18-D-1068
February 20, 2019

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

The Shoko Chukin Bank, Ltd. (security code: -)

<Affirmation>

Long-term Issuer Rating:	AA+
Outlook:	Negative

Rationale

(1) The Shoko Chukin Bank, Ltd. (the “Bank”) is a special company created in 2008 when the cooperative special corporation Shoko Chukin Bank was transformed to a joint stock company, and 46% of its outstanding shares are held by the central government. The Board to Examine the Shoko Chukin Bank’s Way of Being (the “Board”), formed to address the wrongdoing the Bank had committed related to crisis response operation, made suggestions to, for instance, reform the Bank’s business model to move in the direction of full privatization. In accordance with an Operation Improvement Plan developed in response to the Board’s suggestions, the bank has been working on a move into a business model focusing on resolving SMEs’ issues since 2018.

(2) The Board’s suggestions urge the Bank to reform its business model in the direction of full privatization. At this point, however, when and to what degree full privatization is implemented is yet to be determined. The Bank will probably be supported for the time being by the central government, which is involved in the Bank for a certain period of time under the special act, in JCR’s view. However, the Board suggested that, for instance, the necessity of having the Bank obliged to perform crisis response operation be considered. This increased the possibility that the political importance of the operation becomes less. The likelihood of future change in the relations between the Bank and the government cannot be ruled out, prompting JCR to more focus on the earnings and financial status of the Bank itself in rating decision. That said, the Bank’s earning capacity decreased significantly and has still been declining. It is likely to take time before effects of the business model reform show up and the future remains uncertain with respect to the Bank’s earnings. Based on the above, JCR retains Negative outlook.

(3) The Bank’s profit is declining due to continued shrinking profit margin and a decline in loans associated with the crisis response operation. In the first half fiscal year ending March 2019, the core net business income dropped 26% from the same period a year earlier and ROA also fell to the mid 0.2% level for the full year. In light of credit costs having conventionally been at a high level, the Bank needs to boost the core net business income. Under the medium-term business plan, an initiative to realign its credit portfolio places an emphasis on support for SMEs’ cash flow management, which is less difficult than loans for business revitalization, new business, start-up business, etc. and in which risks are limited relative to those in such loans. Costs are reduced primarily based on lower personnel expenses through operation streamlining, branch consolidation, etc. The medium-term business plan seems to be well balanced in terms of feasibility and risk management. Nevertheless, the implementation of the medium-term business plan definitely entails a significant change to the Bank’s way of operations. In the course of implementing the plan, a cutback in the existing financing business more than expected and other factors may cause a further decline in its earning capacity. JCR will watch closely the Bank’s business performance.

(4) There is no concern about the equity capital, with consolidated common equity Tier 1 ratio in the 12% level as at end-September 2018. In accordance with the suggestions that an appropriate level for the crisis response reserve, which constitutes a part of equity capital and is currently 150 billion yen, be considered in light of factors such as the expected decline of the loan balance for the crisis response operation, the Bank will pay 15 billion yen to the national treasury in March 2019. The amount of the crisis response reserves may be reduced in the future. Nevertheless, JCR considers that the equity capital stays at a satisfactory level against the risk amount even if the full amount of the crisis response reserves is excluded. Meanwhile, the Bank has a large amount of claims requiring caution due to its aspect of a public institution that offers support to SMEs, meaning that credit costs tend to be large. Given that the Bank intends to increase high-risk loans such as those for business revitalization and management improvement, JCR will pay attention to a balance between risks and capital.

Kenji Sumitani, Akira Minamisawa

Rating

Issuer: The Shoko Chukin Bank, Ltd.

<Affirmation>

Long-term Issuer Rating: AA+ Outlook: Negative

Rating Assignment Date: February 18, 2019

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status 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 methodology for determination of the credit rating is shown as "JCR's Rating Methodology" (November 7, 2014), "FILP Agencies, etc." (March 13, 2014) and "Banks" (May 8, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

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

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	The Shoko Chukin Bank ,Ltd.
Rating Publication Date:	February 20, 2019

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

・ Please see the news release.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

・ Please see the news release.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

・ The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.

・ The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases
The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality
The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions
The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

  A) Audited financial statements presented by the rating stakeholders

  B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract
The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets
The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events
The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:
https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

F) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

・ The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	April 13, 2007	AA+	Stable
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	June 17, 2008	AA+	Stable
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	September 29, 2009	AA+	Stable
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	October 21, 2010	AA+	Stable
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	November 9, 2011	AA+	Stable
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	November 28, 2012	AA+	Stable
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	November 28, 2013	AA+	Stable
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	December 18, 2014	AA+	Stable
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	March 4, 2016	AA+	Stable
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	July 15, 2016	AA+	Negative
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	February 6, 2017	AA+	Negative
THE SHOKO CHUKIN BANK,	Issuer(Long-term)	February 9, 2018	AA+	Negative

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Shozo Matsumura, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

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Shozo Matsumura
General Manager of Financial Institution Rating Department

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