

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

## THE TONO SHINKIN BANK (security code: -)

<Affirmation>

Long-term Issuer Rating: A-  
Outlook: Stable

### Rationale

- (1) THE TONO SHINKIN BANK (the “Bank”) is a shinkin bank headquartered in Tajimi City, Gifu Prefecture, with a fund volume of over 1 trillion yen. The Bank has a relatively large market share for both deposits and loans in its primary operating area of Tono region. While working to improve management efficiency by taking such measures as reviewing its branch formats in Gifu Prefecture, it is enhancing sales promotion in the neighboring Aichi Prefecture. Factors reflected in the rating include the Bank’s local business bases, relatively good loan asset quality and high capital adequacy. JCR views, despite the tough business conditions such as lingering low interest rates and intensified competition, the Bank will be able to keep its basic earnings at a certain level for the time being, given that it is reducing the downward pressures on its earnings.
- (2) Although its ROA (based on the core net business income) is low at lower part of 0.2%, it has been stable. The core net business income for the fiscal year ended March 2019 (FY2018) was almost unchanged from the income for FY2017. The declining pace of the interest on loans and discounts was reduced by the smaller decline of yield on loans, and there are signs of a bottoming out. Its earnings from the surplus fund investment have been steady through securities investments based on a certain risk taking. In addition, its expenses have been on the decline thanks to more efficient office work and consolidation of branches. Taking into account these factors which can support its profit, JCR sees that it is unlikely that its core net business income will significantly fall from the current level.
- (3) The non-performing loans ratio disclosed under the Financial Reconstruction Act as of March 31, 2019 was around 4.5%. The ratio increased from a year earlier against the backdrop of the increased doubtful assets, but the increase was primarily due to the stricter standards for the self-assessment. Its credit costs have been at a low level and well controlled against the core net business income. Among the borrowers classified as “other debtors requiring caution” or lower categories, there are borrowers in the ceramics-related business, a local industry, and some are left with a large amount of uncovered claims relative to the core net business income. It is unlikely that the Bank will continuously record large credit costs, because its loan portfolio is well-diversified into small accounts.
- (4) The consolidated core capital ratio as of March 31, 2019 remained in the 16% range. The capital adequacy is high even in consideration of the fact that the risk assets are limited through large lending to local public bodies. The Bank invests 60% of the surplus funds in securities and is increasing investment trusts such as foreign bond funds as well as yen-denominated bonds with long remaining periods and structured bonds. It does not hold complex structured bonds with a risk of loss of principal, and those structured bonds are well diversified in terms of issuers, derivatives in the structure, and periods. Although the amount of interest rate risk from the bond holding is relatively large, the Bank is appropriately controlling the risk in light of the large capital and unrealized gains on securities. Given that it is promoting diversification of its earnings sources including increasing credit risks as compared with other risks, JCR will keep an eye on balance between the risks and capital.

Tomohiro Miyao, Akira Minamisawa

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Rating Assignment Date: June 3, 2019

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status 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 methodology for determination of the credit rating is shown as "JCR's Rating Methodology" (November 7, 2014) and "Banks" (May 8, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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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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