

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 2.2 trillion yen. The Bank has large market shares for deposits and loans in Anjo City, and has established many branches in Nagoya City and other nearby areas. The scale of such business base, the level of capital and other factors support the rating of the Bank. However, its capital level has been gradually declining, and there is room for improvement of the basic earning capacity relative to the rating. The key point in rating is whether the Bank can maintain and strengthen its earning capacity while maintaining its superiority in the capital level.
- (2) The Bank's core net business income (excluding gains on cancellation of investment trusts; the same applies hereinafter) has been on an uptrend since hitting the latest bottom in the fiscal year ended March 2017 (FY2016). Main factors behind this are an increase in interest and dividends on securities backed by an expansion in investment in overseas assets, and a decrease in interest on deposits, among others. Loan interest income has also been steady since FY2020 due to execution of many COVID-19-related loans. That said, ROA (on a basis of core net business income) remains in the lower-0.2% range. Looking ahead, repayment of the COVID-19-related loans, redemption of relatively high-yield bonds, etc. will likely put a downward pressure on earnings. The Bank is working to promote yield-oriented lending and strengthen fee businesses, among others, and JCR will pay attention to the effects.
- (3) The quality of loan assets is favorable. The non-performing loans ratio disclosed under the Financial Reconstruction Act as of the end of September 2022 was at a restrained level in the mid-2%-range. Its coverage for loan assets is sufficient with collaterals, etc., and the reserve method is conservative with a lower limit on the loan-loss reserve ratio for potentially bankrupt debtors. There is no problem with the concentration of credit to specific large borrowers or industries. Credit costs have been restrained against the backdrop of such prudent credit management, and will likely fully continue to be absorbed by core net business income going forward.
- (4) Although the Bank has taken risks somewhat aggressively in securities investment, the amount of risk is not excessive relative to the management vitality. The security-deposit ratio is high compared with the average of shinkin banks, and exposure to foreign currency interest rates has been expanding. While unrealized loss on other securities has swelled in response to rising interest rates both at home and abroad, the impact on the financial base is at a level that can be fully absorbed by capital. The Bank has no intention to step up risk-taking activities from the current status. Given the current uncertain market environment in particular, it is strengthening its risk-containment stance.
- (5) At the end of September 2022, the non-consolidated core capital ratio was in the lower-15% range. The ratio is in a declining trend over the long term, due to an increase in risk assets mainly in the department engaging in market transactions. The unrealized loss on other securities is a negative factor in evaluating capital adequacy. However, even considering this, a high capital level has been maintained.

Tsuyoshi Ohishi, Ippei Koga

Rating

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Rating Assignment Date: December 21, 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/>).

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

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