News Release

Japan Credit Rating Agency, Ltd.

26-D-0124
July 14, 2026

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

The Kyoto Shinkin Bank (security code: -)

<Outlook Change>
Long-term Issuer Rating: A-
Outlook: from Stable to Negative

<Affirmation>
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 2.8 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 supported by its own attentive customer service, thereby building a strong business base in the locality. In addition, its solid earning capacity and well-diversified loan portfolio are reflected in the rating. On the other hand, its substantial capital level has continued to decline mainly due to the widening valuation losses on available-for-sale securities, and its capital adequacy is significantly weak relative to its rating. Although the Bank is moving to reduce valuation losses, its capital adequacy may remain low for the time being. In light of this, JCR has changed the outlook for the rating on the Bank to Negative.

(2) The Bank's earnings capacity somewhat pales in comparison to other regional financial institutions in JCR's A rating category. Core net business income (excluding gains or losses on cancelation of investment trusts; the same hereinafter) has remained stable at around 5 billion yen since the fiscal year ended March 2021 (FY2020), while ROA (based on core net business income) is low relative to the rating, at about 0.2% for the FY2025. Core net business income for FY2026 is expected to maintain a certain level, supported by an increase in net interest income, although temporary expenses associated with system upgrades are expected to rise. In addition to an increase in business loans through problem-solving finance, the housing loan outstanding is also growing, and core net business income is likely to remain firm for the foreseeable future.

(3) The soundness of loan assets is maintained at a certain level. The non-performing loans ratio under the Financial Reconstruction Act is in the 5% range, which is high, but the loans are well diversified into small lots, and conservative reserves are being set aside based on the actual conditions of credit counterparties. Due to factors such as strong uncertainty surrounding the external environment, continued attention is needed regarding trends in credit costs. However, the Bank has been strengthening its post-lending management by conducting monthly monitoring and expanding the scope of borrowers subject to management support. JCR will pay close attention to the results of these initiatives.

(4) Risks associated with market investments are relatively high. Although credit risk is limited, given that domestic bonds account for nearly 80% of the portfolio, interest rate risk remains significant relative to the capital base due to the relatively long duration of the bond holdings. Unrealized losses on available-for-sale securities have been increasing in tandem with rising market interest rates, and have reached a substantial level compared with capital. Taking into account its financial closing status, the Bank has set out a policy of steadily reducing valuation losses through loss-cutting over the medium to long term, and JCR will closely monitor this move.

(5) Capital adequacy has declined and falls well short relative to the rating. While the consolidated core capital ratio has been maintained in the 8% range, the JCR-adjusted consolidated core capital ratio has declined significantly, mainly due to the widening valuation losses on available-for-sale securities. As loans are being expanded, risk-weighted assets are increasing, which will weigh on capital levels. JCR will continue to monitor the impact of the pace of retained earnings accumulation and trends in unrealized losses on available-for-sale securities on capital adequacy.

Hidekazu Sakai, Kyohei Yamamoto

Rating
Issuer: The Kyoto Shinkin Bank

<Outlook Change>
Long-term Issuer Rating: A- Outlook: Negative

<Affirmation>
Short-term Issuer Rating: J-1

Rating Assignment Date: July 9, 2026

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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