

Administrative Action Against SMBC Nikko Securities— Limited Impact on Ratings, but JCR Will Watch New Internal Control System and Impact on Business Performance

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the administrative action issued today against SMBC Nikko Securities Inc. (security code: -)

- (1) SMBC Nikko Securities Inc. (the "Company") received a business improvement order from the Financial Services Agency today in connection with a case of market manipulation in transactions of block offering, inadequate business operation system, inadequate trade examination system, and violation of the firewall regulations between banks and securities companies. The order was severe, including clarification of management responsibility in light of the market manipulation incident and three-month business suspension for block offering transactions in addition to the formulation of a business improvement plan.
- (2) JCR assigns the same level of rating to the Company as that of the SMBC Group's creditworthiness based on the strength of its integration with the Group, that is: (i) the Company's strategic importance to the Group and (ii) ties with the Group in terms of capital, personnel affairs, business operations and financing. The amount of decrease in the Company's earnings due to this incident is estimated to have reached 20 billion yen approximately from the fiscal year ended March 2022 to the first quarter of the fiscal year ending March 2023, and there is a possibility that the incident will continue to put a downward pressure on its earnings for the time being. However, JCR believes that the impact on the Group's creditworthiness will be small, as the impact on the Group's earnings is small. As there has been no change in the strategic importance of the Company to the Group, in addition, JCR believes that there is little need to change the Company's rating and view on the rating.
- (3) The market manipulation case and the violation of the firewall regulations between banks and securities companies, subject to administrative action, were the result of serious governance problems. Since the arrest of the Company's officers and employees on suspicion of market manipulation in March 2022, institutional investors have suspended their orders to the Company to buy and sell stocks and bonds. This has resulted in a decline in revenues. If this problem becomes more serious and its effects are prolonged, there will be not only a delay in the recovery of revenues, but the Company's client base may be damaged. Although the Company is focusing its efforts on taking bank customers, particularly large wealthy individuals, as well as investment banking business such as M&A, PO/IPO, under the collaboration between banks and securities companies, administrative action may affect the nature of the collaboration. JCR will closely monitor the Company's business improvement plan, particularly the new governance and compliance framework and its effectiveness, and will follow moves by institutional investors to resume transactions and the impact of the future collaboration between banks and securities companies on the Company's profit and loss.

Kengo Sakaguchi, Akira Minamisawa

<Reference>

Issuer: SMBC Nikko Securities Inc.

Long-term Issuer Rating: AA Outlook: Stable



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