21-D-1371
February 24, 2022

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

THE ASAHI SHINKIN BANK (security code: -)

<Assignment>

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 fund volume of 2.1 trillion yen. While there are many business opportunities in Tokyo, competition among financial institutions is fierce. Even so, the Bank has decent share for deposits and loans in Taito and Edogawa wards, its primary sales areas. Factors reflected in the ratings include good business base and capital adequacy, sufficient coverage for loan assets and relatively high earnings capacity.

(2) Core net business income (excluding gains/losses on cancellation of investment trusts; the same applies hereinafter) surged in the fiscal year ended March 2021 (FY2020) and into the first half of FY2021. Primary contributing factors here include a huge volume of COVID-related loans executed, sharp rise in interest on loans and discounts resulting from nearly 30% increase in loan balance and decrease in foreign currency financing costs with a drop in short-term foreign currency interest rates. ROA based on core net business income has previously been in the 0.2% range but now stands relatively high in the lower 0.4% range. JCR predicts that the Bank's earnings capacity will decrease gradually going forward as repayments are made on COVID-related loans. Also, as the Bank makes large investment in foreign currency-denominated bonds, attention must be paid to an increase in foreign currency financing costs in the event of a rise in short-term foreign currency interest rates. That said, given, among others, that interest on loans and discounts was already growing steadily from before the COVID crisis and that there is room for reducing expenses through digitalization and improvement of work efficiency, the Bank will probably be able to maintain relatively high earnings capacity for a while.

(3) Non-performing loans ratio disclosed under the Financial Reconstruction Act as of September 30, 2021 stood decent at 3%. While other assets requiring caution account for as much as over 30% of gross credit exposure, coverage by guarantees, etc. is sufficient, making the uncovered amount small. Moreover, the Bank makes conservative allowances, as indicated by the adoption of the cash flow deduction method for some of potentially bankrupt debtors. Credit costs swelled in FY2019 and FY2020 because of the posting of large amount of exceptional provision to prepare for the default of borrowers amid the COVID crisis but are otherwise well-controlled. They increased a bit in the first half of FY2021 due to the reclassification of large borrowers into lower categories, but JCR assumes that, given sufficient loan coverage, etc., they can be fully absorbed by core net business income.

(4) Partly because of a high loan-to-deposit ratio for a shinkin bank, securities-to-deposit ratio (based on average balance) is low in the lower 10% range. The Bank's securities portfolio is characteristic in that foreign currency-denominated bonds account for nearly 50%, but the amount of interest rate risk in currencies including yen is not large relative to capital. Because of the fairly large outstanding balance of business bonds, stock and REITs, credit risk and price fluctuation risk are slightly high. Yet, the Bank does not intend to accelerate risk-taking, and JCR thus assumes that risk amount will not be excessive in the future, either.

(5) Capital adequacy is at a level commensurate with the rating. Non-consolidated core capital ratio adjusted for reserves for possible loan losses as of September 30, 2021 was in the higher 8% range, which is comparable, by and large, to that of other regional financial institutions in JCR's "A-" rating category. Given also the exceptional provision for COVID responses, the Bank secures a reasonable level of a risk buffer. Assuming that core net business income will stay at a higher level than before for a while and credit costs will not weigh on heavily on profits, JCR assumes that internal reserves will accumulate fairly rapidly going forward. Also, as the increase in risk assets associated with loans and securities investment will probably be not so large, JCR views that core capital ratio will most likely be on an uptrend.

Kengo Sakaguchi, Ippei Koga

Rating
Issuer: THE ASAHI SHINKIN BANK

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

Rating Assignment Date: February 21, 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/).

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