

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 celebrated its 100th anniversary in January 2022. It has relatively high market shares for both deposits and loans in Tono region, its main operating area. In order to strengthen its efforts to solve regional and customers’ issues and support their core businesses, the Bank is reviewing its client relations and sales structure, as well as its head office and branch structure. The Bank’s rating reflects the strength of its local business base and its high level of capital adequacy. Although the credit costs may rise, its capital is large and there is little concern that its financial soundness will be impaired. The key point for the rating is whether the Bank can maintain the resilience of its core net business income (excluding gains on cancellation of investment trusts) in the face of weakening interest income.
- (2) In the fiscal year ended March 2022 (FY2021), the Bank decreased its core net business income mainly due to a decline in the yield on interest-earning assets, while its expenses remained flat, including expenses related to the reconstruction of the head office. ROA (based on core net business income) declined to the mid 0.1% range, partly due to an increase in asset size following the COVID-19 pandemic. Given that the repayment of COVID-19-response loans will begin going forward, the key point will be whether the Bank can finely capture financing needs such as expected capital investment in order to reverse the trend of interest income growth and increase the income. In addition, the Bank is strengthening its non-interest businesses, such as business support activities for business succession and management improvement, and professional personnel introduction services. It will take some time for these efforts to bear fruit, and JCR will monitor progress to see whether the Bank can strengthen its earnings base.
- (3) The non-performing loans ratio disclosed under the Financial Reconstruction Act was slightly high at 4.8% as of March 31, 2022. Although loans are basically diversified into small amounts, there are a number of borrowers classified as “other debtors requiring caution” or lower categories that have large amount of uncovered claims relative to its core net business income, including those related to the ceramics industry as a local industry. The credit cost burdens in FY2020 and FY2021 were slightly heavier relative to revenues than in past years due to the downgrading of borrowers with large amounts of uncovered claims. While the risk of economic deterioration from the COVID-19 pandemic is receding, outlook for the domestic economy remains highly uncertain due to rising raw material and fuel prices, and it is necessary to closely monitor the trend in credit costs.
- (4) The consolidated core capital ratio was in the high 16% range as of March 31, 2022, indicating a high level of capital adequacy, even taking into account the fact that risk assets are controlled mainly by the large loans to local governments. The Bank invests 50% of its surplus funds in securities, which are diversified into yen-denominated bonds with long remaining maturities, structured bonds, ETFs, foreign bond funds, etc. Toward the end of FY2021, unrealized losses increased mainly in investment trusts due to the rise in US interest rates, and other securities suffered valuation losses. Furthermore, the amount of interest rate risk associated with bond holdings is relatively large and is expected to increase in the future. However, JCR believes that the Bank’s capital is sufficient to cover various risks and that market-related risks can be adequately controlled even in an uncertain investment environment.

Tomohiro Miyao, Akira Minamisawa

Rating

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Rating Assignment Date: June 3, 2022

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/>).

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