17-D-1091
March 28, 2018

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

Concordia Financial Group, Ltd. (security code: 7186)

<Affirmation>

Long-term Issuer Rating:	AA
Outlook:	Stable
Bonds (Tier 2 with loss absorption clause):	AA-
Shelf Registration:	Preliminary AA

The Bank of Yokohama, Ltd. (security code: -)

<Affirmation>

Long-term Issuer Rating:	AA
Outlook:	Stable

The Higashi-Nippon Bank, Limited (security code: -)

<Affirmation>

Long-term Issuer Rating:	AA-
Outlook:	Stable

Rationale

(1) Concordia Financial Group, Ltd. ("Concordia FG") is a financial holding company, having under its umbrella The Bank of Yokohama, Ltd. ("BOY") and The Higashi-Nippon Bank, Limited ("HNB"). The Group as a whole has established a wide-area network covering Kanagawa, Tokyo and five other prefectures with fund volume reaching approximately 15 trillion yen, one of the largest in the industry. While BOY has strength in a fund raising capability backed by strong brand power principally in its home prefecture of Kanagawa and know-how in proposal-based sales to wealthy individuals and also in low-cost operations, HNB excels in cultivating new loans to SMEs by leveraging its strong branch network in central Tokyo with high growth potential. The Group, since the management integration about two years ago, has been making efforts for early realization of synergies through management infrastructure sharing, such as provision of operations management know-how, opening of joint branches, and mutual use of existing branches. The additional synergy measures implemented in the fiscal year ending March 2018 (FY2017) amid a severe business environment with ultra-low interest rates started proving effective in breaking the downward trend in the two banks' combined fundamental earnings.

(2) As BOY and HNB account for nearly 90% of the Group's consolidated assets and earnings, JCR's assessment of the two banks' combined asset quality and earnings power is strongly reflected in the Group's overall creditworthiness. The two banks' combined ROA (based on core net business income; annualized) is as high as 0.6% for the first half of FY2017, which is higher than other banks even excluding gains on cancellation of investment trusts and other income susceptible to changes in market conditions. The quality of loan assets is generally high, and risks associated with securities holdings are limited. The capital assessed by JCR as core is also at a high level. JCR thus considers the creditworthiness of the Group as a whole to be commensurate with the "AA" rating category. Factors incorporated in the ratings on the two banks include the Group's overall creditworthiness and intra-group credit complement, in addition to assessments of their non-consolidated P/L and B/S as a basic factor. JCR did not reflect subordinated nature of a holding company in the rating on Concordia FG, because there seems to be no problem with its double leverage ratio and cash flow balance.

(3) BOY is a regional bank that is headquartered in Yokohama City, Kanagawa Prefecture. It has solid business bases as the leading bank in the prefecture with fund volume totaling about 13 trillion yen, one of the largest in the industry. Its loan balance has been steadily growing, which curtailed the degree of decline in yield on loans. Its net interest income turned upward in FY2017, driven also by higher earnings from market transactions such as fund investments. The sales of financial instruments to individual customers picked up, and net fees and commissions increased as a

result of its efforts to promote structuring loans to corporate customers. Furthermore, expenses declined thanks to suppressed overtime expenses and the absence of the costs for establishing the holding company. Given that the Group as a whole has working on simplifying the headquarters organization and creating sales staffs accompanying thereto, BOY might well be able to maintain the earnings power at a top level in the industry. Its loan portfolio is made up of approximately 50% loans to corporate customers and approximately 50% loans to individual customers centering on relatively small diversified housing loans and apartment loans. Though the loans to real estate industry account for a larger part of the total loans to corporate customers, BOY has maintained disciplined approach in credit management with business characteristics taken into consideration. As for apartment loans to individuals, BOY increased assets of good quality centering on the wealthy individuals with assets. Attention should be paid to changes to market conditions surrounding real estate industry. That said, given that it is advancing efforts while enhancing credit management, BOY is highly likely to keep the soundness of the assets. Its non-performing loans ratio under the Financial Reconstruction Act is low around 1.5% and concentration of credits to large borrowers is well controlled. All in all, BOY is unlikely to record sizable credit costs. With securities-to-deposit ratio staying at a low level, the risks associated with securities holdings are also limited. Its consolidated Tier 1 ratio was 12.6% as at end-December 2017. With almost no capital inclusion due to the Basel III transitional arrangements, BOY has decent capital profile both in quality and quantity aspects. JCR reflects its assessment of the overall Group's creditworthiness in the rating on BOY in light of BOY's business size in the Group.

(4) HNB, headquartered in Tokyo, is a second-tier bank, with fund volume of approximately 2 trillion yen. It is operating preliminarily in relatively wide area covering from Tokyo to Ibaraki Prefecture. Characterized by its branch development based on business loans in central Tokyo, HNB has, since the management integration, accelerated expansion of operating sites by opening new branches by itself and opening offices using BOY's branches. While HNB sees a relatively sizable decline in yields on loans, it enjoys a substantial growth in the loan balance, especially loans to SMEs. Also with reduced deposit interest cost thanks to capital supplied by BOY and earnings growth contributed by the favorable financial market business, net interest income remains largely unchanged. The fee business, which currently contributes less to the overall income growth, is likely to expand the sales of financial instruments backed by support from BOY such as provision of know-how, and also further reduce the expenses by implanting low cost operation model from BOY. The core systems of BOY and HNB will be integrated in January 2019, which would reduce system cost in the medium run. Given the ROA for the first half of FY2017 standing at 0.4% on a par with the average of the industry, HNB is likely to be able to maintain a certain level of earnings power for the foreseeable future. However, the loan balance for the real estate industry is large relative to the core capital and the price fluctuation risk of investment trusts held by the department engaging in market transactions is not small. The level of the capital that is considered as "core" by JCR is also low. While strengthening the capital relative to risks would be important theme for HNB from the rating perspective, JCR has affirmed the rating on the Company at AA-, reflecting factors such as the credit enhancement provided by the Group.

