

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 2.2 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. Factors reflected in the rating include the robust operating base, favorable capital adequacy and good loan asset quality. Due to factors such as changes in the interest rate environment, the decline in fundamental earning capacity continues, so future developments will be closely watched.
- (2) Earning capacity is low against the rating. Amid accelerating inflation and rising domestic interest rates, higher expenses and increased interest paid on deposits led to a 20% year-on-year decline in core operating profit for the fiscal year ended March 2025. The proportion of assets managed at a fixed interest rate is high, and the rise in market interest rates is a factor that temporarily puts downward pressure on earnings. In the medium term, a recovery in profit levels is expected due to an increase in yields on the management side, and the extent and timing of this will be monitored.
- (3) The loan asset quality is good. Non-performing loans ratio under the Financial Reconstruction Act is kept low at around 2.5%. Credit costs have remained low, supported by a well-diversified loan portfolio with small-balance exposures and strong credit protection through collateral and guarantees. JCR believes that credit costs will probably remain at the level fully absorbable by core net business income in the future as well.
- (4) Securities investment involves a reasonable amount of risks. Given that securities-to-deposit ratio is high at approximately 40% and that yen-denominated bonds account for the majority of the portfolio, the amount of yen interest rate risk is large relative to capital, as is the case with other shinkin banks. The amount invested in instruments with risks, including foreign currency interest rates and equities, has also been expanding in recent years. Valuation losses on available-for-sale securities as of September 30, 2025 were equivalent to approximately 20% of core capital. This reduces financial margin to a certain extent.
- (5) Capital adequacy is good. The adjusted non-consolidated core capital ratio as of September 30, 2025 stood at around 11.5%, almost the same as at the end of the same month last year. Core capital increased due to the accumulation of retained earnings, and risk-weighted assets declined following the finalization of Basel III, while expanded unrealized losses on available-for-sale securities had a negative impact. Going forward, attention should be paid to factors such as fluctuations in securities' market prices that may have an impact.

Tsuyoshi Ohishi, Shuntaro Takasawa

Rating

Issuer: The Seto Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: January 22, 2026

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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