

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 around 2.8 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. The ratings reflect the Bank's solid earnings capacity backed by stable business bases, well-diversified loan portfolio, etc. The Bank is characterized by meticulously responding to individual needs, thus building long-term good relations with customers. With no changes in these factors as of now, JCR assumes that the Bank can keep its fundamental earnings capacity and core capital ratio at around the current levels into the near future.
- (2) Even when the low interest rate environment persists, the Bank maintains certain earnings capacity. Core net business income (excluding gains on cancellation of investment trusts) grew in the fiscal year ended March 2021 (FY2020) thanks in part to an increase in interest on loans and discounts driven by COVID-related loans and appears to have improved further in FY2021 mainly as a result of cost reductions. ROA based on this income stays at around 0.2%. Looking ahead, growth in interest on loans and discounts may become stagnant as COVID-related loans will be repaid. However, additional cost reductions are expected with the streamlining of the sales structure through, for instance, the introduction of tablet terminals, which JCR views will help ensure core net business income. JCR is watching whether diverse measures taken, including the nurturing of local communities to connect customers, will result in growth in earnings capacity over the medium term.
- (3) Non-performing loans ratio disclosed under the Financial Reconstruction Act as of December 31, 2021 was 4.30%, almost leveling out in recent years. Loans are well-diversified into small amounts, and conservative provisions are made for individual borrowers in consideration of actual situations. Although an increasing number of borrowers are reclassified into lower categories due to the COVID crisis, credit costs stay at the level fully absorbable by core net business income. That said, because of the uncertain external environment, continued attention must be paid to changes in credit costs.
- (4) The Bank maintains a securities portfolio that mainly consists of domestic bonds. While outstanding bonds are less than before, the amount of interest rate risk remains large against capital. On the other hand, the amount of price fluctuation risk is increasing gradually with an increase in investment trusts but is kept low against capital.
- (5) Core capital ratio as of September 30, 2021 stood at 8.52% on an unconsolidated basis, which is decent for a regional financial institution in JCR's "A-" rating category even when adjusted for general allowance for loan losses, etc. While there remains a possibility that risk assets will expand in the future because of an increase in loans not guaranteed by credit guarantee corporations, diversification of securities investment means, etc., retained earnings will likely keep building up; therefore, JCR assumes that the capital level commensurate with the ratings can be maintained into the near future.

Hidekazu Sakai, Kota Matsuzawa

Rating

Issuer: The Kyoto Shinkin Bank

<Affirmation>

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Short-term Issuer Rating: J-1



Rating Assignment Date: May 19, 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) and "Banks" (October 1, 2021) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)
