

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

The Hiroshimashi Credit Cooperative (security code: -)

<Affirmation>

Long-term Issuer Rating: A+

Outlook: Stable

Rationale

- (1) The Hiroshimashi Credit Cooperative (the "Credit Co-op") is a regional credit cooperative headquartered in Hiroshima City with a fund volume of approximately 870 billion yen. Its strength lies in the ability to make a quick decision of approval/disapproval on loan applications as it concentrates management resources to the deposit and lending businesses under the strong leadership of its top management. The rating reflects favorable evaluation on the Credit Co-op's business model, as well as other factors including high earning capacity. As the capital level has improved thanks to robust performance, etc., JCR views that it can be maintained at around the current level for a while longer.
- (2) Core net business income remained on an uptrend for a long time thanks to a rise in interest income on loans with growth in loans, as well as to curbs on expenses and financing costs. Although it shrank in the first half of the fiscal year ended March 2024 due primarily to a drop in loan-related fees, the high profit level is nevertheless maintained. ROA based on core net business income is over 1%, which is high even after deducting credit costs. Loans outstanding have been increasing consistently because of constant branch renovations and efforts to strengthen sales activities following these renovations. The Credit Co-op successfully ensures higher loan yields than those of other regional financial institutions by, for instance, extending loans to medium-risk borrowers and making a quick decision of approval/disapproval on loan applications. As interest on loans as the main source of revenue keeps growing, JCR assumes that core net business income will remain solid for a while longer.
- (3) The quality of loan assets remains good. As the Credit Co-op actively writes off non-performing loans from the balance sheet through bulk sales, non-performing loan ratio under the Financial Reconstruction Act stands low at around 1.5% (no partial direct write-offs implemented). Even though the Credit Co-op is likely to keep incurring a certain amount of credit costs into the future because its primary borrowers are medium-risk borrowers, JCR assumes that, given the thorough diversification of loans into small amounts and conservative provisions, credit costs will stay within a range fully absorbable by core net business income. Moreover, securities balance is small, and interest rate and price fluctuation risks are contained.
- (4) Core capital ratio adjusted for allowance for credit losses, etc. as of September 30, 2023 was just below 10%, improving from the lower 9% range at March 31, 2022. As a contributing factors here, in addition to the accumulation of retained earnings and capital increases, the expansion of risk assets has slowed down because the effects of large increases in lending to blue-chip firms have run their course. Looking ahead, the pace of increase in risk assets may reaccelerate, but JCR considers that the Credit Co-op can still maintain its capital at around the current level with the accumulation of retained earnings, backed by solid performance.

Tsuyoshi Ohishi, Seito Achiha

Rating

Issuer: The Hiroshimashi Credit Cooperative

<Affirmation>

Long-term Issuer Rating: A+ Outlook: Stable

Rating Assignment Date: May 14, 2024

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" (February 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.



Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)
