

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 Chugoku region with a fund volume of 1.6 trillion yen. The Bank has established a dense branch network centered on the City where it has many business opportunities. The Bank’s rating reflects factors including good earnings capacity supported by its solid customer base, quality of loans, which are well diversified into small claims and well protected, and sufficient capital adequacy relative to risk. The key factor for the rating is whether the Bank can maintain the earnings capacity despite the downward pressure on its net interest income.
- (2) Core net business income (excluding gains and losses on cancellation of investment trust) had been steady as shown by 4.3 billion yen for the fiscal year ended March 2022 (FY2021) (4.2 billion yen for FY2020) and ROA (based on core net business income) was in the middle of 0.2% range, which is an average level of regional financial institutions in the category of A rating. For FY2021, while a decline in loan yield and others were squeezing net interest income, the Bank’s efforts to respond to the needs of business succession, asset management, etc. boosted non-interest income and supported core net business income. Net interest income will keep weakening in the future as well due to sluggish growth of the balance of lending to SMEs as COVID-related loans come to the end. JCR will pay attention to whether the Bank can maintain the earnings capacity through increasing non-interest income and also cost reductions in relation to reconstruction of branch network, among others.
- (3) Non-performing loans ratio under the Financial Reconstruction Act was in the middle of 2% range, a level that poses no problem, as at March 31, 2022. The Bank has kept the ratio of loans categorized as having collection risk to the total loans low through the use of loans guaranteed by the Credit Guarantee Corporation. The external environment surrounding the borrowers is continuously unstable due partly to continuing the weak yen and rising raw material prices. Under such circumstances, the Bank is making heavy provisions for specific borrowers while tightening the process management of credits. Credit costs have been restrained relative to the loan balance, and remained at around 10bps for FY2021. There is little risk that the credit costs will be large given the Bank’s credit management giving consideration in extending loans to diversified borrowers in small amount.
- (4) The market division engages in risk-taking activities in a prudent manner. Although the duration of yen-denominated bond holdings has lengthened, interest rate risk exposure relative to capital is small partly because the ratio of securities-to-deposits (on a daily average basis) is low at 20% for FY2021. Exposure to price fluctuation risk associated with investment trusts has been kept within a certain range through diversifying investment targets at the same time of utilizing the comprehensive risk management framework.
- (5) Consolidated core capital ratio has been high in 13% range. The majority of the core capital consists of retained earnings, and the capital is substantial for the perspectives of both quality and quantity. JCR believes it is possible for the Bank to maintain a high capital level, as it is easy to forecast that the Bank can secure a net income and the burden of dividends is small.

Michiya Kidani, Tatsuya Shimizu

Rating

Issuer: The Hiroshima Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: October 17, 2022

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/>).

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