

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 1.2 trillion yen. It maintains relatively high market shares for both deposits and loans in the Tono region, its main operating area. Factors reflected in the rating include the solid business base in the local market and strong capital adequacy. Although unrealized losses on other securities available for sale have been posted, financial soundness is not likely to be impaired thanks to ample equity capital. JCR will closely watch whether the Bank can keep improving core net business income (excluding gains on cancellation of investment trusts) by, for instance, diversifying earnings sources.
- (2) Partly because of an increase in asset size amid the COVID crisis, ROA based on core net business income for the fiscal year ended March 2023 (FY2022) was low in the upper 0.1% range. Core net business income has been declining marginally but showed year-on-year growth of nearly 10% in FY2022 thanks to an increase in interest on surplus funds investment, decrease in expenses and so forth. Looking ahead, the rate of growth in SME lending may be curbed partly because the repayment of COVID-related loans will become full-fledged. Yet, the decline in loan yields is gradually becoming smaller, and, given also that the Bank accepts a certain amount of interest rate risk in surplus funds investment, JCR assumes that net interest income will remain steady. Meanwhile, the Bank has increased staff exclusively serving corporate customers to enhance loan operations based on business feasibility assessment, while working to increase operational efficiency partly through administrative reforms at the head and branch offices. It is also engaging in non-interest businesses, such as business support activities for business succession and management improvement, as well as professional personnel placement services. JCR will monitor progress in these efforts over the medium to long term to see whether the Bank can expand its earnings base and increase the basic earnings capacity.
- (3) Non-performing loans ratio under the Financial Reconstruction Act as of March 31, 2023 was 5.07%, up from the previous year due primarily to an increase in doubtful claims. While loans are basically diversified into small amounts, borrowers classified in “other debtors requiring caution” or lower categories include those in local industries like ceramics and so forth who are left with large uncovered claims relative to core net business income. The disposal of non-performing loans has since FY2020 been at a somewhat higher level than before. Outlook for domestic economy remains highly uncertain due to rising raw material and fuel prices, which implies that close attention should be paid to trends in credit costs.
- (4) The Bank invests over 50% of its surplus funds in diverse securities, including yen-denominated bonds with long remaining maturities, structured bonds, ETFs and foreign bond funds. With the large amount of interest rate risk associated with bond holdings, interest rate hikes at home and abroad are resulting in unrealized losses. That said, consolidated core capital ratio adjusted for unrealized losses on other securities available for sale, etc. as of March 31, 2023 was in the 15% range, which indicates a high level of capital adequacy, even with the fact that risk assets are controlled mainly by large loans to local governments taken into account. JCR views that, given that the Bank has shifted from securities investment to deposit investment, it can adequately control market-related risks relative to capital even in the persistently uncertain market environment.

Akira Minamisawa, Seito Achiha

Rating

Issuer: THE TONO SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable



Rating Assignment Date: June 6, 2023

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" (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.)
