

JCR Affirmed BBB+/Stable on FIDEA Holdings, BBB+/Stable on Shonai Bank, and BBB/Stable on Hokuto Bank

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

Rationale

- (1) FIDEA Holdings Co., Ltd. is a financial holding company, under which The Shonai Bank, Ltd. and The Hokuto Bank, Ltd. operate. The Group's fund volume totals over 2 trillion yen, which ranks middle among the regional banks in Tohoku region. The two subsidiary banks share planning & administration, management of securities and risk management policy to heighten the entire Group's earnings power and risk management ability.
- (2) The Shonai Bank, Ltd. is a regional bank headquartered in Tsuruoka City, Yamagata Prefecture with fund volume totaling about 1 trillion yen. The balance of both deposits and loans is growing, while core net business income for the six months ended September 30, 2011 remained at the same level of a year earlier. Until then core net business income was rising after hitting a bottom in the year ended March 2009, but the upward trend paused due mainly to sluggish sales of investment trusts. The ratio of non-performing loans disclosed under the Financial Reconstruction Act has been somewhat worsening but stayed at a relatively controlled level of 2.98% (partial direct write-offs have not been implemented) as of September 30, 2011. On the other hand, losses on valuation of available-for-sale securities are large for the capital level, which should improve. The Bank is also exposed to volatility risks of equity investment trust prices. With these factors, close attention is required to how valuation losses and earnings are affected by equity market trend and other matters.
- (3) The Hokuto Bank, Ltd. is a regional bank headquartered in Akita City, Akita Prefecture with fund volume totaling over 1 trillion yen. The balance of both deposits and loans has been growing in recent years, and loans to small and medium-sized companies are also increasing. On the other hand, basic core net business income after excluding gains/losses on derivative financial instruments (valuation gain/loss on the interest rate derivatives portion attached to structured loans) is decreasing due mainly to declines in loans and yields of securities. Meanwhile, it is appreciated that the consolidated ratio of non-performing loans disclosed under the Financial Reconstruction Act was as low as 3.17% (5.91% before partial direct write-offs) as of September 30, 2011 after such non-performing loans were reduced through a subsidiary for revitalization (Hokuto Solutions). That said, the Bank still has much room for improvement in the quality of capital if public preferred shares and deferred tax assets are taken into account. Another matter of concern is that risks for price volatility of equity and equity investment trusts and those for interest rates are large for the capital level. JCR determines ratings on the Bank in consideration of the Bank's earnings power and the quality of capital while incorporating the Group's credit enhancement into it.
- (4) The consolidated ratio of non-performing loans disclosed under the Financial Reconstruction Act of the entire Group (the total of the two banks, before partial direct write-offs) stood at 4.41% as of September 30, 2011, a relatively controlled level as a regional bank in the BBB category. FIDEA's consolidated Tier I capital ratio was 6.35% as of September 30, 2011, with 10 billion yen of public preferred shares included in Tier I capital. The ratio of deferred tax assets for Tier I capital is as high as 26.3%, indicating there is room for improvement in the quality of capital. JCR evaluates the entire Group's creditworthiness at "BBB+" as it will likely take some time for the Group to improve its quality of capital given its earnings power. While FIDEA's double leverage ratio is somewhat high, ratings on the Company do not reflect its structurally subordinated nature relative to the Group because it is highly unified with the subsidiary banks and its cash flows are well balanced.

Rating

Issuer: FIDEA Holdings Co., Ltd. (security code: 8713)

<Affirmation>

Senior debts: BBB+ Outlook: Stable

Issuer: The Shonai Bank, Ltd.

<Affirmation>

Senior debts: BBB+ Outlook: Stable

Issue	Amount (bn)	Issue Date	Due Date	Coupon	Rating
subordinated callable bonds no.3	Y5	Feb. 23, 2007	Feb. 23, 2017	(Note)	BBB

(Note): 1.90% per annum till Feb. 23, 2012. It will switch to 6M Euroyen LIBOR + 2.00% after that date.

Issuer: The Hokuto Bank, Ltd.

<Affirmation>

Senior debts: BBB Outlook: Stable

Outline of the method for the determination of the credit rating is posted as "Rating Methodology (Financial Institutions)" on JCR's home page (<http://www.jcr.co.jp>). The rating methodology is subject to additions and changes. In such cases, however, these additions and changes are shown in chronological order. Please check the release date of this press release against that of the rating methodology (i.e., the date when such methodology became effective) and then refer to the rating methodology above.

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