Sumitomo Mitsui Financial Group (8316 JP)

FUNDAMENTAL VIEW [1]

As of 12 Jun 2025

- After reorganising and building up capital for the full impact of Basel 3, SMFG has in the past few years been acquisitive to build its next phase of growth, and now has a lower capital buffer than Mizuho.
- It has a strong retail, mid and large corporate franchise in Japan, but its securities arm SMBC Nikko punches below weight.
- 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 12 Jun 2025

- Similar to the other megabanks, SMFG aims to focus more on the US, and reduce low return RWAs in Europe and Asia ex-Japan.
- SMFG has taken stakes in FE Credit (49%) and VP Bank (15%) in Vietnam, Fullerton in India (100%, now renamed SMICC), RCBC in the Philippines (20%), and is acquiring 20% of India's Yes Bank, to increase its exposure to emerging growth areas. It had previously acquired a bank (Danamon) and auto NBFIs in Indonesia. However, FE Credit faced losses in 2022/23 as a result of the Vietnam slowdown in 2022, leading to JPY 135 bn of goodwill impairments in FY24. RoE on these investments has been poor.
- It increased its 4.5% stake in Jefferies to 15%, to develop revenue opportunities for SMBC Nikko. Further investments in SMBC Nikko will be required.
- Credit costs have seen volatility, but it has the lowest NPL ratio amongst the megabanks.
- Its CET1 ratio is the lowest amongst peers, and it has been tapped by the rating agencies to increase its CET1 ratio buffer.

CREDIT QUALITY SCORE (CQS) [2]

As of 29 Aug 2025

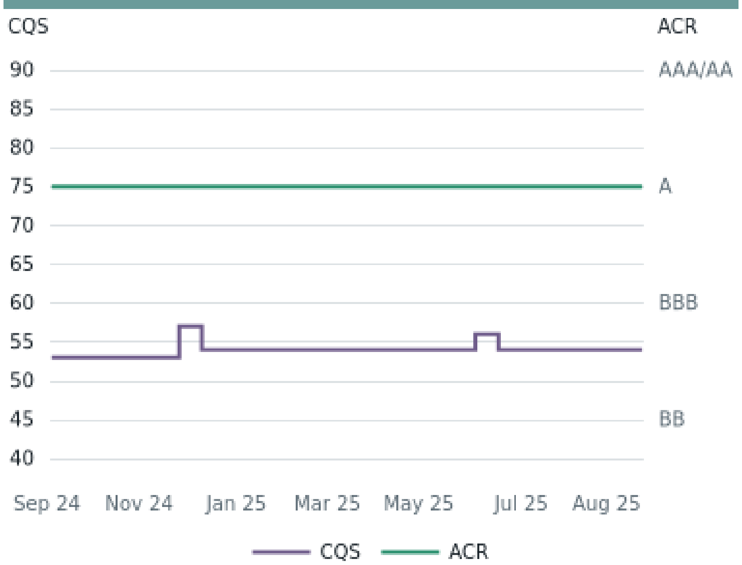
CURRENT CQS

54

CQS OUTLOOK [3]

NEGATIVE | **STABLE** | POSITIVE

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



KEY METRICS

As of 12 Jun 2025

JPY BN	FY20	FY21	FY22	FY23	FY24
Net Interest Revenue/Average Assets	0.60%	0.64%	0.68%	0.70%	0.80%
Operating Income/Average Assets	1.27%	1.23%	1.26%	1.39%	1.41%
Operating Expense/Operating Income	62%	62%	61%	60%	58%
Pre-Impairment Operating Profit / Average Assets	0.49%	0.48%	0.51%	0.58%	0.59%
Impairment charge/Average Loans	(0.43%)	(0.31%)	(0.22%)	(0.27%)	(0.32%)
ROAA	0.23%	0.30%	0.32%	0.36%	0.40%
ROAE	4.5%	5.9%	6.5%	7.0%	8.0%

BUSINESS DESCRIPTION

As of 12 Jun 2025

- 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 emerging Asia and 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 said it would increase its stake in Jefferies from 4.5% to 15%, and in 2024 took its stake in SMICC to 100%. In 2025 it announced it would take a 20% stake in India's Yes Bank.

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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