

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

The Seto Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable

Rationale

- (1) The Seto Shinkin Bank (the "Bank") is a shinkin bank headquartered in Seto City, Aichi Prefecture with a fund volume of 2.1 trillion yen. It maintains large market shares for deposits and loans in Seto City and has a firm branch network covering Nagoya City and the surrounding area as well. The strength of the business base, favorable capital adequacy, and quality of loan assets support its credit ratings. On the other hand, its fundamental earnings capacity is at a low level compared to the rating. The fundamental earnings capacity has been improving in recent years, and JCR will pay attention to whether the Bank can enhance it going forward.
- (2) Its core net business income (excluding gains on cancellation of investment trusts, the same hereafter) has been on an uptrend since the fiscal year ended March 2018 (FY2017), mainly thanks to reductions in interest on deposits and expenses. In FY2020, interest income on loans increased driven by aggressive execution of COVID-19-related loans. Going forward, income is expected to decrease due to the redemption of bonds with high yields. However, as the Bank intends to further diversify investments in overseas assets and others, the impact of the decline in revenues would be partly absorbed. Given that expenses are expected to be cut by reviewing cost structure and other factors, the earnings capacity will likely be maintained at the current level for the time being. However, in FY2020, the ROA (based on core net business income) was at a low level of 0.1%-plus, which suggests that improvement of earnings capacity remains an issue to address. In addition, as repayment of COVID-19-pandemic-related loans is expected to proceed in the future, JCR believes that it is necessary to confirm the medium-term trend in loan interest income.
- (3) The quality of its loan assets is favorable. The Bank's non-performing loans ratio disclosed under the Financial Reconstruction Act is at a low level of 2%-plus, and further continue declining. There are no problems with credit concentration to specific large borrowers or industries. The ratio of categorized loans to the total loans is low, and the Bank ensures high security as shown by provision of allowance under the DCF method, etc. for some borrowers with weak business conditions. While attention should be paid to the impact of the pandemic, credit costs will probably continue to be sufficiently absorbed by the core net business income against the backdrop of the conservative credit management.
- (4) Because the Bank's security deposit ratio is high compared to the average of shinkin banks and the portfolio mainly consists of yen-denominated bonds, its interest-rate risk amount involved in the surplus fund management is large against the capital. In addition, the Bank has increased exposures to overseas bonds and stocks, and the risks associated with these assets have been expanding. JCR believes that the amount of these risks are manageable, but attention should be paid with regard to the state of risk-taking in the future.
- (5) The consolidated core capital ratio adjusted to allowance for bad debts, etc. was in the lower 13% range, a favorable level for the rating, at the end of March 31, 2021. Going forward, risk assets may increase due to factors such as an increase in loans to business entities without credit guarantee through a credit guarantee organization and an expansion in risk-taking in operation of surplus fund management, among others. However, even if the core capital ratio declines with this, the ratio will be maintained at a level commensurate with the rating.

Tsuyoshi Ohishi, Ippei Koga

Rating

Issuer: The Seto Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable



Rating Assignment Date: November 16, 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/>).

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