22-D-0174
May 25, 2022

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

The Hiroshimashi Credit Cooperative (security code: -)

<Affirmation>

Long-term Issuer Rating:	A
Outlook:	Positive

Rationale

(1) The Hiroshimashi Credit Cooperative ("Hiroshima Credit Co-op") is a regional credit cooperative headquartered in Hiroshima City with a fund volume of approximately 800 billion yen. It has strength in making swift decision of approval and disapproval on loan applications as it concentrates management resources to the deposit and lending businesses under the top management's strong leadership. The assessment of such business model and strong earnings capacity, along with other factors, support the rating on Hiroshima Credit Co-op. JCR continued the Positive rating outlook assuming that the core capital ratio, which is the constraint on the rating, would be improving. Although the core capital ratio has declined due to a large amount of increase in risk-weighted asset, JCR's view, the ratio will improve over the medium-term backed by the steady performance, remains unchanged. JCR continues the Positive rating outlook, and will reflect the pace of increase in risk-weighted assets and trend in credit costs in the rating through watching them closely.

(2) Core net business income has been increasing over the long term, reaching a scale exceeding 10 billion yen. ROA based on core net business income has exceeded 1%, which still stands high even after deducting credit costs. The increase is driven by an increase in interest on loans and discounts. The loan balance have continued to grow due to strengthening the sales activities by making use of opportunities such as opening of new branches and branch renovations, and taking active stance toward COVID-19-related loans, among others. After the needs of the aforementioned loan came to the end, Hiroshima Credit Co-op has been actively tapping into the funding needs of prime local companies; therefore, the loan balance is increasing at a fast pace. Although the loan yield has declined, it has ensured higher yield compared to that of other regional financial institutions underpinned by making aggressive approach to medium-risk borrowers, swift decision-making of approval and disapproval on loan applications and others. Despite the significant expansion of the scope of business operations, Hiroshima Credit Co-op has held an increase in expenses low. JCR views Hiroshima Credit Co-op will be able to maintain the high earnings capacity for the time being as well.

(3) The quality of loan assets has been maintained. Non-performing loan ratio under the Financial Reconstruction Act is low in the upper 1% range (no partial direct write-offs implemented) partly because Hiroshima Credit Co-op has been aggressively making off-balance sheet treatments of non-performing loans, and other factors. Also, loans are well-diversified into small amounts. Hiroshima Credit Co-op has long been recording provisions conservatively by, for instance, tightening self-assessment, and increased allowance for bad debts for credits extended to potentially bankrupt borrowers also in the fiscal year ended March 2022. Medium-risk customers are the main borrowers for lending; therefore, where the COVID crisis lingers, the impact to credit costs should need to be monitored closely. Nevertheless, JCR views credit costs will remain in the range that can be sufficiently absorbed by core net business income for the time being if the conservative provisions recorded and others are taken into consideration. While the balance of securities has increased compared to that in the previous, Hiroshima Credit Co-op intends to not to increase the balance hereafter. Securities-to-deposit ratio is still at a low level and its exposure to risk involved in the securities holdings and bonds has been curbed against the capital.

(4) Core capital ratio adjusted for allowance for credit losses, etc. as of September 30, 2021 stood at around 9.5%, for which there is room for improvement compared to that of A+-rated regional financial institutions. The recent decline in the core capital ratio is attributable to acceleration of the pace of increase in risk-weighted assets influenced by increased balance of securities such as corporate bonds in addition to increased balance of loans without guarantee provided by credit guarantee corporations. JCR views the pace of increase will be slowing down hereafter.

Kengo Sakaguchi, Tsuyoshi Ohishi

Rating

Issuer: The Hiroshimashi Credit Cooperative

<Affirmation>

Long-term Issuer Rating: A   Outlook: Positive

Rating Assignment Date: May 20, 2022

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" (October 1, 2021) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

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