

Sep 22, 2021

R&I Assigns AA-/a-1+, Stable: au Jibun Bank Corp.

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

ISSUER: au Jibun Bank Corp.
Issuer Rating: AA-, Assigned
Rating Outlook: Stable

Short-term Debts: a-1+, Assigned

RATIONALE:

au Jibun Bank Corp. is an Internet bank owned 67.2% by KDDI Corp. (Sec. Code: 9433, Issuer Rating: AA-) through au Financial Holdings Corp. (auFH), which manages the KDDI Group's financial operations. It is of very high strategic importance to KDDI that aims at profit growth through the integration of the telecommunication services segment and the life design domain including the financial business. R&I has assigned an Issuer Rating of AA- to au Jibun Bank, directly reflecting KDDI's creditworthiness, and a short-term debt rating of a-1+.

Specializing in providing financial services on smartphones, the Bank has established a business model centered on individual customer transactions. It acquires new customers by prompting them to open accounts at au shops and introducing mutual customers between subsidiaries of auFH. In addition, the Bank has built its own customer base for mortgages by taking advantage of its competitive interest rates and products.

The amounts of deposits and earnings per customer are small compared to other internet banks. The key to enhancing the earnings base is to provide products and services that can differentiate au Jibun Bank from other banks, as well as promoting customer acquisition both inside and outside the Group and increasing transactions by using the Ponta system into which KDDI's customer reward point program was integrated in 2020.

The Bank's risk appetite is weak in consumer lending and investments in securities. Since borrowers are limited to individual customers, a credit portfolio is highly diversified into small loans. Most of the securities the Bank holds are bonds with high ratings. Its securities portfolio does not include shares and contains only a few investment trusts. Both credit risk and market risk are low, and therefore the Bank's risk resilience based on economic capital is commensurate with the AA rating category.

The Bank's credit management is prudent and asset quality is sound. While the outstanding balance of proper mortgages (not supported by surety companies) is growing substantially, their default rate remains at a low level. With regard to card loans and specific purpose loans, risks are transferred through external guarantees. When compared to financial institutions that have ample liquid deposits for payroll and transfer accounts, au Jibun Bank has a weak base for procurement of individual customers' deposits. Nevertheless, there is no concern over liquidity in both yen and foreign currencies. The evaluation is positively affected by the fact that au Jibun Bank can receive certain support from KDDI as well as MUFG Bank, Ltd., which holds a stake in the Bank as an equity method affiliate, in case of any crisis.

Earning capacity has room for improvement. The core overhead ratio is high at about 90%, and the Bank must address the challenge of improving cost efficiency through a review of system-related expenses. Under circumstances where prolonged low interest rates make a remarkable increase in net interest income difficult, it is highly important to diversify earnings sources by, for instance, strengthening payment and financial instrument transactions. Since credit cost is rarely incurred because of the business model centered on individual customer transactions, the Bank's earning

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capacity after deduction of credit cost is stable.

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 Parent and Subsidiary Companies". 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

R&I RATINGS:

ISSUER: au Jibun Bank Corp.

Issuer Rating

RATING: AA-, Assigned

RATING OUTLOOK: Stable

Short-term Debts

RATING: a-1+, Assigned

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