

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 2.9 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 Bank is characterized by meticulously responding to individual needs, which has led to the building long-term good relations with customers. Although the Bank's effective capital level has declined with gains (losses) on valuation of available-for-sale securities turning into losses, there have been no changes in its firm earnings power and diversified loan portfolio backed by a stable business foundation. JCR thus affirmed the Bank's rating.
- (2) Core net business income (excluding gains (losses) on cancellation of investment trusts) has been steady at a little over 5 billion yen. Although interest on loans has been sluggish, partly due to lower yields, expense reductions have contributed to the steadiness. Going forward, the repayment of COVID-19 related loans will be in full swing, which will put downward pressure on profit. On the other hand, JCR believes that its core net business income will remain stable as both business loans and housing loans are growing and further cost reductions are expected by improving the efficiency of the sales structure. JCR will pay attention to whether the Bank can improve earnings power by measures including strengthening its non-personal channels and enhancing support for customers' core business.
- (3) Non-performing loans ratio disclosed under the Financial Reconstruction Act as of December 31, 2022 was 4.45%, almost leveling out in recent years. Loans are well-diversified into small lots, and conservative provisions are made for borrowers in consideration of their actual situations. Credit costs have remained at a level that can be absorbed by core net business income, but are gradually increasing due in part to a certain number of borrowers reclassified into lower categories. Given the uncertain external environment, trends in credit costs continue to require attention.
- (4) The securities portfolio consists mainly of domestic bonds, and interest revenue is stable. The duration of bond holdings is slightly long, and the amount of interest rate risk is large relative to capital. Bond prices have fallen due to rising interest rates, and available-for-sale securities are in a state of valuation loss. On the other hand, the amount of risk from price fluctuations of stocks and other securities included in investment trusts is small relative to capital. Looking at the capital, the Bank maintained the non-consolidated core capital ratio in the 8% range as of the end of December 2022, but the ratio has declined after adjusting for items such as valuation losses on available-for-sale securities. Although the valuation losses have been shrinking, JCR will keep an eye on whether the Bank can maintain a certain level of adjusted core capital ratio in light of future trends in risk assets and other factors.

Hidekazu Sakai, Kota Matsuzawa

Rating

Issuer: The Kyoto Shinkin Bank

<Affirmation>

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



Rating Assignment Date: May 19, 2023

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/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

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.)
