

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. The Bank currently has relatively high earnings capacity but is facing downward pressure, and JCR will watch how well it can absorb such pressure going forward.
- (2) Profit level has been staying fairly high since the fiscal year ended March 2021 (FY2020). Thanks to the execution of a very large volume of COVID-related loans, interest on loans and discounts has grown significantly from the previous level. Looking ahead, it will probably remain high for the time being despite the likelihood of the repayment of COVID-related loans. Although the profit level will likely be dragged down by growth in foreign currency financing costs, JCR predicts that, given the relatively high earnings capacity as of now, it will nevertheless stay at the level commensurate with the rating for a while.
- (3) Non-performing loans disclosed under the Financial Reconstruction Act have been increasing due to the COVID crisis, etc., but their ratio stays at around the same level as shinkin banks' average, standing at 3.5% as of September 30, 2022. 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 and the posting of exceptional provision to prepare for the default of borrowers amid the COVID crisis. JCR assumes that sufficient coverage and reserves will help contain credit costs for the time being.
- (4) Securities-to-deposit ratio is low in the lower 10% range, and the amount of securities investment risk is not excessive relative to the Bank's business vitality. However, as foreign currency-denominated bonds account for as much as over 40% of the securities portfolio, losses on valuation of available-for-sale securities as of September 30, 2022 were somewhat large due in part to a rise in foreign currency interest rates. JCR will keep an eye on the Bank's future risk-taking amid the unpredictable market environment.
- (5) Non-consolidated core capital ratio as of September 30, 2022 was in the upper 9% range. Although the posting of losses on valuation of available-for-sale securities negatively affects the assessment of capital adequacy, given the exceptional provision for COVID responses, etc., the Bank still secures a reasonable level of a risk buffer. Looking ahead, risk assets may increase partly because of an increase in loans not guaranteed by credit guarantee corporations. That said, JCR assumes that credit costs will not weigh on heavily on profits in the near future, and a slow but steady accumulation of internal reserves can be expected. Financial strength relative to risks will probably be kept at around the current level.

Kengo Sakaguchi, Ippei Koga

Rating

Issuer: THE ASAHI SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable
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Rating Assignment Date: December 14, 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/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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