

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

## The Hiroshima Shinkin Bank (security code: -)

### <Affirmation>

Long-term Issuer Rating: A  
Outlook: Stable

### Rationale

- (1) Headquartered in Hiroshima City, Hiroshima Prefecture, The Hiroshima Shinkin Bank (the "Bank") is the largest shinkin bank in the Chugoku region with a fund volume of approximately 1.7 trillion yen. It operates branches at a high density, mainly in Hiroshima City where there are many business opportunities. Factors reflected in the long-term issuer rating include solid business foundation in Hiroshima City, quality of loan assets that are well-diversified into small amounts and well-secured, and sufficient capital against risks, among others. The key factors for the rating decision are whether the Bank will be able to improve the earning capacity leveraging the stable deposit funding base and sustain good capital adequacy through appropriate risk control.
- (2) There is room for improvement in the earning capacity against the rating. Core net business income (excluding gains and losses on cancellation of investment trusts) has remained in the middle of 4-billion-yen range in a stable manner, but ROA based on core net business income is somewhat low, in the middle of 0.2% range. For the fiscal year ended March 2026 (FY2025), the Bank offset a decrease in loan-deposit income and increased expenses by income from investment of surplus fund. The proportion of fixed-interest rate loans is relatively high, and an improvement in the loan-deposit yield will remain small, but loan-deposit income is expected to turn around to growth by expanding the margin of improvement over the medium-term. Income from investment of surplus fund is also expected to increase. Therefore, JCR sees a profit level and profitability are in uptrends.
- (3) The Bank maintains a certain level of soundness in loan asset quality. Non-performing loans ratio under the Financial Reconstruction Act has been in the upper 2% range, remaining at a level below the industry average, as at the end of FY2025. While there are many credits extended to borrowers requiring caution, the ratio of categorized asset with collection risk has been kept relatively low because credits are well secured. The amount of credit cost is somewhat large against core net business income but has remained at a level of around 10 to 20 bps against the balance of loan assets. Attention is required for the impacts of inflation and rising interest rate, but there is little concern over the risk of credit cost becoming a large amount considering that loans are well-diversified into small amounts and well-secured, as well as rigid credit management.
- (4) The market division's risk exposure relative to capital is somewhat large. The Bank primarily takes interest rate risk, and duration of domestic bonds comprising 80% of securities holdings is becoming shorter but is still long. In response to rising market interest rates, valuation losses on bonds are expanding, and the Bank has considerable amount of valuation losses on available-for-sale securities as a whole.
- (5) Capital adequacy is high. Consolidated core capital ratio adjusted for valuation losses on securities, etc. remains at a high level, just under 12% as at the end of FY2025. Stable accumulation of retained earnings commensurate with expansion of risk-weighted assets has been supporting a high capital level. Further expansion of the valuation losses requires caution, but the Bank will probably maintain a competitive capital level in the future as well considering current amount of capital and others, in JCR's view.

Michiya Kidani, Shuntaro Takasawa

### Rating

Issuer: The Hiroshima Shinkin Bank

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Long-term Issuer Rating: A      Outlook: Stable

Rating Assignment Date: October 6, 2026

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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