

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
Bonds (Tier 2 with loss absorption clause): AA
Bonds (Tier 1 with loss absorption clause): A+

Rationale

- (1) The Shoko Chukin Bank, Ltd. (the “Bank”) is a special company in which the central government and other parties including small- and medium-sized enterprise cooperatives respectively hold 46% and 54% stake as at the end of September 2024. The Shoko Chukin Bank Limited Act revised in June 2023 provides that all of the Bank’s shares held by the government shall be disposed by June 2025. For the Bank’s issuer rating, JCR takes into account the possibility of extraordinary government support, in addition to the Bank’s stand-alone creditworthiness, which JCR deems to be equivalent to the rating of AA- in light of the solid business base, decent earnings capacity, capital adequacy relative to risks and so forth. With respect to the rating upgrade in consideration of government support following the share disposal, JCR concludes that, given potential political support premised on the provision of crisis response reserves, an upgrade by one notch is appropriate and retains the Negative outlook, taking into account the possibility of changing the issuer rating to AA. For the general competitive bidding related to the share disposal, the rates of successful bid remained low until the second time, and bids are being invited for the third time at the moment. JCR intends to reassess the rating in the phase where completion of the share disposal can be expected; therefore, will watch the progress in the share acquisition procedure.
- (2) The Bank’s fundamental earning capacity is relatively high. ROA based on core net business income is relatively good in comparison with that of the regional financial institutions, remaining in the upper 0.4% range for the first half of the fiscal year ended March 2025 (FY2024). Core net business income for the first half of FY2024 rose 14% from a year before. The pace of increasing interest revenue has been accelerating in response to rising interest rates. Moreover, non-interest revenue is growing because of an increase in derivative-related transactions capturing needs of hedging exchange rates risk and other factors. Increases in the funding costs and personnel expenses, and system-related expenses are expected to be the factors placing downward pressure on profits, but JCR views that core net business income will remain steady in light of the facts that the Bank is offsetting repayment of crisis response loans by loans not guaranteed by credit guarantee corporations, lucrative structured finance transactions that have constantly been building up and realization of the effects of revenue growth from loans linking with market interest rates.
- (3) Certain soundness has been maintained for the loan assets. In addition to debtor classification based on conservative judgement, the outstanding balance of loans to borrowers requiring caution is relatively large due to the Bank’s public nature to provide support to SMEs. Credit costs relative to core net business income have become larger, around 40 to 50%, last few years. The impact of forward-looking provisioning largely influenced the situation, but since FY2022, the amount of allowance for bad debts for respective customers have increased due to the number of borrowers reclassified into lower categories. Although the credit cost may hover high in response to changes in the external environment including progress in inflation and rising interest rate, JCR views that this cost will remain within the manageable range against the core net business income given, among others, that borrowers are mostly SMEs and that the loan portfolio is diversified into small amounts. On the other hand, the Bank’s risk exposure for securities investment has been curbed. The Bank’s holdings of securities relative to the total assets is small, 10% relative to the total assets, and both interest rate and price fluctuation risks are being held down against the capital.

- (4) Capital adequacy remains at a level commensurate with AA categories. Adjusted Tier 1 ratio deducted accumulated other comprehensive income, etc. is relatively high, standing at around 11.5% as at the end of September 2024. The Bank expects to purchase own stocks in response to the disposal of shares held by the central government. Where it is materialized, the said ratio appears to decline. That said, given the effectiveness of recovery scenarios such as accumulation of retained earnings and controlling risk-weighted assets, and raising capital (AT1 Bonds), JCR views that the feasibility of restoring the capital adequacy commensurate with AA categories in around three years is reasonably high.

Tomohiro Miyao, Akira Minamisawa

Rating

Issuer: The Shoko Chukin Bank, Ltd.

<Affirmation>

Long-term Issuer Rating: AA+ Outlook: Negative

Issue	Amount (bn)	Issue Date	Due Date	Coupon	Rating
Callable Bonds no. 5* (Tier 2 with loss absorption clause) (sustainability bonds)	JPY 10	Feb. 21, 2023	Feb. 21, 2033	(Note 1)	AA
Bonds no. 2 (Tier 1 with loss absorption clause)	JPY 20	Feb. 29, 2024	No Maturity	(Note 2)	A+

* For qualified institutional investor only, private placement

Notes:

1. 1.45% until and including February 21, 2028. 6M Yen TIBOR + 0.81% after that date.
2. 2.162% until and including May 9, 2029. 6M Yen TIBOR + 1.492% after that date.

Rating Assignment Date: April 18, 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), "FILP Agencies, etc." (May 29, 2020), "Banks" (October 1, 2021) and "Rating Methodology for Financial Institutions' Capital and TLAC Instruments" (April 27, 2017) 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.

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

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)



INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

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

Issuer:	The Shoko Chukin Bank ,Ltd.
Rating Publication Date:	April 23, 2025

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 Rule 17g-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 received 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.

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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) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

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 order of seniority in repayment of interests and principal. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches if the issuer's financial structure differs so much and thereby the balance between debts shifted so greatly. Rating change is also possible in case of the financial products for which non-payment of interest/ principal is contractually permissible, if and when the assumptions made at the time of its determination turns out to be inaccurate. The change of the credit rating is assumed to be by a notch but often as much as a few notches.

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, 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
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	February 25, 2021	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	March 18, 2022	AA+	Stable
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	June 26, 2023	AA+	Negative
The Shoko Chukin Bank, Ltd.	Issuer(Long-term)	April 25, 2024	AA+	Negative
The Shoko Chukin Bank, Ltd.	Bonds no.5(subordinated)	February 15, 2023	AA	
The Shoko Chukin Bank, Ltd.	Bonds no.5(subordinated)	June 26, 2023	AA	
The Shoko Chukin Bank, Ltd.	Bonds no.5(subordinated)	April 25, 2024	AA	
The Shoko Chukin Bank, Ltd.	Bonds	February 22, 2024	A+	
The Shoko Chukin Bank, Ltd.	Bonds	April 25, 2024	A+	

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

I, Tomohiro Miyao, 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.

宮尾 知浩

Tomohiro Miyao

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