

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

THE KYOTO CHUO SHINKIN BANK (security code: -)

<Affirmation>

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 balances of deposits and loans in the shinkin industry. It has strong presence in its locality, as indicated by the share of over 20% for loans in the prefecture. Factors reflected in the rating include the stable operating base, constrained credit risk of loan assets and decent levels of earnings capacity and capital adequacy. That said, factors including the fact that the substantive capital level is affected by valuation losses on securities require attention.
- (2) Fundamental earnings capacity is at a level more or less commensurate with the A rating category. ROA (based on core net business income excluding gains/losses on cancellation of investment trusts and gains/losses on derivative instruments) is around 0.3%, which is on a par with the average of shinkin banks. Although profitability is low for loans because of a high ratio of housing loans in the total, expense ratio is fairly constrained thanks to economies of scale and so forth. Amid rising interest rates, an increase in interest on deposits will likely precede due to the time lag between financing and growth in investment yields. Even so, JCR assumes that profits will expand over a certain time horizon with an increase in loans, improvement in loan-deposit interest rate spreads, etc.
- (3) Credit risks associated with loan assets are small. Non-performing loans ratio under the Financial Reconstruction Act has been on the decline, standing decent at around 2%. The Bank curbs risks by taking such measures as securing coverage by collateral, etc. and diversifying credit into small amounts. JCR considers that the Bank conducts disciplined credit management under the robust screening system. Credit costs have long been remaining low and are not likely to increase significantly even in the future. That said, a certain level of attention should be paid to the fact that the degree of credit concentration to real estate companies is high and rising.
- (4) The primary risk associated with surplus fund management is interest rate risk and is large in amount. As with other shinkin banks, interest rate risk associated with bond holdings is large relative to capital for the Bank, and, though not subject to mark-to-market valuation, the balances of long-term fixed deposits and structured loans are also of a considerable size. Valuation losses on available-for-sale securities have expanded due to interest rate hikes, growing to a level equivalent to over 20% of core capital as of March 31, 2025. As this has reduced the financial buffer to a certain extent, JCR will keep an eye on future developments.
- (5) Capital adequacy is commensurate with the A rating category, but the impact of price fluctuations in securities requires attention. Consolidated core capital ratio adjusted for valuation losses on available-for-sale securities, etc. as of March 31, 2025 was in the lower 9% range. Even though the impact of an increase in risk assets on consolidated core capital ratio has been successfully absorbed by the accumulation of retained earnings, adjusted core capital ratio has been on the decline over the past few years because of growth in valuation losses on securities.

Tsuyoshi Ohishi, Ippei Koga

Rating

Issuer: THE KYOTO CHUO SHINKIN BANK

<Affirmation>

Long-term Issuer Rating: A+ Outlook: Stable

Rating Assignment Date: October 2, 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.

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.)