

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

The Kyoto Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable
Short-term Issuer Rating: J-1

Rationale

- (1) The Kyoto Shinkin Bank (the "Bank") is a shinkin bank headquartered in Kyoto City, Kyoto Prefecture with a fund volume of about 2.7 trillion yen. Having a branch network mainly in Kyoto City, it ranks among the top in terms of market shares for deposits and loans in the prefecture. It also operates many branches in Shiga Prefecture and northern part of Osaka Prefecture. Characterized by the sales activities focused on building long-term relations with customers, it meticulously responds to individual needs of small businesses, etc., even from the nonfinancial aspect, too. Factors reflected in the ratings include the Bank's stable business bases and JCR's evaluation of the well-diversified loan portfolio. JCR predicts that the Bank can keep its fundamental earnings capacity and core capital ratio at good levels for the time being despite the tough business environment.
- (2) Core net business income (excluding gains on cancellation of investment trusts) has been falling slowly since the fiscal year ended March 2017 (FY2016) but appears to have turned around in FY2020 thanks to an increase in interest on loans and discounts driven by COVID-related loans, decrease in expenses and so forth. While the redemption of yen bonds will continue pushing down the earnings, JCR assumes that the Bank can still maintain a certain level of profits for a while as it is working to streamline its sales structure.
- (3) Non-performing loans ratio disclosed under the Financial Reconstruction Act has inched up, standing at around 4.5% as of December 31, 2020. Credit costs are growing but staying at a level absorbable by core net business income partly because loans are diversified into small amounts. Impacts of the COVID crisis are not significant so far, but, given that assets requiring caution are increasing and economic outlook is uncertain, trends in credit costs require close attention.
- (4) The Bank maintains a securities portfolio that mainly consists of domestic bonds. Despite a decrease in outstanding bonds, the amount of interest rate risk remains large against capital. On the other hand, the amount of price fluctuation risk against capital is kept low despite an increase in investment trusts to ensure earnings.
- (5) Core capital ratio as of September 30, 2020 stood at 8.43% on an unconsolidated basis, which does not pale compared to that of regional financial institutions in JCR's "A-" rating category even when adjusted for general allowance for loan losses, etc. As the Bank will likely retain the current earnings capacity and accumulate retained earnings, JCR assumes that core capital ratio can be maintained at around the current level for a while.

Hidekazu Sakai, Kota Matsuzawa

Rating

Issuer: The Kyoto Shinkin Bank

<Affirmation>

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Rating Assignment Date: May 19, 2021

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" (May 8, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).



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