

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 deep customer base, quality of loans, which are well diversified into small claims and well protected, and sufficient capital adequacy relative to risk. JCR will pay attention to whether the Bank can maintain the fundamental earnings capacity despite the downward pressure on its net interest income from the shrinking interest margin.
- (2) The Bank's loan-to-deposit ratio is around 65%, which is high for the industry. ROA (based on core net business income) was at a relatively high level of about 0.25% for the fiscal year ended March 2021 (FY2020). On the other hand, falling loan yields and redemption of high coupon bonds continue putting pressure on the net interest income. Under the three-year management plan launched in April 2021, the Bank is working to increase lending to SMEs and expand non-interest income on sales channel development and business plan support by strengthening customer contacts through clarification of managed customers and new customers by sales personnel. The Bank is also working to generate sales personnel and rebuild its branch network through improvements in business processes, and JCR will pay attention to whether the Bank can support its fundamental earnings through these measures.
- (3) Non-performing loans ratio under the Financial Reconstruction Act was in the lower 2% range as of March 31, 2021, a level that poses no problem. Although the balance of loans requiring caution has increased, ratio of loans categorized as having collection risk to the total loans has been kept low through the use of loans guaranteed by the Credit Guarantee Corporation. Credit management is meticulous, and monitoring is being strengthened in consideration of the COVID-19 pandemic. The Bank is also making heavy provisions for specific borrowers to ensure protection. There is little risk that the credit costs will be large relative to the loan balance.
- (4) Risk-taking in securities investment is prudent. Although the duration of bond holdings has been lengthened, the amount of interest rate risk in yen is limited due partly to the low securities-to-deposit ratio. The Bank is expanding its investments in domestic and overseas bonds and equities through investment trusts, but the amount of price fluctuation risk associated with investment trusts has been kept within a certain range relative to the Bank's thick capital.
- (5) Consolidated core capital ratio has been high in the 13% range. The majority of the core capital consists of retained earnings, and the capital is substantial in terms of both quality and quantity. JCR believes that it is possible for the Bank to maintain the current level of capital, 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 25, 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.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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