

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 a bit over 2 trillion yen. It enjoys large market shares for deposits and loans in Seto City and has an extensive branch network covering Nagoya City and surrounding areas as well. Although the level of capital JCR assesses as essential is falling gradually, it still remains fairly commensurate with the rating. Moreover, fundamental earning capacity, which was at a low level relative to the rating, has been improving in recent years. JCR will keep an eye on whether the Bank can increase its earnings capacity while maintaining the relatively high capital level.
- (2) 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. Contributing factors here include: growth in interest and dividends on securities thanks to an increase in investment in overseas assets; and reductions in interest on deposits and expenses. Yet, ROA based on core net business income remains at around 0.2%. Furthermore, downward pressure on profits due to the repayment of relatively high-yielding COVID-related loans is expected to continue for a while, although the peak has passed. JCR will keep an eye on medium-term trends in interest on loans, which forms the core of the Bank's earnings.
- (3) The quality of loan assets is favorable. Non-performing loans ratio under the Financial Reconstruction Act is kept low at around 2.5%. The ratio of categorized loans to the total loans is low partly because of good coverage with collaterals, etc. JCR finds no concerns about the concentration of credit to specific large borrowers or industries, either. Against the backdrop of such solid credit management, credit costs can probably be fully absorbed by core net business income.
- (4) In securities investment, the Bank has taken risks somewhat aggressively by, for instance, expanding exposure to foreign currency interest rates. Valuation losses on available-for-sale securities as of September 30, 2023 had increased to an amount equivalent to nearly 20% of core capital partly due to interest rate hikes at home and abroad. This did not significantly weaken the Bank's financial strength thanks to large capital but reduced financial margin to a certain extent.
- (5) Adjusted non-consolidated core capital ratio as of September 30, 2023 was relatively high in the upper 10% range. That said, it has declined with an increase in risk assets, growth in valuation losses on available-for-sale securities and so forth, and attention should be paid to, among others, the fact that the ratio is affected by fluctuations in the market price of securities.

Tsuyoshi Ohishi, Ippei Koga

Rating

Issuer: The Seto Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: January 15, 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" (November 7, 2014) 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.



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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