Hajime Oyama, Michiya Kidani

Rating

Issuer: Concordia Financial Group, Ltd.

<Affirmation>

Long-term Issuer Rating: AA Outlook: Stable

Issue	Amount (bn)	Issue Date	Due Date	Coupon	Rating
callable bonds no.1 (Tier 2 with loss absorption clause)	JPY 20	Mar. 22, 2017	Mar. 19, 2027	(Note 1)	AA-
callable bonds no.2 (Tier 2 with loss absorption clause)	JPY 20	Feb. 23, 2018	Feb. 23, 2028	(Note 2)	AA-

Note 1: 0.50% till March 22, 2022. It will switch to 6M Euroyen LIBOR + 0.38% after that date.
Note 2: 0.40% till February 23, 2023. It will switch to 6M Euroyen LIBOR + 0.28% after that date.

Shelf Registration: Preliminary AA
Maximum: JPY 200 billion
Valid: two years effective from September 6, 2017

Issuer: The Bank of Yokohama, Ltd.

<Affirmation>
Long-term Issuer Rating: AA   Outlook: Stable

Issuer: The Higashi-Nippon Bank, Limited

<Affirmation>
Long-term Issuer Rating: AA-   Outlook: Stable

Rating Assignment Date: March 26, 2018

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), "Banks" (May 8, 2014), "Rating Methodology for a Holding Company" (January 26, 2015), "Ratings of Bank Holding Companies and Subsidiary Banks" (March 15, 2001), and "Rating Methodology for Financial Institutions' Capital and TLAC Instruments" (April 27, 2017) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Glossary:
A preliminary rating is a credit rating assigned as a preliminary evaluation while material terms for issue to be rated are not yet finalized. When the issuing terms are finalized, JCR will confirm them and will assign a credit rating anew. The rating level of the final rating may be different from that of the preliminary rating, depending on the final content of the terms, etc.

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Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Concordia Financial Group, Ltd.
Issuer:	The Bank of Yokohama, Ltd.
Issuer:	The Higashi-Nippon Bank, Limited
Rating Publication Date:	March 28, 2018

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the order of seniority in repayment of interests and principal. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches if the issuer's financial structure differs so much and thereby the balance between debts shifted so greatly. Rating change is also possible in case of the financial products for which non-payment of interest/ principal is contractually permissible, if and when the assumptions made at the time of its determination turns out to be inaccurate. The change of the credit rating is assumed to be by a notch but often as much as a few notches.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Concordia Financial Group, Ltd.	Issuer(Long-term)	March 31, 2016	AA	Stable
Concordia Financial Group, Ltd.	Issuer(Long-term)	December 28, 2016	AA	Stable
Concordia Financial Group, Ltd.	Shelf Registration	August 29, 2017	AA	
Concordia Financial Group, Ltd.	Bonds no.1(Subordinated)	March 14, 2017	AA-	
Concordia Financial Group, Ltd.	Bonds no.2(Subordinated)	February 16, 2018	AA-	

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
The Bank of Yokohama, Ltd.	Issuer(Long-term)	March 12, 2007	AA	Stable
The Bank of Yokohama, Ltd.	Issuer(Long-term)	February 17, 2009	AA	Stable
The Bank of Yokohama, Ltd.	Issuer(Long-term)	April 9, 2010	AA	Stable
The Bank of Yokohama, Ltd.	Issuer(Long-term)	September 20, 2011	AA	Stable
The Bank of Yokohama, Ltd.	Issuer(Long-term)	October 3, 2012	AA	Stable
The Bank of Yokohama, Ltd.	Issuer(Long-term)	September 26, 2013	AA	Stable
The Bank of Yokohama, Ltd.	Issuer(Long-term)	September 29, 2014	AA	Stable
The Bank of Yokohama, Ltd.	Issuer(Long-term)	September 18, 2015	AA	Stable
The Bank of Yokohama, Ltd.	Issuer(Long-term)	December 28, 2016	AA	Stable

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Higashi-Nippon Bank, Limited	Issuer(Long-term)	September 16, 2004	BBB+	
Higashi-Nippon Bank, Limited	Issuer(Long-term)	September 14, 2005	A-	
Higashi-Nippon Bank, Limited	Issuer(Long-term)	September 13, 2006	A-	Stable
Higashi-Nippon Bank, Limited	Issuer(Long-term)	September 18, 2007	A-	Stable
Higashi-Nippon Bank, Limited	Issuer(Long-term)	September 19, 2008	A-	Negative
Higashi-Nippon Bank, Limited	Issuer(Long-term)	December 17, 2009	A-	Negative
Higashi-Nippon Bank, Limited	Issuer(Long-term)	December 6, 2010	A-	Stable
Higashi-Nippon Bank, Limited	Issuer(Long-term)	December 1, 2011	A-	Stable
Higashi-Nippon Bank, Limited	Issuer(Long-term)	November 28, 2012	A-	Stable
Higashi-Nippon Bank, Limited	Issuer(Long-term)	October 10, 2013	A-	Stable
Higashi-Nippon Bank, Limited	Issuer(Long-term)	October 29, 2014	A-	Stable
Higashi-Nippon Bank, Limited	Issuer(Long-term)	November 14, 2014	#A-	Positive
Higashi-Nippon Bank, Limited	Issuer(Long-term)	January 27, 2016	AA-	Stable
Higashi-Nippon Bank, Limited	Issuer(Long-term)	December 28, 2016	AA-	Stable

Attachment

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Shozo Matsumura, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

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Shozo Matsumura
General Manager of Financial Institution Rating Department

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