

FUKUHO BANK Will Accept Capital Increase from Fukui Bank— Limited Impact on Fukui Bank's Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on The Fukui Bank, Ltd. (security code: 8362)'s subscription for shares of THE FUKUHO BANK, LTD. (security code: -) through a third-party allotment.

- (1) The Fukui Bank, Ltd. (the "Bank") and THE FUKUHO BANK, LTD. ("FUKUHO BANK") today resolved a basic agreement, under which the Bank will subscribe for common shares of FUKUHO BANK by way of a third-party allotment, subject to repayment of public funds by FUKUHO BANK. The total issue price is planned to be 5 billion yen, and whether or not FUKUHO BANK will become a subsidiary of the Bank has not been determined at this time.
- (2) The Bank is a regional bank with a fund volume of 2.6 trillion yen, and FUKUHO BANK is a second-tier regional bank with a fund volume of 0.4 trillion yen, both of which have their main business base in Fukui Prefecture. The two banks are implementing various measures for improvement of customer service and organizational and operational reforms to become a single financial group, while maintaining their respective brands, under their comprehensive alliance agreement "F Project" entered into March 2020. With regard to branches, which are the main management infrastructure, the two banks will cooperate by consolidating their respective sales offices and establishing new joint offices, and with regard to subsystems, FUKUHO BANK promotes to jointly use the cloud infrastructure used by the Bank. The creation of a new financial group as a result of this capital increase is expected to further strengthen the ties between the two banks in business operations, including the sharing of administrative work, but JCR sees that the impact on the Bank's rating will be limited.
- (3) As the Bank's total asset size is approximately 7 times larger than that of FUKUHO BANK, the creditworthiness of the entire group mainly reflects the creditworthiness of the Bank. The Bank's capital level is good for a regional bank in the BBB rating range, and it has secured a reasonable level of fundamental earnings capacity, but factors such as the depreciation costs associated with the reconstruction of the head office are expected to put downward pressure on earnings in the future. The two banks have set a policy of creating a cumulative total of 4 billion yen in synergies (for the two banks combined) over the next 5 years in their comprehensive alliance, but as the burden of amortization associated with the transition to a new core banking system increases for FUKUHO BANK, it is important to increase the earnings capacity of the entire group by quickly realizing synergies.

Michiya Kidani, Ippei Koga

<Reference>

Issuer: The Fukui Bank, Ltd.

Long-term Issuer Rating: BBB+ Outlook: Stable

Issuer: THE FUKUHO BANK, LTD.

Long-term Issuer Rating: #BBB-/Positive

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