20-D-1271
February 25, 2021

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

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

<Outlook Change>

Long-term Issuer Rating: AA+
Outlook: from Negative to Stable

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 into 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"), which was formed to address the misconduct the Bank had committed in its crisis response operations, made recommendations, among others, to change the business model to move toward complete privatization. Under the Shoko Chukin Bank Management Reform Plan (the "Medium-term Management Plan"), the Bank has been working to shift to a business model that focuses on resolving SMEs' issues. Meanwhile, under the COVID-19 pandemic, the Bank is playing a role in supporting national policies by executing loans amounting to 1.7 trillion yen to SMEs by September 2020 as crisis response operations. One year later, based on the recommendations of the Board, a business model will be established and the response to the crisis will be verified, and a decision will be made on whether or not to fully privatize the bank.

(2) Even if the policy of full privatization of the Shoko Chukin Bank is decided, JCR believes that it will take time to respond to legal amendments, and for the time being, the Bank is likely to receive government support as an institution, with which the central government will continue to be involved, for a certain period of time based on the special act. As the relationship of the Bank with the government may change depending on the trend of discussions on the privatization of the Bank, JCR is placing emphasis on the evaluation of the Bank's unconsolidated profit and financial position in the rating judgment. The outlook on the rating has been "Negative" so far, based on the downward trend in earnings through the fiscal year ended March 2020 (FY2019). However, the Bank's core net business income is currently recovering with a large increase of loans in the crisis response operations. JCR believes that the fundamental earnings will remain solid for the time being, and has revised the rating outlook from Negative to Stable. Although JCR cannot deny a possibility that the credit costs will increase due to the COVID-19 pandemic impact, JCR believes that the Bank's financial base will remain favorable, given the thick capital as a buffer against losses.

(3) Profitability has declined mainly due to a decline in the balance of loans until FY2019, and ROA (on a core net business income basis) is low at around 0.25%. As a result of crisis response loans in response to the COVID-19 pandemic, the balance of loans increased 16% YoY to 9.5 trillion yen at the end of September 2020. This has led to a significant increase in interest on loans. Even taking into account the drop in net fees and commissions due to restrictions on face-to-face activities, JCR believes that the core net business income is likely to increase from FY2020 to FY2021. The daily average balance of the crisis response loans is likely to remain close to the current level for a reasonable period of time, taking into account the long loan period for crisis response loans. In addition, loan yields are bottoming out thanks in part to the accumulation of higher interest rate loans for the purpose of business revitalization and management improvement. The Bank has been steadily reducing expenses by improving operational efficiency. Looking ahead, there is room to expand non-interest income by promoting syndicated loans and derivatives-related transactions. JCR believes that these factors will support the Bank's core net business income and enable the Bank to maintain a certain level of earnings capacity for the time being.

(4) As a public institution that provides support to SMEs, the Bank has traditionally had a large number of assets requiring caution, which can lead to an increase of credit costs. As of the end of September 2020, assets requiring caution increased by 1.5 trillion yen from the end of March 2020, and credit costs also slightly increased. One of the reasons for this increase was the fact that there were many initiatives for the debtors requiring caution in the crisis response loans. Since 80% of

the crisis response loans are secured by Japan Finance Corporation's credit insurance underwriting, the risk of a large increase in credit costs due to a downward shift in the debtor classification with respect to these loans has been reduced. Although the credit costs could put pressure on earnings if the control of the COVID-19 pandemic is delayed, JCR sees that the Bank’s capital is at a level that does not cause any problem to risks, given the consolidated common equity Tier 1 ratio standing at around 11.5% as of the end of September 2020.

Kenji Sumitani, Akira Minamisawa

Rating

Issuer: The Shoko Chukin Bank, Ltd.

<Outlook Change>

Long-term Issuer Rating: AA+ Outlook: Stable

Rating Assignment Date: February 22, 2021

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" (November 7, 2014), "FILP Agencies, etc." (May 29, 2020) and "Banks" (May 8, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

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

Issuer:	The Shoko Chukin Bank ,Ltd.
Rating Publication Date:	February 25, 2021

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. If the credit rating is a private rating, please see the report for private rating.

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. If the credit rating is a private rating, please see the report for private rating.

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 warranty made by the issuer, the publication by the issuer, 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.
- If the credit ratings is an Indication, please see the report for Indication.

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 public or private 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.

E) 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.

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The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	April 13, 2007	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	June 17, 2008	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	September 29, 2009	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	October 21, 2010	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	November 9, 2011	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	November 28, 2012	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	November 28, 2013	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	December 18, 2014	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	March 4, 2016	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	July 15, 2016	AA+	Negative
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	February 6, 2017	AA+	Negative
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	February 9, 2018	AA+	Negative
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	February 20, 2019	AA+	Negative
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	February 17, 2020	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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