News Release

Japan Credit Rating Agency, Ltd.

21-D-1442
March 30, 2022

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Tokyo Kiraboshi Financial Group, Inc. (security code: 7173)

<Affirmation>
Long-term Issuer Rating: A-
Outlook: Stable

Kiraboshi Bank, Ltd. (security code: -)

<Affirmation>
Long-term Issuer Rating: A-
Outlook: Stable

Rationale

(1) Tokyo Kiraboshi Financial Group, Inc. (the "Group") is a financial holding company having Kiraboshi Bank, Ltd. (the "Bank") under its umbrella. The Bank is a regional bank headquartered in Tokyo with a fund volume of 5.2 trillion yen. It has a branch network, covering Tokyo and three neighboring prefectures, which is the largest in Tokyo as a regional financial institution. Aiming to be "a comprehensive service provider with a strength in financing," the Group, through many subsidiaries, is developing a wide range of businesses, including financial product intermediation, fund structuring, overseas expansion support, trusts, fintech services, and consulting, and is enhancing collaboration within the Group and with the government and other industries. Under the three-year mid-term plan, which began in April 2021, the Bank is promoting integration of OTC and non-OTC services as well as financial and non-financial services, enhancement of the efficiency and sales of the headquarters, drastic branch reorganization and strategic personnel allocation, among others. UI Bank Co., Ltd., a digital bank opened in January 2022, handles retail banking and foreign exchange services, aiming to develop businesses with a view to digitization of corporations and BaaS in the future.

(2) The creditworthiness of the Group as a whole strongly reflects the evaluation of the earnings capacity, asset quality, etc. of the Bank, which accounts for a large part of the consolidated assets and earrings. The Bank has secured a high earnings capacity against the backdrop of its favorable operation base and solid lending business, and has made progress in its efforts to diversify its earnings sources. On the other hand, as it actively takes risks in investments and loans, the improvement of the core capital level is an issue to address. Therefore, JCR sees that the creditworthiness of the entire Group corresponds to "A-." The Bank's credit rating is equivalent to the creditworthiness of the Group as a whole, based on its core position in the Group and other factors. Given the decent level of the double leverage ratio, etc., JCR does not reflect the structurally subordinated nature in the rating for the Group.

(3) For the first nine months of the fiscal year ending March 2022 (FY2021), the Bank’s core net business income (excluding gains/losses on cancellation of investment trusts and extraordinary dividends from subsidiaries) increased by 4.8 billion yen (42%) year on year to 16 billion yen, and ROA (based on core net business income) rose to the mid-0.3% range. The promotion of COIVID-19 pandemic-related loans, transactions to be customers' main financing bank, use of structured loans, etc. have led to high growth in outstanding loans to SMEs, contributing to expansion of both interest income and fee income. In the market division, the negative impact on earnings from redemption of high-coupon bonds has been mitigated by the effects of diversified investments, and expenses have also been reduced through consolidation of sales bases and review of branch functions, and streamlining of sales personnel associated with these measures, among others. In addition to enhancing the headquarters' sales structure to promote structured loans, the Bank is strengthening provision of fund wrap products through its securities subsidiaries, the real estate management trust business, and others. The Bank can continue to expect cost reductions through rationalization measures, and its fundamental earnings capacity is on the rise.

(4) The Bank’s non-performing loans ratio under the Financial Reconstruction Act is rising due to the deteriorating performance of borrowers, and has been at a relatively high level, at 3.1% at the end of December 2021. The classification rate is also high due to an increase in loans to borrowers requiring

caution, backed by its active funding support and other factors. It holds a large number of loans with unique risks, such as LBO loans and real estate non-recourse loans, of which outstanding balance is expected to increase going forward. Screening is conducted for each project with precision, but the aforementioned loan forms tend to expand credits and thereby may enhance volatility in credit costs. Credit costs for the first nine months of FY2021 stood at 4.5 billion yen, equivalent to 24% of core net business income. Considering the uncertain external environment and other factors, it is necessary to closely continue monitoring the trend of extent to which credit costs will squeeze earnings going forward. In the market sector, the amount of investment in equities and real estate through investment trusts has been increasing, and the amount of the price fluctuation risk has been on a rise. The Bank is also increasing its investment in private equity funds by utilizing its investment subsidiaries and others. In this field, the Bank has a long track record of investment and has secured a certain level of income each fiscal year, but it has a reasonable degree of liquidity risk. Risk control in the market sector is important.

(5) The Group's consolidated core capital ratio declined to 8.3% as of December 31, 2021 (8.9% a year earlier). The expansion of risk assets associated with loans and investments has pushed down the capital level. JCR evaluates the equity content of part of the first- and second-class preferred shares, which are included in core capital, in a limited way, given the extent to which the shares would be dilutive if they were converted into common shares and other factors. The core capital ratio (adjusted for the valuation of preferred shares, etc.) is in the mid-7% range, which is low among the regional banks rated A-. Amid the continued expansion of risk-weighted assets, to accelerate the accumulation of retained earnings by improving fundamental earnings capacity and restraining credit costs is a challenge for the Group.

Atsushi Kato, Michiya Kidani

Rating

Issuer: Tokyo Kiraboshi Financial Group, Inc.

<Affirmation>
Long-term Issuer Rating: A- Outlook: Stable

Issuer: Kiraboshi Bank, Ltd.

<Affirmation>
Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: March 28, 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), "Banks" (October 1, 2021) and "Rating Methodology for Financial Groups' Holding Companies and Group Companies" (March 29, 2019) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

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

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Tokyo Kiraboshi Financial Group, Inc.
Issuer:	Kiraboshi Bank, Ltd.
Rating Publication Date:	March 30, 2022

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases
The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality
The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst’s scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR’s service other than the determination of public or private credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer’s business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients’ preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer’s holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer’s financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer’s business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer’s financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer’s financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer’s liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer’s liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties’ Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer’s parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer’s business domicile or other related parties’ status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

・ The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Tokyo Kiraboshi Financial Group,	Issuer(Long-term)	October 1, 2014	BBB+	Stable
Tokyo Kiraboshi Financial Group,	Issuer(Long-term)	December 29, 2015	BBB+	Stable
Tokyo Kiraboshi Financial Group,	Issuer(Long-term)	April 27, 2017	BBB+	Positive
Tokyo Kiraboshi Financial Group,	Issuer(Long-term)	April 25, 2018	A-	Stable
Tokyo Kiraboshi Financial Group,	Issuer(Long-term)	March 7, 2019	A-	Stable
Tokyo Kiraboshi Financial Group,	Issuer(Long-term)	February 4, 2020	A-	Stable
Tokyo Kiraboshi Financial Group,	Issuer(Long-term)	March 19, 2021	A-	Stable

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Kiraboshi Bank, Ltd.	Issuer(Long-term)	August 13, 2007	A-	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	September 19, 2008	A-	Negative
Kiraboshi Bank, Ltd.	Issuer(Long-term)	December 25, 2009	BBB+	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	December 7, 2010	BBB+	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	January 17, 2012	BBB+	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	December 25, 2012	BBB+	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	November 27, 2013	BBB+	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	October 1, 2014	BBB+	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	December 29, 2015	BBB+	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	April 27, 2017	BBB+	Positive
Kiraboshi Bank, Ltd.	Issuer(Long-term)	April 25, 2018	A-	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	March 7, 2019	A-	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	February 4, 2020	A-	Stable
Kiraboshi Bank, Ltd.	Issuer(Long-term)	March 19, 2021	A-	Stable

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Shozo Matsumura, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

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Shozo Matsumura
General Manager of Financial Institution Rating Department

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