

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 2.4 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 sufficient coverage for loan assets. Although the profit level is expected to decline due to an increase in the costs associated with foreign currency-denominated bond investment and temporary rises in expenses, JCR affirmed the ratings on the Bank, assuming that the Bank can maintain a certain level of earnings capacity thanks mainly to steady interest on loans and discounts.
- (2) Core net business income (excluding gains on cancellation of investment trusts) for the fiscal year ended March 2023 (FY2022) decreased to 7.8 billion yen from the previous year's 10.6 billion yen due to such factors as an increase in foreign currency financing costs. The profit level will likely drop further in FY2023 partly because of a one-off increase in expenses on top of higher foreign currency financing costs. However, in terms of loans, the balance is growing even as COVID-related loans are being repaid. Interest on loans and discounts is kept at a relatively high level and will probably remain steady for a while longer. Given also that the elimination of the temporary rises in expenses can be expected, JCR considers that the Bank can maintain ROA (based on core net business income) more or less at the level commensurate with the rating. JCR will closely watch whether the earnings capacity will be ensured with the accumulation of business loans, as well as trends in foreign currency financing costs.
- (3) Non-performing loans ratio under the Financial Reconstruction Act as of March 31, 2023 rose to the higher 3% range partly because the impact of the COVID crisis has become evident. Other assets requiring caution have also increased, still accounting 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. Moreover, provision ratio is high because of the adoption of the cash flow deduction method, exceptional provision to prepare for the default of borrowers amid the COVID crisis and so forth. JCR predicts that credit costs are not likely to grow large for a while thanks to sufficient coverage and conservative provision.
- (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, a rise in foreign currency interest rates has a great impact. Looking ahead, the Bank intends to reshuffle the securities portfolio, especially with respect to the bonds with valuation losses. JCR will thus pay close attention to the risk-taking policy and trends in profitability.
- (5) Consolidated core capital ratio adjusted for losses on valuation of available-for-sale securities, etc. as of March 31, 2023 stood at around 8.5%, which is comparable to that of 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 buffer against risks. Looking ahead, 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 a slow but steady accumulation of internal reserves.

Kengo Sakaguchi, Kyohei Yamamoto

Rating

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Rating Assignment Date: October 25, 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.

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