

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, The Hiroshima Shinkin Bank (the "Bank") is the largest shinkin bank in Chugoku region with a fund volume of 1.6 trillion yen. The Bank operates a dense branch network centered on Hiroshima City where it has many business opportunities. The Bank's rating reflects factors including good earnings capacity supported by its solid customer base, quality of loans, which are well diversified into small claims and secured, and sufficient capital adequacy relative to risk. The key factor for the rating is whether the Bank can maintain the earnings capacity through curbing a decrease in interest on loans, which is the core earnings of the Bank, and other means.
- (2) Core net business income (excluding gains and losses on cancellation of investment trust) has been stable hovering in the middle of 4 billion yen range and ROA (based on core net business income) has been in the middle of 0.2% range, which is a decent level for regional financial institutions falling in the A range. In the situation where net interest income is weakening due to a decrease in interest on loans, the Bank has increased fees and commissions through strengthening fee business for corporate customers and also reduced expenses through reviewing operation processes. It has also been increasing balance of loans mainly for SMEs through increasing efficiency of the sales activities after the COVID-related loans came to the end. That said, decline in loan yield is placing downward pressure on interest income. JCR will pay attention to whether the Bank can continue to maintain the earnings capacity through expanding transactions with and provision of solutions to corporate customers, the Bank's target.
- (3) Non-performing loans ratio under the Financial Reconstruction Act is in the high 2% range, which is a low level in the shinkin industry, securing a certain coverage ratio by taking advantage of loans guaranteed by the Credit Guarantee Corporation and making provisions conservatively. Recently, credit cost ratio has been stable remaining around 10pbs. The environment surrounding borrowers, such as increasing burden of debts and rising raw material / fuel prices in the COVID-crisis, needs to be watched; however, JCR views that risk of credit cost becoming a large amount will be small in the future as well by the credit control diversified into small amounts and solid credit process management.
- (4) The Bank is prudent for risk taking activities in the market division as indicated that the ratio of securities-to-deposits (on a daily average basis) was low at 21% for the fiscal year ended March 2023. Although interest rate risk of yen-denominated bond holdings has expanded due to prolongation of the duration, the Bank is making efforts to improve quality of the portfolio by selling low coupon long-term bonds and others. Investment targets of investment trusts have been diversified, and the price fluctuation risk involved is limited in light of the sufficient amount of capital.
- (5) Consolidated core capital ratio has been high in the 13% range. Majority of the core capital consists of retained earnings, and the capital is substantial for the perspectives of both quality and quantity. JCR views that the Bank will highly likely continue to maintain the capital at a high level through accumulating retained earnings.

Michiya Kidani, Kyohei Yamamoto

Rating

Issuer: The Hiroshima Shinkin Bank

<Affirmation>

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Rating Assignment Date: October 23, 2023

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.

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