

Proposal on Shoko Chukin Bank – With heightened Uncertainty about the Future, JCR will Watch Government’s Response

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on proposals made by an expert commission, advisory commission for the future status of The Shoko Chukin Bank, Ltd. (security code: -), which was established following the misconduct in the crisis response operations.

- (1) The expert commission submitted its proposals on the future status of The Shoko Chukin Bank, Ltd. (“Shoko Chukin”) on January 11, 2018. It was determined to promote reforms of the business model for the coming 4 years towards full privatization and then decide whether Shoko Chukin shall be fully privatized or not after thoroughly examining the progress.
- (2) In the proposals for reforms of the business model, the commission proposed that Shoko Chukin ought to fully focus on lending and non-interest businesses aimed at management improvement of SMEs and business revitalization or business succession and to reduce the balance of loans in areas other than these fields. JCR sees, however, that it will be not easy for Shoko Chukin to secure decent earnings from these operations, because private financial institutions are also focusing their attentions on these business fields. It may weaken its earnings base if it reduces the existing lending business in the face of these conditions. The commission also proposed that Shoko Chukin ought to fully withdraw from the crisis response operations except those for disaster response and consider an appropriate level for the crisis response reserve (currently 150 billion yen) based on the expected decline of the loan balance for the crisis response operation. Reduction of capital, while facing an increase of highly risky loans such as those for business revitalization, may cause a worsening of balance between risks and capital.
- (3) Given there is no concrete roadmap towards materialization of the proposals, JCR sees that it is less necessary to immediately change the current rating for Shoko Chukin. The heightened uncertainties about outlook for the organization, income and financial standing in the future, however, constitute a negative factor for the rating. JCR will closely watch details of a reform plan that would be formulated by the central government and Shoko Chukin based on the proposals as well as Shoko Chukin’s business performance.

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<Reference>

Issuer: The Shoko Chukin Bank, Ltd.

Long-term Issuer Rating: AA+ Outlook: Negative

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