

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 high capital adequacy, among others. Although valuation loss on other securities available for sale is expanding, financial soundness has been maintained supported by the sufficient amount of equity capital. On the back of intensifying competition and others, the balance of loan may remain weak, but JCR views that the Bank will be able to maintain certain earning capacity through improving yield on fund management in the phase of rising interest rates.
- (2) Fundamental earning capacity is somewhat low. Core net business income (excluding gains on cancellation of investment trusts) has been stable, but remains around 0.2% based on ROA. For the fiscal year ended March 2025 (FY2024), an increase in interest on surplus fund management with the main reason of rising interest rate absorbed interest on deposits and increased expenses, and core net business income grew just below 3% from the previous fiscal year. That said, the balance of loan is decreasing due to the impacts of intensifying competition and progress in repayment of COVID-related loans, and may continue to be weak for the foreseeable future. In addition, a further rise in yield on deposits and an increase in expense are expected to be the factors placing downward pressure on profits, but core net business income will probably remain steady because improved yield on loans and surplus fund management will support the net interest income. The Bank is striving for acquisition of new customers and to be selected as the customers’ main bank through increasing contact points with customers while securing sales force through reevaluating the operation and implementing digital technologies, and reexamining the branch network, among others. JCR will pay close attention to whether the Bank will be able to increase the earning capacity by bringing potential demand for funds, such as capital investment for energy conservation or need of funds associated with business succession, to actual lending.
- (3) Non-performing loans ratio under the Financial Reconstruction Act as at the end of March 2025 was high, standing at 6.1%. There are no excessive credit concentrations to particular borrowers, and loans are diversified into small amounts. However, the balance of high risk assets is relatively large due to deterioration in borrowers’ business conditions on the back of soaring raw material prices and others. Due to the factors of large borrowers, credit cost relative to core net business income tends to be large, continuing to remain heavy following the previous fiscal year for FY2024, just over 60%. Among the borrowers classified under other debtors requiring caution or lower categories often include those in local industries like ceramics and those with a large amount of unsecured credits relative to core net business income. It is necessary for JCR to continue to closely watch the trend in credit cost because sense of uncertainty in the external environment surrounding SMEs is still strong.
- (4) The Bank’s risk exposure in securities investment is large. Securities-to-deposit ratio is high at 36% compared to that of the industry average. Regularly purchasing long- and ultra-long-term yen-denominated bonds to date, the Bank’s exposure to interest rate risk is large and valuation loss is expanding in response to rising interest rate in Japan. That said, as at the end of March 2025, adjusted core consolidated capital ratio deducing valuation loss on other securities available for sale, etc. was in the upper 13% range, and the capital adequacy is high, even considering the fact that it has many loans extended to local public organizations. JCR views that equity capital will remain at a sufficient level as a risk buffer even taking into account the risk factor that credit costs and securities valuation loss will increase under certain stress scenarios.

Akira Minamisawa, Seito Achiha

## Rating

Issuer: THE TONO SHINKIN BANK

### <Affirmation>

Long-term Issuer Rating: A-      Outlook: Stable

Rating Assignment Date: June 3, 2025

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.

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