

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

THE KYOTO CHUO SHINKIN BANK (security code: -)

<Assignment>

Long-term Issuer Rating: A+
Outlook: Stable

Rationale

- (1) THE KYOTO CHUO SHINKIN BANK (the "Bank") is a shinkin bank headquartered in Kyoto City, Kyoto Prefecture with a fund volume of 5.4 trillion yen. It boasts the largest balance of deposits and loans in the shinkin industry. It has a high presence in the local area as indicated by the share for loans exceeding 20% in Kyoto Prefecture. The rating reflects the stable operating base, constrained credit risk of loan assets, decent earning capacity and capital adequacy. The rating outlook is Stable because fundamental earning capacity is expected to remain steady and credit cost is also expected to be held down as before. That said, the facts that the substantive capital level is affected by valuation losses on securities for the foreseeable future and rising degree of credit concentration to real estate companies require some caution.
- (2) Fundamental earning capacity is at a decent level. ROA (based on core net business income excluding gains/losses on cancellation of investment trusts, etc.) is in the middle of 0.2% range, which is the average level of shinkin banks. Although profitability is low for loans because of a high composition ratio of housing loans, an expense ratio is relatively constrained on the back of scale merit. Profits remained steady for the last few years, and JCR expects profits are expected to expand in the future as well through increasing the balance of loans and improving the spread between deposits and loans.
- (3) Credit risk involved in the loan asset is small. The non-performing loan ratio disclosed under the Financial Reconstruction Act has been in a down trend, staying around 2%, which does not give a rise of concern. The bank curbs risks by measures such as securing credits by collateral, etc. and diversifying into small lots. JCR views that the Bank conducts disciplined credit management under the fulfilling screening system. Credit cost has remained low over the long term, and it is considered that it will unlikely largely increase into the future. That said, a certain caution is required to the fact that the degree of credit concentration to real estate companies is high and is rising.
- (4) Risk involved in the surplus fund management is mainly interest rate risk, and the risk amount is large. Same as other shinkin banks, the Bank's exposure to interest rate risk involved in the bond holdings is large against the equity capital, and it also has certain sizes of balance of long-term fixed deposits and structure finances while they are not subject to evaluation by market value. Due to rising interest rates, available-for-sale securities are in the situation of valuation loss and placing a certain degree of downward pressurer on the financial leeway.
- (5) Capital adequacy is commensurate with A categories. Core capital ratio adjusted for valuation losses on available-for-sale securities, etc. at the end of September 2024 was just over 10%. It has been remaining stable under the situation where risk-weighted assets are expanding, because retained earnings are consistently building up on the back of credit cost being constrained and other factors. Attention needs to be paid to that fact that it will be affected by the price fluctuation of securities for the foreseeable future, but JCR views that accumulation of retained earnings will support the capital level.

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Rating

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Rating Assignment Date: January 29, 2025

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" (October 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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