

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

The Hiroshimashi Credit Cooperative (security code: -)

<Rating Change>

Long-term Issuer Rating: from A to A+

Outlook: from Positive to 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 830 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 such business model, high earning capacity, etc. It continues to record an increase in core net business income, and credit costs will likely be within the range that can be fully absorbed. The core capital ratio, which has been a constraint on the rating, will continue to improve with solid performance and the slowing pace of an increase in risk-weighted assets, in JCR’s view. Based on the above, JCR has upgraded the rating on the Credit Co-op by one notch and changed the outlook to Stable.
- (2) The core net business income has been increasing over the long term and the Credit Co-op seems to record another income increase for the fiscal year ended March 2023 (FY2022) (11.0 billion yen in FY2021). The ROA based on core net business income is above 1%, standing at a high level even after deducting credit costs. The income increase is driven by growing interest on loans and discounts. Loans outstanding are growing at a fast pace, mainly due to the strengthening of business activities by making use of opportunities such as new branch openings and branch renovations, and the active capture of funding demand by local firms. It has ensured higher loan yields compared to those of other regional financial institutions, backed by financing to medium-risk borrowers, quick loan screening and others. In addition, despite the significant expansion of the scope of business operations, it has held an increase in expenses low by specializing on deposit and lending businesses, among others. Thus, JCR sees that the high profitability will be kept.
- (3) The quality of loan assets has been maintained. As the Credit Co-op is actively off-balancing non-performing loans through bulk sales, the non-performing loan ratio under the Financial Reconstruction Act is in the upper 1% range (no partial direct write-offs implemented), a low level. In addition, it has been recording provisions conservatively through more rigorous self-assessments, etc. As its main borrowers are middle-risk borrowers, certain credit costs are expected to continue to be incurred in the future. However, JCR believes that credit costs will be well absorbed by core net business income, considering such factors as loan receivables thoroughly diversified in small lots and conservative provisions, among others. Its securities balance is small and the ratio of securities to deposits is maintained at a low level.
- (4) The core capital ratio adjusted for provisions for credit losses, etc. as of the end of September 2022 was in the mid-9% range. Although there remains room for improvement compared with regional financial institutions in the A+ category, the ratio increased after the end of March 2022 due to an increase in capital and the accumulation of internal reserves. The pace of increase in risk-weighted assets is expected to ease in the future, as the effects of large increases in lending to blue-chip firms has tailed off. JCR expects the level of capital to improve, in tandem with solid performance.
- (5) While the scope of business operations is expected to continue to expand, JCR believes that the development of management infrastructures, such as increasing the number of personnel and enhancing the governance, will become important further.

Tsuyoshi Ohishi, Seito Achiha

Rating

Issuer: The Hiroshimashi Credit Cooperative

<Rating Change>

Long-term Issuer Rating: A+ Outlook: Stable

Rating Assignment Date: May 16, 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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