

May 31, 2021

R&I Assigns A-, Stable: The Hyakujushi Bank, Ltd.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: The Hyakujushi Bank, Ltd.
Issuer Rating: A-, Assigned
Rating Outlook: Stable

RATIONALE:

The Hyakujushi Bank, Ltd. is a regional bank that has a strong market position in Kagawa Prefecture. The economic size of the prefecture is small at 0.7% to 0.8% of the nationwide total in terms of a prefectural gross product, the number of corporations and a population. In order to fill a gap between deposits and loans, the bank has been focusing on lending services outside the prefecture since early times. It has a branch network covering Tokyo and nine prefectures other than Kagawa. Outstanding loans outside Kagawa Prefecture now account for the majority of its lending. In Okayama Prefecture, the bank has a certain number of customers who recognize it as their main bank, and in Ehime Prefecture, loans are growing primarily for shipping-related businesses. It has established the second largest base after Kagawa in these two prefectures.

The bank's risk appetite is not large in either lending or market investment. A high securities to deposit ratio shows that risks it has mainly comprise market risk. Considering high price fluctuation risk from cross-shareholdings, stock investment trusts and REITs, the bank is building an investment portfolio with an awareness of risk diversification.

The bank's overall loan portfolio is diversified with small accounts and credit risk is not high. With regard to loans to shipping-related businesses that constitute a large proportion of its lending, risk has been controlled as borrowers are mostly ship owners who have resilience against a market deterioration. Given a slightly larger number of major watch obligors, attention needs to be paid to the likelihood that the amount of risk will increase due to a lowering of each customer's creditworthiness. The bank's asset quality is relatively sound, and the ratios of net risk-monitored loans and classified loans are low. There is no problem with the quality of housing loans and rental property loans.

The bank's capacity to accumulate retained earnings is weak and its risk resilience is slightly low for the rating. Since it has been unwinding its cross-shareholdings, there is little concern about any significant increase in price fluctuation risk. In order to improve risk resilience, however, it is important to reduce earnings dependency on the investment division.

The bank's earning capacity is weak for the rating, as proven by the customer division's loss. Under the medium-term management plan from FY2020 (the year ended March 2021) onward, the bank has been reorganizing its branch network and optimizing the workforce and therefore, will likely be able to avoid a further decline in its earning capacity, backed by cost reduction. That said, investment yields keep falling, putting downward pressure on returns on funds. R&I will pay attention to progress in the bank's initiatives to increase and improve gross profit, such as bolstering profits from commissions, etc. through solution proposals to corporate and individual customers. There is no concern about its liquidity for yen and foreign currencies.

Based on the above, R&I has assigned an Issuer Rating of A- to the bank. Thanks to successful cash flow support from the government and financial institutions, credit cost is moderate even under the COVID-19 pandemic. Nevertheless, many industries could experience an acceleration in the lowering of companies' creditworthiness if it takes longer until the pandemic subsides. In order to see whether the bank's asset quality deteriorates due to an increase in borrowers reclassified into higher risk categories, eyes will be on future developments.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for

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Corporate Credit Ratings", "Shared Rating Approach for Financial Institutions, etc." and "Depository Financial Institutions". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER: The Hyakujushi Bank, Ltd. (Sec. Code: 8386)

Issuer Rating

RATING: A-, Assigned

RATING OUTLOOK: Stable

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