

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 a total fund of 2.3 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. The high level of capital, the good quality of loan assets, etc. support the rating of the Bank. Although there is still room for improvement in the Bank's fundamental earning capacity relative to its rating, it appears to have recovered from the bottom. On the other hand, the level of capital, which JCR considers to be core, has been gradually declining, and the key to rating is whether the Bank can maintain its advantageous capital level.
- (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 contributing this are an increase in interest and dividends on securities backed by an expansion in investment in overseas assets, and a decrease in interest on deposits, among others. Currently, fee income from individuals and corporations is also increasing. That said, ROA (on a basis of core net business income) remains in the mid-0.2% range. The Bank is working to promote yield-oriented lending and strengthen fee businesses, among others, and JCR will pay attention to the effects.
- (3) The quality of loan assets is favorable. The non-performing loans ratio disclosed under the Financial Reconstruction Act at the end of September 2023 was at a restrained level in the mid-2% range. Its coverage for loan assets is sufficient with collaterals, etc., and the reserve method is conservative. There is no problem with the concentration of credit to specific large borrowers or industries. Credit costs have been restrained against the backdrop of such prudent credit management, and will likely be fully absorbed by core net business income going forward.
- (4) In securities investment, the Bank has taken risks somewhat aggressively, such as increasing exposure to foreign currency interest rates. Affected by rising interest rates at home and abroad, the valuation loss of available-for-sale securities at the end of September 2023 increased to an amount equivalent to 20% of core capital. Although it has not significantly weakened the Bank's financial strength thanks to ample capital, it has put downward pressure on its financial margin to a certain extent.
- (5) The adjusted non-consolidated core capital ratio as of the end of September 2023 remained at a high level of around 13%. However, as it has declined with an increase in risk-weighted assets and an expansion in valuation losses on available-for-sale securities, caution needs to be taken to the fact that the ratio is susceptible to the market price fluctuations of securities.

Tsuyoshi Ohishi, Ippei Koga

Rating

Issuer: THE HEKIKAI SHINKIN BANK

<Affirmation>

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Rating Assignment Date: January 9, 2024

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/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.



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