

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 high in the prefecture in terms of market shares for deposits and loans. It also operates a number of branches in Shiga Prefecture and northern part of Osaka Prefecture. Factors reflected in the rating include the Bank's solid earnings capacity backed by the stable business base and the quality of assets in light of the diversified loan portfolio. Recently, credit costs have been tending to increase. Moreover, valuation losses on available-for-sale securities have had a large impact on the effective capital level. While paying attention to how these situations will develop, JCR will monitor whether the implementation of various measures will help further expand core net business income.
- (2) Core net business income (excluding gains/losses on cancellation of investment trusts) has been staying at around 5.5 billion yen since the fiscal year ended March 2021 (FY2020). However, ROA based on this income has declined to as low as around 0.15% due in part to a fall in loan yields. Although an increase in personnel expenses and interest on deposits will place downward pressure, JCR assumes that core net business income can be maintained at around the current level for the time being, on the grounds that both business loans and housing loans are growing and the Bank is making progress in its efforts in the fee business. Whether the Bank can further improve profitability through such initiatives as problem-solving financing and area sales strategies, where it is focusing on, will be closely watched.
- (3) Non-performing loans ratio under the Financial Reconstruction Act as of December 31, 2023 was a bit high at 4.82%. Despite an increase in not only non-performing loans disclosed but also other assets requiring caution, loans are better-diversified into small amounts, and conservative provisions are being made in consideration of the actual situations of the borrowers. Credit costs have been increasing since the COVID crisis due in part to the reclassification of debtors to lower categories. They have risen to over 80% of core net business income since FY2022 also because of preventive provisions. Given the uncertain external environment, changes in these costs continue to require attention.
- (4) Domestic bonds account for over 80% of the securities portfolio. The duration of bond holdings is somewhat long, and the amount of interest rate risk is large relative to capital. That said, as the Bank is moving toward replacing long-term bonds in anticipation of a rise in domestic interest rates, JCR predicts that an increase in interest rate risk will be curbed. Valuation losses on available-for-sale securities mainly due to a fall in bond prices as a result of the rise in interest rates are now shrinking.
- (5) Non-consolidated core capital ratio as of December 31, 2023 was in the lower 8% range. It shows a decline when adjusted for valuation losses on available-for-sale securities, etc., which somewhat pales compared to the rating. The Bank intends to build up loans, and whether it can maintain a certain level of adjusted core capital ratio by accumulating retained earnings and controlling risk assets in securities investment will be watched.

Hidekazu Sakai, Kyohei Yamamoto

### Rating

Issuer: The Kyoto Shinkin Bank

### <Affirmation>

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Short-term Issuer Rating: J-1



Rating Assignment Date: May 15, 2024

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" (February 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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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.)

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