

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) As the largest shinkin bank in the Chugoku region, the Hiroshima Shinkin Bank (the "Bank") is Headquartered in Hiroshima City, Hiroshima Prefecture with a fund volume of approximately 1.7 trillion yen. It operates branches at a high density, mainly in Hiroshima City where there are many business opportunities. Factors reflected in the rating include reasonable earnings capacity underpinned by the solid customer base, etc.; quality of loan assets that are well-diversified into small amounts and well-covered; and sufficient capital adequacy against risks. Basic earnings capacity is stable and will likely remain steady going forward, too. JCR will watch whether the Bank can maintain the relatively high capital into the future while appropriately controlling investment and loan risks.
- (2) Core net business income (excluding gains and losses on cancellation of investment trust) has long been stable. It came to 4.6 billion yen in the fiscal year ended March 2024, as opposed to the previous year's 4.4 billion yen, as a decrease in interest on loans was offset by such factors as an increase in interest/dividend on securities and commissions on sales of financial products. ROA (based on core net business income) has been staying at around 0.25%, which is decent for a regional financial institution in JCR's A rating category. Currently, an increase in interest on deposits is dragging down net interest income. Yet, given a rise in yields on existing floating-rate loans and steady SME lending, medium- to long-term improvement in loan-deposit spreads with a turnaround in interest on loans can be expected. Helped also by growth in income from bond investments, core net business income will remain solid in JCR's view.
- (3) Non-performing loans ratio under the Financial Reconstruction Act is in the higher 2% range, which is low among shinkin banks, and the Bank secures a certain coverage ratio by taking advantage of loans guaranteed by credit guarantee corporations and making conservative provisions. Despite tough conditions surrounding the borrowers, including inflation and labor shortage, credit cost ratio remains within the 20 bp range. JCR views that the risk of credit cost growing large is small thanks to factors like credit management with an eye to diversification into small amounts.
- (4) In the market division, the amount of interest rate risk for yen bonds is somewhat large relative to capital because of the extended duration and an increase in outstanding bonds. As the Bank intends to continue building up securities, mainly domestic bonds, the risk amount may keep growing. Valuation losses on yen bonds are swelling as of now, and thus JCR will keep an eye on future developments.
- (5) The ratio of adjusted core capital JCR assesses as essential stays high in the 12% range. The impact of changes in the market value of bond holdings on the actual level of capital is currently minor.

Michiya Kidani, Kyohei Yamamoto

Rating

Issuer: The Hiroshima Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A Outlook: Stable

Rating Assignment Date: October 24, 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" (October 1, 2024) 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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