

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

## THE HEKIKAI SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A+  
Outlook: Stable

### Rationale

- (1) THE HEKIKAI SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Anjo City, Aichi Prefecture with total funds of 2.1 trillion yen. The Bank has branches mainly in Nishimikawa region and enjoys large market shares for deposits and loans particularly in Anjo City. Recently, it has also been focusing on enhancing operation bases in Nagoya City. Its rating is supported by these solid business bases, as well as by the high capital level, etc. Although profitability improvement remains a challenge, JCR assumes that the Bank can maintain the high core capital ratio relative to the rating for the foreseeable future.
- (2) Since the fiscal year ended March 2018 (FY2017), core net business income (excluding gains on cancellation of investment trusts; the same applies hereinafter) has been solid underpinned by an increase in interest and dividends on securities, etc., but the core net business income-based ROA stays at around 0.2%, the same level as the average for shinkin banks. While its expense rate is better than the average of shinkin banks partly thanks to the large scale, loan yields are low mainly because of fierce competition among financial institutions in Aichi Prefecture. Until FY2019, interest on loans and discounts had been on the decline due to decreased loan yields. That said, the loan balance has been significantly expanding at this point, as the Bank is actively working on financing support for business operators affected by the COVID-19 pandemic, which led to a revenue increase in interest on loans and discounts for the first half of FY2020. JCR will pay attention to progress in fee business enhancement and efficiency improvement by operational reforms, among others, in addition to the mid-term momentum in interest on loans and discounts.
- (3) On the securities front, the Bank has so far significantly piled up the balances of corporate bonds, foreign securities and investment trusts, though the risk quantity is not excessively large relative to capital, in JCR's view. For the foreseeable future, redemptions of bonds held with relatively high yields are expected to put downward pressure on earnings. Given the fact that appraisal gains on other securities, which work as a risk buffer, have been decreasing compared to the past, among others, JCR will observe the Bank's investment policy going forward.
- (4) The non-performing loans ratio disclosed under the Financial Reconstruction Act as of September 30, 2020 was 2.8% at a reasonable level, and loans are well diversified into small amounts and various industries. JCR hence sees that credit costs will remain at a level absorbable by core net business income for the time being. That said, as the number of borrowers requiring caution or worse, of which unsecured claims are large in comparison to their earnings, are increasing, the pandemic's impact on credit costs requires attention.
- (5) The non-consolidated core capital ratio as of September 30, 2020 was 15.3%. As risk assets are increasing due to expansion of risk-weighted assets in the market transaction division, the core capital ratio is on a downtrend. The ratio, however, is still at a high level, suggesting adequate capital.

Tsuyoshi Ohishi, Ippei Koga

### Rating

Issuer: THE HEKIKAI SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A+      Outlook: Stable

Rating Assignment Date: January 6, 2021

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" (November 7, 2014) and "Banks" (May 8, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).



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