

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

The Hiroshimashi Credit Cooperative (security code: -)

<Affirmation>

Long-term Issuer Rating: A+
Outlook: 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 880 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 the Credit Co-op’s business model, as well as other factors including high earning capacity. Underpinned by solid performance and others, core capital ratio has improved to a decent level, and JCR views that it can be maintained at around the current level for the foreseeable future.
- (2) Fundamental earning capacity is high. Core net business income remained on an uptrend for a long time due to a rise in interest income on loans with growth in loans, as well as curbs on expenses and financing costs. It also remains at a higher level at the moment than that in the past. ROA based on core net business income for the first half of the fiscal year ended March 2025 (FY2024) exceeded 1%, which is at a high level even after deducting credit costs. In response to recent soaring real estate prices and others, the Credit Co-op revised the stance toward credit assessment and the pace of increasing the loan balance has become slower. It successfully ensures higher loan yields than those of other regional financial institutions by, for instance, extending loans to medium-risk borrowers and making a quick decision of approval/disapproval on loan applications. The yield had been on a downward trend due to increased lending to large creditworthy borrowers, but it has recently reversed due to an increase in balances at small borrowers and rising market interest rates. As interest on loans, a core revenue stream, keeps growing, and JCR views that core net business income will remain steady for the foreseeable future while absorbing increased expenses related to an improvement in employee benefits and others.
- (3) The quality of loan assets has been maintained. As the Credit Co-op actively writes off non-performing loans from the balance sheet through bulk sales, non-performing loan ratio under the Financial Reconstruction Act stands is held down, standing at just under 2% (no partial direct write-offs implemented). Even though the Credit Co-op is likely to keep incurring a certain amount of credit costs into the future because its primary borrowers are medium-risk borrowers, JCR assumes that, given the thorough diversification of loans into small amounts and conservative provisions, credit costs will stay within a range that can be comfortably absorbable by core net business income. Moreover, its risk exposure related to securities is held down relative to the capital. Securities-to-deposit ratio is low at around 7%, mainly investing in government bonds and high-rated corporate bonds.
- (4) Core capital ratio adjusted for allowance for credit losses, etc. as at the end of September 2024 was around 10.5%. While expansion of the risk-weighted assets are curbed, retained earnings are constantly accumulated on the back of the Credit Co-op’s high earning capacity, and the capital level has been improving at a fast pace from the lower 9% range as at the end of March 2022. The pace of expansion in risk-weighted assets may accelerate again in the future, but JCR views that the Credit Co-op will be able to maintain the present capital level because it is highly likely that earning capacity will also be rising at that time.

Tsuyoshi Ohishi, Shuntaro Takasawa

Rating

Issuer: The Hiroshimashi Credit Cooperative

<Affirmation>

Long-term Issuer Rating: A+ Outlook: Stable

Rating Assignment Date: May 12, 2025

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" (October 1, 2024) 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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