

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

## THE HEKIKAI SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A+

Outlook: Stable

### Rationale

- (1) THE HEKIKAI SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Anjo City, Aichi Prefecture with total funds of 2.2 trillion yen. The Bank has large market shares for deposits and loans in Anjo City, and has established many branches in Nagoya City and other nearby areas. Its rating is supported by its firm business bases in the area with strong financing demands, its high capital level, etc. Meanwhile, there is room for improving its fundamental earnings capacity. JCR will continue to pay attention to its earnings enhancement measures going forward.
- (2) The Bank's core net business income (excluding gains on cancellation of investment trusts; the same applies hereinafter) has been on an uptrend since hitting the latest bottom in the fiscal year ended March 2017 (FY2016). Main factors behind the increasing earnings are an increase in interest and dividends on securities and a decrease in financing costs, among others. Driven by significantly increased COVID-19 pandemic related-loans outstanding, and so forth, loan interest income also rose in FY2020 and the first half of FY2021. That said, the ROA on a core net business income basis for FY2020 stood at 0.2%, lower than the rating suggests. The COVID-19 pandemic related-loans will be repaid going forward and bonds with relatively high yields are assumed to be redeemed, which will likely put a downward pressure on earnings. The Bank intends to work to maintain and strengthen the earnings generation capacity by pushing ahead with lending focused on high yields, cutting expenses, etc. JCR will pay attention to positive effects from such initiatives.
- (3) The quality of loan assets is favorable. The non-performing loans ratio disclosed under the Financial Reconstruction Act as of September 30, 2021 was in the higher 2%-range at a reasonable level, and the security of loan assets is high as shown by setting a lower limit for the loan-loss reserve ratio for potentially bankrupt borrowers. The loan portfolio is well diversified into small lots and various industries without excessive concentration to certain loans. Backed by these factors, loan costs have been in a constrained level. Although attention should be paid to the impacts of the COVID-19 pandemic, etc., credit costs will continue to be absorbed enough with core net business income, in JCR's view.
- (4) There are no problems with risk-taking in securities investment. Although the security-deposit ratio is higher than the industry average and there are considerable amounts of outstanding corporate bonds, foreign securities and investment trusts, JCR believes that the amount of risk on these is manageable, given the abundance of capital. Until now, the Bank has increased income gain by expanding the balance of investment trusts and other assets. However, for the time being, because it plans to keep investments to a certain extent to cover the impact of bond redemptions, the increase in the amount of risk will not be excessive.
- (5) The ratio of non-consolidated core assets was in the mid-15 percent range as of September 30, 2021. The ratio maintains a relatively high level, albeit on a declining trend due to an increase in risk assets related to securities investment, among others. An increase in risk assets with an expansion in outstanding "proper loans" (loans without credit guarantee through a credit guarantee organization), among others, may have a downward pressure on the core capital ratio. JCR however expects that the ratio will remain at a level commensurate with the rating.

Tsuyoshi Ohishi, Ippei Koga

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**Rating Assignment Date: December 14, 2021**

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/>).

## **Japan Credit Rating Agency, Ltd.**

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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