

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. It keeps relatively high market share for both deposits and loans in its primary operating area of the Tono region. Factors reflected in the rating include the Bank’s solid business base in the locality and strong capital adequacy. Core net business income excluding gains on cancellation of investment trusts remains firm, and earnings capacity will probably stay at a certain level, even in light of possible factors leading to future cost increases. Even though credit costs may become larger than past few years due to the COVID crisis, financial soundness is not likely to be impaired thanks to abundant equity capital.
- (2) ROA based on core net business income stays stable, albeit being low at around 0.2%. The fiscal year ended March 2021 (FY2020) achieved the previous year’s level of core net business income as a drop in net interest income was countered by higher net fees and commissions and spending cuts. Expenditures are expected to increase from FY2021 onward partly because of various costs associated with the rebuilding of the head office. Yet, as loan periods are fairly long for COVID response loans that were accumulated in FY2020, the Bank will likely be able to keep the loan balance close to the current level. Also, given that the Bank will be redeeming only a small amount of securities for the near future and will continue taking certain risks, JCR assumes it unlikely that core net business income will fall sharply from the current level.
- (3) Non-performing loans ratio disclosed under the Financial Reconstruction Act as of March 31, 2021 rose to 4.99% from a year before due mainly to an increase in doubtful claims. Though largely attributable to the factors pertaining to individual borrowers, credit costs for FY2020 grew from the previous year and are equivalent to as much as 70% of core net business income, thus weighing heavily on the earnings. Even though loans are basically diversified into small amounts, credit balance of the borrowers classified as “other debtors requiring caution” or lower categories is tending to grow, and some borrowers in the ceramics-related business as a local industry and other domains are left with a large amount of uncovered claims relative to core net business income. Given strong uncertainty about the future of Japanese economy, changes in credit costs must be closely monitored.
- (4) Consolidated core capital ratio as of March 31, 2021 was in the 17% range. Capital adequacy is strong, even in consideration of the fact that risk assets are controlled with, among others, large lending to local public bodies. The Bank invests 50 to 60% of surplus funds in securities, which include yen-denominated bonds with long remaining periods, structured bonds, ETF and foreign bond funds for diversification. It intends to bring the ratio of securities investment even higher in the current year in anticipation of a drop in yields on deposits. Despite the relatively large amount of interest rate risk from bond holdings, which is expected to keep growing going forward, too, JCR assumes that such risk can be controlled appropriately, given large equity capital.

Tomohiro Miyao, Akira Minamisawa

### Rating

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Rating Assignment Date: June 4, 2021

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" (May 8, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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