24-D-0045
April 22, 2024

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

The Nanto Bank, Ltd. (security code: 8367)

<Affirmation>

Long-term Issuer Rating:	A
Outlook:	Stable

Rationale

(1) The Nanto Bank, Ltd. (the "Bank") is a regional bank operating primarily in Nara Prefecture with total funds of approximately 5.8 trillion yen. It boasts dominant shares for both deposits and loans in the prefecture and is also increasing the loan balance by strengthening its salesforce also in Osaka Prefecture. The rating reflects its strong operating base, sound loan asset quality and a reasonable capital level. On the other hand, profitability remains at a somewhat low level against the rating in response to an increase in foreign currency procurement costs and others. JCR assumes that the Bank will be able to secure a certain core net business income (excluding gains/losses on cancellations of investment trusts) in the future as well, but will pay attention to the initiatives to strengthen the earnings capacity.

(2) ROA based on the core net business income has declined standing at the lower 0.2% range, leaving room for improvement. That said, the core net business income fell from the latest peak, the fiscal year ended March 2022 (FY2021), it has still been steady. While foreign currency procurement costs further increased for FY2023 due to rising interest rates, core net business income is expected to be at a level flat from the previous fiscal year because of an increase in interest on loans and others. For FY2024, a temporary increase in expenses in association with reconstruction of the headquarters building is expected to become the factor putting downward pressure on profits. However, from a medium-term perspective, JCR believes that the Bank will be able to secure a current level of core net business income through an increase in interest on loans and an improvement in profit/loss of securities, among others. The Bank is strengthening offering solutions addressing improvement of business management for SMEs and others. Therefore, JCR will pay attention to whether it will be able to continue to expand loans to SMEs and its fee business.

(3) Non-performing loans ratio under the Financial Reconstruction Act was in the mid-1% range, a bit below the average for regional banks. The Bank is conservative in making provision, as shown by application of the cash-flow deduction method for some large borrowers, and there are only a limited number of borrowers requiring caution or below with large unsecured credits. Given that the quality of loan assets is sound, JCR views that credit costs will remain within the range that can be comfortably absorbed by core net business income into the future though attention needs to be paid to the impact of higher prices on the business conditions of borrowers.

(4) Investment trusts account for nearly a half of its securities investments, and many of these are invested in bonds. Although since FY2022 and onward, bond prices fell and available-for-sale securities had been in a state of valuation loss. As a result of taking measures such as selling foreign currency-denominated bonds and hedging interest rate risk, available-for-sale securities was in a state of valuation gain as at the end of December 2023. Going forward, the Bank intends to increase yen-denominated bonds and an increase in interest on investment securities can be expected. Interest risk associated with bonds and others relative to the capital is not large but is now increasing. As the amount of price fluctuation risk involved in stocks and other instruments combined with that included in investment trusts is large relative to capital, JCR will continue to pay attention to the balance between risk and return on securities investments.

(5) Adjusted consolidated core equity ratio (deducting allowance for doubtful accounts, etc.) remained at somewhat lower than the 9% at the end of December 2023, a reasonable level for the regional banks falling under the A rating category. At some point of time, the capital level declined due to valuation loss of the available-for-sale securities but virtually the capital level has improved with elimination of valuation loss.

Kengo Sakaguchi, Seito Achiha

Rating
Issuer: The Nanto Bank

<Affirmation>
Long-term Issuer Rating: A   Outlook: Stable

Rating Assignment Date: April 17, 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" (February 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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INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

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

Issuer:	The Nanto Bank, Ltd.
Rating Publication Date:	April 22, 2024

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).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

¶ The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.

¶ The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.

¶ The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

¶ The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

¶ There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

¶ There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7