

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

THE OKAZAKI SHINKIN BANK (security code: -)

<Outlook Change>

Long-term Issuer Rating: A

Outlook: from Negative to Stable

Rationale

- (1) THE OKAZAKI SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Okazaki City, Aichi Prefecture. Boasting a fund volume of 3.6 trillion yen, it is one of the largest shinkin banks in Japan. It enjoys high market shares for deposits and loans in Okazaki City and has a certain level of operating bases in other places like Nagoya City as well. JCR has previously retained the Negative rating outlook for the Bank in light of a decline in the actual capital level and earnings capacity due in part to the materialization of market risks, which had been expanding. However, JCR now predicts that the Bank's earnings capacity will improve going forward, and so will the capital level. Based on the above, JCR, while affirming the rating on the Bank, changed the outlook to Stable.
- (2) Core net business income (excluding gains/losses on cancellation of investment trusts; hereinafter the same) showed year-on-year growth in the first half of the fiscal year ending March 2025 (FY2024), but ROA based on this income stayed low at around 0.1%. Factors like an increase in foreign currency financing costs and decrease in securities holdings have been pushing down the profit level. Yet, given the high proportion of floating-rate loans and deposits, etc., the Bank's earnings improvement with interest rate hikes is fairly foreseeable. JCR views that core net business income will improve significantly from FY2025 onwards, helped also by a turnaround in securities holdings, the redemption of foreign currency-denominated bonds with negative spreads and so forth.
- (3) Loan assets are sound. Non-performing loans ratio under the Financial Reconstruction Act as of the end of September 2024 was kept low in the lower 2% range. The degree of diversification in the loan portfolio is high, owing partly to a high proportion of housing loans, and coverage by guarantees, etc. is sufficient. Credit costs have long been leveling off and will probably remain low into the future.
- (4) The amount of risks in securities investment is large. The Bank reports unrealized losses on available-for-sale securities due in part to a rise in overseas market interest rates over the past few years. Even though it has significantly reduced its securities holdings since FY2022, exposure to stocks, foreign currency-denominated bonds, etc. is still large. JCR assumes that the holding of yen-denominated bonds will increase going forward but will nevertheless watch whether the Bank can control risks while reducing exposure to foreign currency-denominated bonds, etc.
- (5) The actual capital level leaves room for improvement. It previously was one of the factors supporting the rating but is declining partly because of an increase in risk assets and growth in unrealized losses on available-for-sale securities. That said, JCR predicts that the pace of the accumulation of retained earnings will improve and the increase in risk assets will slow down going forward. While the impact of fluctuations in the market prices of securities requires attention for the time being, JCR assumes that the capital level will tend to rise gradually.

Tsuyoshi Ohishi, Ippei Koga

Rating

Issuer: THE OKAZAKI SHINKIN BANK

<Outlook Change>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: February 12, 2025

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.



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