

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 the Chugoku region with the fund volume of 1.4 trillion yen. The Bank has a dense branch network centering on the City where many business opportunities occur. The rating for the Bank reflects its earnings power backed by solid lending business and fee business, quality of loans being diversified into small claims and covered well, sufficient equity capital, etc. JCR places Stable outlook on the rating, since the Company's earnings will be supported by steady growth in the balance of loans primarily to SMEs.
- (2) The Bank's lending to SMEs, which constitute a pillar of the earnings source, has been growing steadily. Its loan-to-deposit ratio remains in an upper 60% range, high for the industry. Fees and commissions from fund settlements, sales of financial instruments and other services are also largely contributing to its earnings. ROA based on the core net business income is relatively high at 0.3% for the fiscal year ended March 2019 (FY2018). Given that downward pressure on yield on loans could affect earnings associated the redemption of bonds it has, the core net business income could weaken again. Nevertheless, as well as assessing the business possibilities and increasing personnel for client relations, the Bank has reviewed its performance evaluation system in FY2019 and has since been strengthening its system to promote lending to SMEs. For selling financial instruments, the Bank has established the way to communicate customer needs from client relation staff to dedicated staff. Implementing a new system, for instance, can help the Bank streamline its operations management and improve its ability to propose solutions. JCR considers that measures the Bank carries out will lead to the retention of its certain earnings capacity.
- (3) Credit cost for FY2018 is in a 20bp range, not high relative to the balance of loans, but constitutes about 50% of its core net business income. Since the Bank has increasing doubtful loans or assets requiring caution on the back of its aggressive risk-taking activities in lending to SMEs, etc., credit cost may become a certain burden in terms of P/L, going forward. That said, with its loan portfolio being well diversified in small claims, the Bank has in place a system to manage credit to borrowers and support them. Its non-performing loans ratio under the Financial Reconstruction Act is decent in an upper 2% range and a conservative allowance for credit losses is provided. Taking these factors into consideration, JCR believes that the risk of a rapid rise in credit cost is low.
- (4) The securities-to-deposit ratio is low and the amount of risk borne by the division engaged in market transactions is considerably small relative to the Bank's sufficient equity capital. JCR predicts that the Bank will continue to have a risk-taking attitude in a controlled manner under its policy of being careful about investment.
- (5) The consolidated core capital ratio has been relatively high at a 12% range. The Bank's core capital consists mostly of retained earnings, showing the sufficiency of equity capital in terms of both quality and quantity. Even though risk assets are tending to increase along with growth in loan balance, net income can be expected reasonably and dividend payment places just a light burden on the Bank. Therefore, the current level of equity capital is likely to be sustained.

Tomohiro Miyao, Michiya Kidani

Rating

Issuer: The Hiroshima Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: June 3, 2019

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status 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 methodology for determination of the credit rating 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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