News Release

Japan Credit Rating Agency, Ltd.

23-D-0666
September 14, 2023

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

Procrea Holdings, Inc. (security code: 7384)

<Affirmation>
Long-term Issuer Rating: A-
Outlook: Stable

The Aomori Bank, Ltd. (security code: -)

<Affirmation>
Long-term Issuer Rating: A-
Outlook: Stable

THE MICHINOKU BANK, LTD. (security code: -)

<Affirmation>
Long-term Issuer Rating: A-
Outlook: Stable

Rationale

(1) The Procrea Group (the "Group") is a regional financial group having The Aomori Bank, Ltd., THE MICHINOKU BANK, LTD. and others under the umbrella of holding company Procrea Holdings, Inc. ("Procrea HD"). The fund volume of Aomori Bank and MICHINOKU BANK (collectively, the "Two Banks") combined is 5.4 trillion yen, which is one of the largest in the Tohoku region, and the Group exhibits the predominantly strong presence in the local market with the share of over 70% for deposits and loans in Aomori Prefecture. The Two Banks are scheduled to merge in January 2025 and become Aomori Michinoku Bank, Ltd. They are taking steps to realize integration synergies as soon as possible by, for instance, providing common financial products and solution services, cooperating in the area of business succession consulting and optimizing the branch network.

(2) JCR deems the Group's creditworthiness to be equivalent to the A- rating. While positively viewing the solid business base in the local market, the quality of loan assets being maintained, by and large, and risks in the market division being controlled, JCR considers that the Group faces the challenge of improving the basic earnings capacity and core capital level. It should be noted that not only integration-related costs for systems and branches will weigh heavily on profits going forward, but credit costs may also increase in light of changes in the external environment, etc. That said, JCR assumes that there is a possibility that earnings capacity will increase, thus enhancing capital adequacy, thanks to earnings improvement with the creation of full-fledged integration synergies after the merger, additional sales measures across the Group and so forth. Accordingly, JCR places the Stable outlook on the rating.

(3) Core net business income of the Two Banks combined (excluding gains/losses on the cancellation of investment trusts) has decreased, and ROA (based on core net business income; hereinafter the same) excluding dividends received from subsidiaries has been low at 0.1%. Interest and dividends on securities is sluggish because of the investment policy of controlling risks. As regards interest on loans, a major earnings source, it may remain weak going forward, too, as loan yields are tending to decline due to weak funding needs of local SMEs. Assuming that the basic earnings capacity will increase with the creation of integration synergies and so forth, JCR will closely watch how far it will actually improve.

(4) Non-performing loans ratio under the Financial Reconstruction Act of the Two Banks combined stands at around 1.5%. This is low even in consideration of the fact that large amounts of loans are extended to public entities, and the ratio of categorized assets to total credit is also low. Credit costs are under control, even with the impact of the unification of self-assessment standards and so forth taken into account. However, the amount of non-performing loans disclosed under the Financial Reconstruction Act is tending to increase with respect to SMEs, the Group's primary customers, partly because of delays in business recovery from the COVID crisis and surge in raw material and fuel prices. Given

that some large borrowers are ailing and loss absorption capacity in terms of core net business income is weak, trends in credit costs require attention. On the other hand, risk-taking in the market division is contained. Primary investment targets are domestic and foreign bonds, and interest rate risk is kept low partly through the utilization of bear funds.

(5) The Group's adjusted consolidated core capital ratio stands at around 7.5%, which is low for regional banks in JCR's A rating category. For the fiscal year ended March 2023 (FY2022), partly because impairment losses on branches, etc. dragged down net income, consolidated net income after deducting gains on negative goodwill was small; given dividend payments, internal reserves are hardly accumulating. Moreover, the core capital level is lower than that at the time of the previous rating review due to deterioration in gains (losses) on valuation of securities holdings. JCR will thus closely watch how far the core capital level will be improved through such efforts as enhancing the basic earnings capacity, containing credit costs and controlling risk assets.

Issuer: Procrea Holdings, Inc.

Procrea HD is the financial holding company of the Group. Its issuer rating is deemed to be at the same level as the Group's creditworthiness and does not reflect the holding company's structural subordination in light of the fact that double leverage ratio remains below 100%, as well as other factors including the Group's financial management policy.

Issuer: The Aomori Bank, Ltd.

(1) Aomori Bank is a regional bank headquartered in Aomori City with a fund volume of 3.1 trillion yen. It boasts a market share of over 40% for both deposits and loans in the prefecture and has strength in its close ties with local public organizations and business network centering on large- and mid-sized companies. Its issuer rating is deemed to be at the same level as the Group's creditworthiness in light of such factors as Aomori Bank's core position in the Group.

(2) Faced with shrinking interest on loans, Aomori Bank has worked to enhance its own system to promote the sale of financial products, support for business succession and M&As, etc. Moreover, as intensive cost-cutting efforts have helped boost profits, core net business income (excluding gains/losses on the cancellation of investment trusts) remains solid. Even though ROA excluding dividends from the subsidiaries is below 0.1%, requiring the earnings capacity to be increased, JCR assumes that, as cost synergies will be realized in full scale going forward, further cost reductions, except for integration-related expenses, can be expected, improving fundamental revenues.

