

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 fund volume of 2.3 trillion yen. It has large market shares for deposits and loans in Anjo City and operates many branches in nearby areas, including Nagoya City. Factors supporting the rating include high capital level and good loan assets. That said, the level of capital JCR deems as core has been declining over the long term, consequently reducing the Bank's competitiveness. Moreover, even though basic earnings capacity has been picking up since hitting the bottom, its recovery is now being stagnant. JCR will watch whether the Bank can put earnings capacity back on an uptrend and also maintain the competitive capital level.
- (2) Core net business income (excluding gains/losses on cancellation of investment trusts; hereinafter the same) has been improving since hitting the bottom in the fiscal year ended March 2017 (FY2016). However, it fell by a bit over 10% year on year in the first half of FY2024 partly because of restrained investment in securities amid rising interest rates and also due to growing expenses and interest on deposits. Although the profit level is expected to turn around in the medium run with a rise in investment yields, JCR considers it necessary to monitor the extent and time frame of such recovery. Whether the Bank can achieve positive results by enhancing consulting sales, including an increase in loans and fee income, will also be closely watched.
- (3) Credit risk associated with loan assets is contained. Non-performing loans ratio under the Financial Reconstruction Act at the end of September 2024 stood decent at a bit below 3%. With sufficient coverage with collaterals, etc., JCR finds no concerns about the concentration of credit to specific large borrowers or industries. Credit costs have been restrained against the backdrop of such prudent credit management and can probably be fully absorbed by core net business income going forward, too.
- (4) In securities investment, the Bank has a reasonable amount of risks. As with other shinkin banks, the amount of yen interest rate risk is large, and that of foreign currency interest rates, credit and other exposures is not small. Amid rising domestic interest rates, the Bank reported valuation losses on available-for-sale securities as of the end of September 2024, which has pushed down financial margin to a certain extent.
- (5) Adjusted non-consolidated core capital ratio as of the end of September 2024 remained high at around 13.5%. However, it has declined with increases in risk assets and valuation losses on available-for-sale securities, and factors including its susceptibility to the market price fluctuations of securities require attention.

Tsuyoshi Ohishi, Ippei Koga

Rating

Issuer: THE HEKIKAI SHINKIN BANK

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Rating Assignment Date: January 23, 2025

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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