

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

Wakkanai Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A
Outlook: Stable

Rationale

- (1) Wakkanai Shinkin Bank (the "Bank") is a shinkin bank headquartered in Wakkanai City, Hokkaido with a fund volume of around 480 billion yen. When regional economies are feared to weaken because of shrinking population and so forth, the Bank plays a vital role as a financial institution that supports local companies. Its rating is supported by strong capital adequacy and stable business base in the primary service area centered on Souya Subprefecture.
- (2) The Bank's earnings are underpinned by interest income on surplus fund investment. Core net business income has been improving since the fiscal year ended March 2021, helped by a rise in interest and dividends on securities. Currently, growth in interest on deposits resulting from interest rate hikes is placing downward pressure on profitability. That said, given that yields on JGBs in which the Bank is constantly investing are on the rise and that the securities portfolio is now being reshuffled, interest and dividends are expected to increase, and JCR assumes that core net business income will improve in the medium run.
- (3) Credit risk is contained partly because the majority of the portfolio is made up of public bonds. The amount of interest rate risk is large relative to capital as most investments are in ultra-long-term JGBs. While unrealized losses on available-for-sale securities have increased due to higher market interest rates, the Bank maintains its financial base with sufficient capital serving as a risk buffer.
- (4) Non-performing loans ratio under the Financial Reconstruction Act as of September 30, 2024 stood somewhat high in the lower 5% range. That said, the coverage ratio of non-performing loans disclosed is high as the Bank has conventionally been adopting a strict allowance method. Credit costs have increased due to the reclassification of customers into lower categories because of their sluggish performance, and also to other factors including a rise in loan-loss provision ratio due to the COVID crisis, but JCR finds it unlikely that they will grow much larger going forward in light of conservative provisioning, etc.
- (5) Non-consolidated core capital ratio as of September 30, 2024 was extremely high at 57.86%. Core capital ratio adjusted by JCR for unrealized losses on available-for-sale securities, etc. remains relatively high despite a sharp drop. Because of an extremely high securities-to-deposit ratio, the increase in unrealized losses due to interest rate hikes is considerably large relative to equity capital. Given the possibility of a further decline in adjusted core capital ratio, depending on the interest rate environment, JCR will keep a close watch on future developments.

Hidekazu Sakai, Kyohei Yamamoto

Rating

Issuer: Wakkanai Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: February 21, 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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