

JCR Modified Methodology for Rating Regional Banks Consolidated with Mega Bank Groups

Japan Credit Rating Agency, Ltd. (JCR) has modified part of a rating methodology as follows, and its outline and impact on individual ratings are provided below.

1. Outline of Modification

Following the review process described in the press release dated June 4, 2013, "JCR Considers Modifying Methodology for Rating Regional Banks Consolidated with Mega Bank Groups," JCR modified part of the rating methodology for banks as of today as per the release. JCR has previously viewed it difficult to strongly incorporate support from parent banks in rating regional banks affiliated with Japanese mega bank groups (hereinafter, "Affiliated Regional Banks"); under the new methodology, possible additional support from parent banks will be taken into account in the rating decision when certain conditions are met. The modification reflects the following factors regarding the relationship between the mega banks and Affiliated Regional Banks: (1) regardless of strategic importance, ties between Affiliated Regional Banks and parent banks have become increasingly stronger in terms of internal control, including sharing risk management-related information; (2) it appears the fact that Affiliated Regional Banks share brands with parent banks is becoming widely recognized; and (3) instances of additional capital support provided by parent banks have been observed recently.

Treatment regarding Affiliated Regional Banks

With respect to regional banks affiliated with Japanese mega bank groups, JCR shall not determine the rating based on the creditworthiness of their parent banks or groups (hereinafter, "Parent Banks etc.") solely on the ground that they are under the umbrella of mega bank groups. In case where their strategic importance to Parent Banks etc. is unclear and, historically speaking, the affiliation was the result of capital support made at the time of disposal of non-performing loans in a financial crisis, rather than due to strategic importance, it is difficult to strongly reflect support from Parent Banks etc. into the rating. However, even when regional banks were in fact affiliated with the groups in such a way, if it is judged that Parent Banks etc. will take reasonable responsibility for their business management, JCR shall take into account possible additional support from Parent Banks etc. in its rating decision. In so doing, JCR shall refer to whether or not the regional banks are consolidated with Parent Banks etc., degree of Parent Banks etc.'s involvement in ordinary business management, and use of Parent Banks etc.'s brands by the regional banks in their operations, while giving due consideration to actual support.

2. Rating Revision As A Result of Modification

JCR will revise the rating on the following two banks based on the modification, which will be made public in a day or two. Although the modification will affect the rating in a positive way, the resulting rating change will likely be an upgrade only by one notch or so for either bank. JCR is not planning to revise the rating on banks other than these two directly because of the modification.

Issuer: The Minato Bank, Ltd.

Long-term Issuer Rating: A-/Stable

Subordinated Loan: BBB+

Issuer: Kansai Urban Banking Corporation

Long-term Issuer Rating: BBB+/Stable

Short-term Issuer Rating: J-2

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