

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. Factors reflected in the rating include the robust operating base, favorable capital adequacy and good loan asset quality. However, as the Bank's efforts to improve fundamental earning capacity are stagnating, future developments will be closely watched.
- (2) Core net business income (excluding gains/losses on cancellation of investment trusts; the same hereafter) had previously been improving, owing to such factors as growth in interest and dividends on securities thanks to diversified investments in overseas assets; and reductions in interest on deposits and expenses. However, as expenses and interest on deposits are now on the increase amid growing inflation and rising domestic interest rates, core net business income dropped by more than 10% in the first half of the fiscal year ending March 2025 from the same period a year before. Even though the profit level is expected to turn around over the medium term with a rise in yields on investment, JCR considers it necessary to watch the extent and time frame of this recovery.
- (3) Credit risk associated with loan assets is contained. 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 will probably remain at the level fully absorbable by core net business income.
- (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. Valuation losses on available-for-sale securities as of September 30, 2024 were equivalent to approximately 10% of core capital. This does not significantly weaken the Bank's financial strength but reduces financial margin to a certain extent.
- (5) Adjusted non-consolidated core capital ratio as of September 30, 2024 stood relatively high at around 11.5%. That said, as valuation losses on available-for-sale securities are pushing down adjusted core capital ratio, attention should be paid to, among others, the fact that the ratio will be affected by fluctuations in the market price of securities for a while.

Tsuyoshi Ohishi, Ippei Koga

Rating

Issuer: The Seto Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: December 23, 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" (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.



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

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

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.)
