

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 deterioration in the asset quality is recognized due to an increase in the number of non-performing loans and posting valuation losses on other securities available for sale, it is unlikely that financial soundness will be impaired because the amount of equity capital is sufficient. JCR views that an increase in financing cost along with rising interest rates can be offset by the earnings from surplus funds investment and thereby assumes it will be able to maintain a current level of earning capacity.
- (2) Core net business income (excluding gains on cancellation of investment trusts) is low around 0.2% based on ROA, but it has been stable hovering in the middle of 20 billion yen range. For the fiscal year ended March 2024 (FY2023), it increased 10% from the previous fiscal year due to an increase in interest from surplus funds investment and decrease in expenses, among others. Net interest income on deposits and lending is in a downtrend. However, JCR views that core net business income will remain steady given also that the Bank accepts a certain amount of interest risk in the surplus funds investment. While the number of employees is in the trend toward decreasing, the Bank intends to maintain/increase the sales force through consolidating branches and streamlining the operations and further strengthen the loans based on the business feasibility assessment. It has also been strengthening the non-interest businesses, such as business support activities for business succession and management improvement. Although these efforts are expected to require a certain amount of time to yield outcome, JCR will watch the progress over the medium- to long-term to see whether the Bank can expand its earning base to increase the basic earning capacity.
- (3) Non-performing loans ratio under the Financial Reconstruction Act as of March 31, 2024 was high at 6.5%. High risk assets have increased due to deterioration in borrowers' business conditions on the back of higher raw material prices and others, and a burden of credit cost has become heavier, slightly under 50% relative to the core net business income for FY2023. While loans are basically diversified into small amounts, 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. External environment surrounding SMEs is still strongly unforeseeable. Therefore, it is necessary to continue to watch the trend in credit cost.
- (4) Securities-to-deposit ratio is high, at around 35%. The Bank invests in diverse securities, including yen-denominated bonds with long remaining periods to maturities, structured bonds, ETFs and foreign bond funds. Interest rate risk associated with bond holdings is large and unrealized loss on yen-denominated bonds is expanding along with rising interest risk in Japan. That said, consolidated core capital ratio adjusted for unrealized losses on other securities available for sale, etc. as of March 31, 2024 was in the lower 15% range, which indicates a high level of capital adequacy, even considering the fact that it has many loans extended to local governments. Going forward, valuation losses on securities may expand when long-term interest rate increases, JCR views that the equity capital will remain at a sufficient level to work as risk buffer.

Akira Minamisawa, Seito Achiha

Rating

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Rating Assignment Date: June 4, 2024

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" (February 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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