

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

## North Pacific Bank, Ltd. (security code: 8524)

<Affirmation>

Long-term Issuer Rating: A+  
Outlook: Stable

### Rationale

- (1) North Pacific Bank, Ltd. (the "Bank") is a regional bank II headquartered in Sapporo City, Hokkaido with a fund volume of approximately 11 trillion yen. The Bank has the largest market share in Hokkaido for both deposits and loans, and its local presence is thus strong. The rating reflects the solid operating base, high capital adequacy and good loan asset quality. While an increase in foreign currency procurement cost and expense for system unification, and others are the factors placing down pressure on the earnings, core net business income will likely remain solid for the time being. JCR will pay attention to whether the Bank can increase profitability through enhancement of interest income and others.
- (2) Profitability is low relative to the rating. ROA (based on core net business income) remains in the middle of 0.1% range partly because low-yield loans to local public bodies account for a high percentage of the total. Having said that, the Bank has been maintaining the core net business income in the middle of 10 billion yen range while system-related expenses are largely increasing due to unification of the core system. This is because it is working to raise productivity through reconstructing branch functions, increasing efficiency of administrative work, etc. Furthermore, interest rate environment in Japan is in a transition period and JCR views that earnings environment of interest related operations is improving. JCR will keep an eye on status of progress in accumulation of business and consumer loans in Hokkaido, and enhancement of solutions business through subsidiaries.
- (3) Soundness of loan assets has been maintained. Non-performing loans ratio disclosed under the Financial Reconstruction Act as of September 30, 2023 stood at 1.11%, which is still low in light of the high ratio of loans to local public bodies. The credit management policy is prudent, and JCR finds no major concerns about credit concentration to specific large borrowers or industries. Credit cost ratio has been steady in recent years. Attention needs to be paid to an impact of soaring resource prices and others; however, JCR views that credit cost will likely remain in the range fully absorbed by core net business income.
- (4) The Bank has not taken excessive risks in securities investment. It has increased additional yen-denominated bonds, and interest rate risk exposure relative to the capital is large. On the other hand, interest rate risk associated with foreign currency-denominated bonds is contained. Furthermore, sufficient unrealized gains on stockholdings provide a risk buffer.
- (5) Capital level is sufficient against risk. Capital adequacy is high among the regional banks in JCR's A rating categories as indicated by consolidated core capital ratio standing in the middle of 11% range at the end of September 2023. On the premise of an increase in risk-weighted assets due to expansion of SME lending, etc., the Bank's superiority in the A rating categories will still be maintained since accumulation of retained earnings is expected and other factors.

Tsuyoshi Ohishi, Seito Achiha

### Rating

Issuer: North Pacific Bank, Ltd.

<Affirmation>

Long-term Issuer Rating: A+      Outlook: Stable

Rating Assignment Date: December 4, 2023

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.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

### Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	North Pacific Bank, Ltd.
Rating Publication Date:	December 6, 2023

1

The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2

The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3

The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

#### A) Business Bases

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

#### B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

#### C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

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