

Aug 25, 2021

R&I Affirms A+, Changes Outlook to Stable: The Chugoku Bank, Ltd.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: The Chugoku Bank, Ltd.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable, Changed from Negative

RATIONALE:

The Chugoku Bank, Ltd. has a strong franchise as the top regional bank in Okayama Prefecture, whose economic size ranks in the middle nationwide. Its main operating area is relatively extensive, covering the Bingo region (the eastern part of Hiroshima Prefecture) and Kagawa Prefecture in addition to Okayama Prefecture.

Due to a decline in earning capacity as well as concerns about stronger risk appetite and less risk resilience, R&I affirmed the rating for the bank but changed the Rating Outlook to Negative in February 2019 and kept an eye on progress in business process reengineering (BPR) and the trend of earnings from customer transactions. On the back of a certain degree of progress made in cost reduction and productivity increasing measures, the bank's earning capacity is being restored thanks to growth in lending and commission income. It may take some time to drive earnings with the bank's local operating area at the core, but an improving trend in its earning capacity will likely continue. While risk resilience is slightly lower than the level required for the A rating category due to increases in interest rate risk and price fluctuation risk, the impact on the evaluation of the bank's risk appetite and risk profile is limited. Sound asset quality is maintained. Based on the above, R&I has affirmed the rating at A+ and returned the Rating Outlook to Stable.

Under a severe earnings environment, the bank has been working on a long-term management plan for 10 years since FY2017 (the year ended March 2018). As against the previous medium-term management plan focused on BPR, it engages in intensive efforts on strengthening intangible aspects (organization and human resources) under the current medium-term management plan from FY2020. Through its five pillars of activities, the bank intends to establish a business model for growth.

Credit management is traditionally prudent, and risk appetite is low. As seen in a rise in assets with different risk attributes, such as those associated with structured finance (SF) and lending to non-Japanese borrowers in recent years, the bank has been slightly strengthening its risk appetite while maintaining prudence, to bolster its earning capacity.

Although the local economy has been hit by the COVID-19 pandemic, asset quality remains sound. Risk resilience is slightly lower than the level required for the A rating category. Interest rate and price fluctuation risks are increasing in association with reinvestments of redemption proceeds of bonds with relatively high yields. Attention needs to be paid to growing downward pressure on risk resilience.

Earning capacity remains below what the rating suggests but is being restored, since interest income mainly from lending has bottomed out and its solution sales framework has been reinforced. That said, interest income is supported by SF and lending to non-Japanese borrowers. It is important for the bank to expand transactions with local customers to enhance the earning capacity of the customer segment and reduce its dependence on the securities investment segment.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings", "Shared Rating Approach for Financial Institutions, etc.", "Depository Financial Institutions" and "R&I's Analytical Approach to Regulatory Capital Instruments and Financial Institutions". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

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R&I RATINGS:

ISSUER: The Chugoku Bank, Ltd. (Sec. Code: 8382)
Issuer Rating
RATING: A+, Affirmed
RATING OUTLOOK: Stable, Changed from Negative

ISSUE AMOUNT (mn): JPY 50,000
ISSUE PERIOD: From Sep 08, 2020 to Sep 07, 2022
RATING: **Dated Sub. Bonds: A, Affirmed (Preliminary)**
Shelf Reg. (Sub. Bonds with Non-viability Write-off Clause)

Unsec. Sub. Bonds with a Non-viability Write-off Clause No.1	Issue Date	Maturity Date	Issue Amount (mn)
	Oct 15, 2020	Oct 15, 2030	JPY 10,000
RATING:	A, Affirmed		

A preliminary rating is assigned when a provisional credit rating is needed for an individual obligation on which final terms have not been determined. A credit rating finally assigned may differ from the preliminary rating depending on, among others, the details of the actual contract of the individual obligation.