

Sumitomo Mitsui Financial Group (8316 JP)

FUNDAMENTAL VIEW ¹

As of 26 Feb 2024

- SMFG has had a relatively good record of managing risk and returns. It is has the highest headline CET1 ratio amongst the three megabanks, although it has been reduced by acquisitions, which have been used to bulk up its presence in aircraft leasing, capital markets, Southeast Asia, and India.
- The profitability of SMFG, just about the second largest Japanese megabank, was affected by poor results from its non-SMBC subsidiaries in FY22. However, the non-SMBC subsidiaries appear to have turned a corner since 3Q22, while SMBC had a better 3Q23 after a more challenging 1H23.
- Given its size and systemic importance, SMFG is considered too big to fail, and will be supported by the Japanese government if needed.

RISKS & CATALYSTS

As of 26 Feb 2024

- Asset quality has been good in recent years, but COVID-19 caused a big jump in credit costs, particularly in the leasing business and SME segment. Overall credit costs dropped in FY21 and improved in FY22 except at its consumer businesses. In 9M23 bank level credit costs are good but worse at the card and personal unsecured loans units.
- SMFG has taken stakes in FE Credit (49%) and VP Bank (15%) in Vietnam, Fullerton in India (74%) and RCBC in the Philippines (20%), which we see as a sensible buildup of exposure to emerging growth areas. It supported SMBC Aviation in its acquisition of Goshawk, and is increasing its 4.5% stake in Jefferies to 15% as an expansion of its strategic alliance with the US firm for M&A/ECM/DCM opportunities. However, FE Credit is not doing well and will probably need a few years to restructure following large losses.
- In FY23, international loan growth has been a struggle, and SMFG has been overtaken by MUFG on international margins.

CREDIT QUALITY SCORE (CQS)²

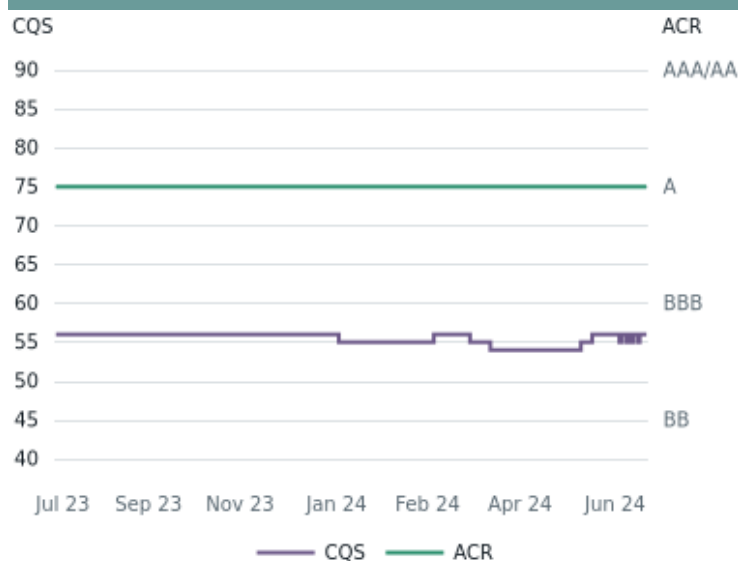
As of 21 Jun 2024

CURRENT CQS

56

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS

KEY METRICS

As of 26 Feb 2024

¥ BN	FY19	FY20	FY21	FY22	9M23
Net Interest Revenue/Average Assets	0.65%	0.60%	0.64%	0.68%	0.68%
Operating Income/Average Assets	1.37%	1.27%	1.23%	1.26%	1.38%
Operating Expense/Operating Income	63%	62%	62%	61%	60%
Pre-Impairment Operating Profit / Average Assets	0.54%	0.49%	0.48%	0.51%	0.61%
Impairment charge/Average Loans	(0.21%)	(0.43%)	(0.31%)	(0.22%)	(0.18%)
ROAA	0.35%	0.23%	0.30%	0.32%	0.40%
ROAE	6.5%	4.5%	5.9%	6.5%	8.0%
CET1 excl Unrealised Securities Gains in AOCI	13.3%	12.8%	12.1%	n/m	n/m

BUSINESS DESCRIPTION

As of 26 Feb 2024

- The core unit of SMFG is Sumitomo-Mitsui Banking Corp (SMBC), whose main predecessors were Sumitomo Bank and Mitsui Bank.
- SMFG does not have a large trust business as Sumitomo Trust and Chuo Mitsui Trust chose not to join SMFG, but merged with each other to form the separate Sumitomo Mitsui Trust Holdings.
- SMFG's group companies include the securities firm SMBC Nikko, SMBC Trust Bank, SMBC Card Company, SMBC Consumer Finance, Sumitomo Mitsui Finance and Leasing, SMFG India Credit Company (SMICC) Sumitomo Mitsui DS Asset Management, and SMBC Aviation Capital.
- It has been acquisitive over the years, particularly in higher margin leasing assets. In 2021, the group took a 49% stake in Vietnam's FE Credit, 74.9% of Indian NBFI Fullerton Capital (now called SMICC), 4.99% of Philippines' RCBC, and 4.5% of US investment bank Jefferies. In 2022, it increased its stake in RCBC to 20%. In 2023, it acquired a 15% stake in Vietnam's VP Bank, and announced its intention to increase its stake in Jefferies from 4.5% to 15%.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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