

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

The Hiroshimashi Credit Cooperative (security code: -)

<Outlook Change>

Long-term Issuer Rating: A

Outlook: from Stable to Positive

Rationale

- (1) The Hiroshimashi Credit Cooperative (“Hiroshima Credit Co-op”) is a regional credit cooperative headquartered in Hiroshima City with a fund volume of approximately 700 billion yen. It has strength in making swift decision of approval and disapproval on loan applications as it efficiently concentrates management resources to the deposit and lending businesses under the top management’s strong leadership. The assessment of such business model and strong earnings capacity, along with other factors, support the rating on Hiroshima Credit Co-op. In the event that the COVID crisis lingers, it may considerably affect the credit costs of Hiroshima Credit Co-op whose major customers are under the medium risk category. That said, given steady growth in core net business income, JCR assumes that such costs will remain within a range fully absorbable by this income. Core capital ratio, which previously was constraining the rating, is now improving steadily, and this positive trend is most likely to continue into the future in JCR’s view. Accordingly, the rating outlook was changed to Positive, and future developments will be closely monitored.
- (2) Core net business income has been on the rise, coming close to 10 billion yen. ROA based on this income is at round 1%, which still stands high even after deducting credit costs. Interest on loans and discounts, which forms the core of earnings, is growing steadily with the impacts of a decline in the loan yield absorbed by the increase in loan balance. The declining loan yield is attributable to a drop in average contracted interest rate for new loans and strong repayment pressure on loans in the high interest rate range, such as unsecured loans. That said, Hiroshima Credit Co-op’s loan yield remains high compared to other regional financial institutions, underpinned by aggressive approaches to medium-risk customers, swift decision-making on loan applications, etc. Moreover, loan balance has been building up fairly rapidly thanks in part to Hiroshima Credit Co-op’s own efforts to step up customer development following the new branch opening and branch renovation and to enhance financing support for the COVID-affected entities.
- (3) The quality of loan assets remains sound. Non-performing loan ratio under the Financial Reconstruction Act is low in the upper 1% range (no partial direct write-offs implemented) partly because Hiroshima Credit Co-op has been aggressively making off-balance sheet treatments of non-performing loans. Also, loans are well-diversified into small amounts. Hiroshima Credit Co-op has long been recording provisions conservatively by, for instance, tightening self-assessment, but, with its impacts coming to an end, credit costs are smaller than before. Yet, as Hiroshima Credit Co-op is actively extending loans to medium-risk customers, it will inevitably incur non-performing loans and report credit costs to a certain extent. JCR will keep closely looking at the impacts of the COVID crisis on credit costs. Because of the conservative policy for securities investment, securities-to-deposit ratio is controlled at a low level. The amount of risks for stock and bond holdings is limited against capital.
- (4) Core capital ratio adjusted for allowance for loan losses, etc. as of September 30, 2020 stood at around 9.5%, improving from around 8.5% at March 31, 2017. While core net business income is on the increase, credit costs have decreased, accelerating the accumulation of retained earnings. Such improvement is also helped greatly by a rise in the ratio of loans guaranteed by credit guarantee associations, curbing the increase in risk assets.

Hajime Oyama, Tsuyoshi Ohishi

Rating

Issuer: The Hiroshimashi Credit Cooperative

<Outlook Change>

Long-term Issuer Rating: A Outlook: Positive

Rating Assignment Date: May 11, 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" (May 8, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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