

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

The Amagasaki Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A
Outlook: Stable

Rationale

- (1) The Amagasaki Shinkin Bank (the "Bank") is a large shinkin bank headquartered in Amagasaki City, Hyogo Prefecture with a fund volume of 2.9 trillion yen. Having the largest market share both for deposits and loans in the city, the Bank also operates many branches in Osaka Prefecture. The Bank's rating reflects solid business foundation in the local area, quality of loan assets that are well secured and diversified into small amounts, and sufficient capital adequacy relative to risk, etc. Key factors for the rating decision are strengthening the earning capacity and risk control in the market division.
- (2) Core net business income excluding gains and losses on cancellation of investment trusts improved after hitting the lowest for the fiscal year ended March 2018 (FY2017), and has been flat as shown that it was 6.2 billion yen for FY2023 and 6.1 billion yen for FY2022. Yield on loans has turned upward due to the effect of thoroughly applying the guideline interest rates, and interest on loans, which had long been in downward trend, reversed and is now increasing. Going forward, expenses will grow due in part to upgrading the core system and also an increase in interest on customer deposits will place downward pressure on net interest income, but core net business income is expected to remain steady supported by an increase in interest on deposit paid and lending. That said, JCR will pay attention to whether the Bank can strengthen the earning capacity because profitability indicators, such as ROA, are somewhat pale.
- (3) Non-performing loans ratio under the Financial Reconstruction Act is in an uptrend, in the upper 5% range at the end of FY2023, which is at a slightly high level exceeding the average of shinkin banks on the back of severe business environment surrounding borrowers including higher prices and manpower shortage. However, loans are highly secured using loans secured by the guarantees of Credit Guarantee Corporation and adopting conservative provision methods. The ratio of categorized loans other than normal assets to the total credits is kept low considering the high composition ratio of business loans. There is little concern over the risk of credit concentration to large borrowers. This indicates that the Bank also has a solid credit management structure such as credit assessment by industry, among others. Credit costs have been kept low over the long term and will unlikely become a large amount going forward.
- (4) The market division's risk exposure is large as shown by high securities-to-deposit ratio of around 40%. The Bank also has a large amount of valuation loss centering on yen-denominated bonds and foreign currency bond funds. For yen-denominated bonds, the Bank is holding down reinvestments using the funds from redemptions, and also mitigating interest rate risk investing in bear funds. As for investment trusts, the Bank has been reducing price fluctuation risk through diversifying investment targets to utilize correlations. JCR will pay attention to whether the Bank will be able to control the negative impacts on earnings and financials through a series of risk control measures.
- (5) Consolidated core capital ratio has been hovering at a high level, in the 16% range. The consolidated core capital ratio adjusted for valuation loss on securities, etc., which JCR evaluates as core, is still favorable among regional financial institutions in A categories. On the backdrop of active risk taking activities in the market division, application of Basel III finalization will become the factor driving down the capital level, but even taking this effect into account, the Bank still maintains a relatively favorable capital level.

Atsushi Kato, Michiya Kidani

Rating

Issuer: The Amagasaki Shinkin Bank

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Long-term Issuer Rating: A Outlook: Stable



Rating Assignment Date: October 30, 2024

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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