(3) Non-performing loans ratio under the Financial Reconstruction Act remains in the lower 1% range, which is low, comparable to the industry average even in consideration of the fact that large amounts of loans are extended to public entities. Assets requiring caution and categorized assets are small in volume, and credit cost ratio remained within the range of 10 bps for the 12th consecutive year in FY2022. As there are not so many large borrowers who are ailing, JCR assumes the risk of a sharp rise in credit cost ratio to be limited. In the market division, domestic bonds account for approximately 80% of the securities portfolio. With securities-to-deposit ratio being low at around 20%, Aomori Bank is striving to increase resilience to interest rate hikes by, for instance, purchasing bear funds.

Issuer: THE MICHINOKU BANK, LTD.

(1) MICHINOKU BANK is a regional bank headquartered in Aomori City with a fund volume of 2.3 trillion yen. It boasts a market share of approximately 30% for both deposits and loans in the prefecture and makes a large volume of transactions with SMEs and retail customers. It also has a certain business base in the Hakodate area, Hokkaido. Its issuer rating is deemed to be at the same level as the Group's creditworthiness in light of such factors as MICHINOKU BANK's core position in the Group.

(2) Faced with shrinking interest on loans, MICHINOKU BANK has worked on drastic cost reductions while also striving to boost fees and commissions, consequently improving core net business income (excluding gains/losses on the cancellation of investment trusts; hereinafter the same). Even though ROA excluding dividends from the subsidiaries is low at around 0.15%, requiring the earnings capacity to be increased, JCR assumes that, as cost synergies will be realized in full scale going forward, further cost reductions, except for integration-related expenses, can be expected, improving fundamental revenues.

(3) Non-performing loans ratio under the Financial Reconstruction Act has risen to the lower 2% range, which is slightly higher than the industry average if the fact that large amounts of loans are extended to public entities is also considered. Credit cost ratio for FY2022 is equivalent to 21 bps, even with the impact of the unification of self-assessment standards with Aomori Bank and so forth taken into

account; this however corresponds to 66% of core net business income and weighs heavily on the earnings. As there are many large borrowers who are ailing, trends in credit costs require attention. In the market division, domestic bonds account for approximately 50% of the securities portfolio, and MICHINOKU BANK also purchases mainly foreign bonds, etc. through investment trusts. With securities-to-deposit ratio being low at around 10%, MICHINOKU BANK is striving to increase resilience to interest rate hikes by, for instance, purchasing bear funds.

Michiya Kidani, Tatsuya Shimizu

Rating

Issuer: Procrea Holdings, Inc.

<Affirmation>
Long-term Issuer Rating: A-　　Outlook: Stable

Issuer: The Aomori Bank, Ltd.

<Affirmation>
Long-term Issuer Rating: A-　　Outlook: Stable

Issuer: THE MICHINOKU BANK, LTD.

<Affirmation>
Long-term Issuer Rating: A-　　Outlook: Stable

Rating Assignment Date: September 12, 2023

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), "Banks" (October 1, 2021) and "Rating Methodology for Financial Groups' Holding Companies and Group Companies" (September 1, 2022) 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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Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Procrea Holdings, Inc.
Issuer:	The Aomori Bank, Ltd.
Issuer:	THE MICHINOKU BANK, LTD.
Rating Publication Date:	September 14, 2023

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Procrea Holdings, Inc.	Issuer(Long-term)	May 31, 2022	A-	Stable

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
The Aomori Bank, Ltd.	Issuer(Long-term)	April 30, 1999	A+	
The Aomori Bank, Ltd.	Issuer(Long-term)	May 29, 2000	A	
The Aomori Bank, Ltd.	Issuer(Long-term)	June 4, 2001	A	
The Aomori Bank, Ltd.	Issuer(Long-term)	July 5, 2002	A	
The Aomori Bank, Ltd.	Issuer(Long-term)	October 15, 2003	A	
The Aomori Bank, Ltd.	Issuer(Long-term)	September 24, 2004	A	
The Aomori Bank, Ltd.	Issuer(Long-term)	October 7, 2005	A	
The Aomori Bank, Ltd.	Issuer(Long-term)	December 15, 2006	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	November 15, 2007	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	November 17, 2008	A	Negative
The Aomori Bank, Ltd.	Issuer(Long-term)	November 4, 2009	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	November 2, 2010	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	October 19, 2011	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	October 26, 2012	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	December 4, 2013	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	February 19, 2015	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	January 12, 2016	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	January 30, 2017	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	February 1, 2018	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	December 5, 2018	A	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	January 24, 2020	A	Negative
The Aomori Bank, Ltd.	Issuer(Long-term)	January 21, 2021	A-	Stable
The Aomori Bank, Ltd.	Issuer(Long-term)	May 14, 2021	#A-	Negative
The Aomori Bank, Ltd.	Issuer(Long-term)	May 31, 2022	A-	Stable

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
THE MICHINOKU BANK, LTD.	Issuer(Long-term)	May 31, 2022	A-	Stable

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Tomohiro Miyao, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

宮尾 知浩

Tomohiro Miyao
General Manager of Financial Institution Rating Department

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