

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 with a fund volume of 2.9 trillion yen. Having a branch network mainly in the city, it ranks high in Kyoto Prefecture in terms of market shares for deposits and loans. It has long-term, good relations with customers thanks to its own attentive customer service, thereby building a strong business base in the locality. Other factors also reflected in the rating include the Bank’s solid earnings capacity and well-diversified loan portfolio. Meanwhile, the actual capital level has declined due to an increase in valuation losses on available-for-sale securities. Improving capital adequacy with the accumulation of retained earnings and so forth is thus a key to the future rating decisions.
- (2) The Bank’s earnings capacity somewhat pales in comparison to other regional financial institutions in JCR’s A rating category. ROA based on core net business income in the mid-0.1% range is low relative to the rating, but core net business income (excluding gains/losses on cancellation of investment trusts) nevertheless remains steady, staying at around 5.5 billion yen since the fiscal year ended March 2021 (FY2020). As the current situation, business loans have increased through problem-solving financing, and housing loans, too, are tending to expand due in part to the revision of the guarantee system. Moreover, earnings contribution from the fee business, which had been slow to take off, is now increasing steadily. JCR assumes that core net business income will also stay steady for a while thanks to these factors.
- (3) The soundness of loan assets is maintained at a certain level. While non-performing loans ratio under the Financial Reconstruction Act is high in the 5% range, loans are well-diversified into small amounts, and conservative provisions are being made in consideration of the actual situation of the borrowers. Credit costs, which ballooned from FY2022 to FY2023 due to an increase in the borrowers being reclassified into lower categories, implementation of preventive provisions, etc., decreased to a level fully absorbable by core net business income in FY2024. JCR views it unlikely that credit costs will grow significantly as the Bank enhanced its management of large borrowers during the above period, but, given strong uncertainty in the external environment and so forth, ongoing attention will be paid.
- (4) Risks associated with market investments are relatively high. While credit risk is contained, as shown by domestic bonds accounting for nearly 80% of the portfolio, the amount of interest rate risk is large relative to capital because of somewhat long durations of bond holdings. Even though the Bank is flexibly managing the portfolio in response to domestic interest rate hikes by, for instance, avoiding purchases of bonds with long maturities, valuation losses on available-for-sale securities mainly due to a fall in bond prices as a result of interest rate hikes are expanding.
- (5) Capital adequacy is low for a regional financial institution in JCR’s A rating category. Consolidated core capital ratio as of March 31, 2025 stood at around 8.5%. Core capital ratio adjusted by JCR has declined mainly due to an increase in valuation losses on available-for-sale securities. Whether the Bank can raise the capital level, despite the uptrend in risk assets because of the enhanced lending operations, by accumulating retained earnings through the improvement of earnings capacity and appropriately controlling risk assets will be closely watched.

Hidekazu Sakai, Kyohei Yamamoto

### Rating

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Rating Assignment Date: June 16, 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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