings.
- (3) Non-performing loans ratio under the Financial Reconstruction Act stands at a decent level, around 2.5%. The Bank keeps credit costs low and stable while recording preventive reserves ahead of the schedule to prepare for the future. Although attention needs to be paid to changes in the business conditions of customers caused by changes in the external environment, including higher prices and manpower shortages, JCR assumes that credit costs will unlikely expand largely into the future given such factors as the degree of credit diversification and conservatively recording reserves for high-risk customers.
- (4) For securities investment, the Bank’s exposures to price fluctuation risk and interest rate risk are reasonably large partly because it has been expanding investments in investment trusts and long-term bonds. The balance of securities is expected to remain around the current level for the foreseeable future as the Bank is working to reduce foreign bonds, for which valuation losses expanded, while taking a cautious stance on new investments to constrain interest rate risk. In the midst of rising interest rates in Japan, JCR will pay attention to whether the Bank can appropriately control market risks against the capital.
- (5) Consolidated core capital ratio adjusted for losses on valuation of available-for-sale securities, etc. as at the end of March 2024 was in the lower 9% range. The Bank’s capital will appear to continue to grow steadily through accumulation of retained earnings, and the actual capital level is assumed to be maintained at a decent level as a regional financial institution in the A range categories.

Akira Minamisawa, Kyohei Yamamoto

Rating

Issuer: GIFU SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: November 21, 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.

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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