

JCR's Rating Review of Megabank Groups

JCR has reviewed the ratings of bank holding companies and core companies of Japan's megabank groups (Mitsubishi UFJ Financial Group, Mizuho Financial Group and SMBC Group). The rating viewpoints in this review are as follows. Please refer to the news releases dated today (25-D-1106, 25-D-1107, and 25-D-1108) concerning the reasons for the ratings of individual companies.

Rating Viewpoints

- (1) JCR has affirmed all issuer ratings on the bank holding companies and core companies of the megabank groups with Stable outlook. High capital levels are maintained under disciplined capital policies, and their earnings capacities, which had been suppressed in the ultra-low interest rate environment, are improving. Furthermore, their business foundations are being further strengthened through strategic capital utilization and investment in expenses. While attention is needed regarding uncertainties in the global economy, JCR believes that robust profit trends and high financial soundness will be maintained.
- (2) Their business foundations are exceptionally robust. The groups possess entities with strong presence across a broad range of areas centered on banking, trust, and securities, boasting extremely thick customer base both corporate and individual customers in Japan. While competition for acquiring retail deposits, including that from other business sectors, is intensifying amid changing interest rate environments, the megabank groups will be able to maintain high competitiveness through strengths in the well-developed channels in both real and digital domains and the provision of comprehensive financial services. Overseas, the megabank groups engage in businesses that cannot be handled by other Japanese banking groups, such as global CIB business, which provides comprehensive financial solutions to large companies through collaboration between banks and securities, and other operations. While performance in Asia business, one of its key focus areas, has been sluggish, strategies for medium-to-long-term profit growth, including investments in local financial institutions, are progressing. JCR believes that their business foundations will be further expanded, as they have sufficient capacity for growth investments backed by improved periodic income and strengthened capital base.
- (3) Their earnings capacities have well improved. Efforts undertaken under the previous ultra-low interest rate environment, such as strengthening non-interest businesses and overseas operations, and improving profits from investments and loans, are yielding results, and profit levels are rising even excluding external factors like yen depreciation and rising interest rates. While expenses are increasing due to inflation, regulatory compliance, and expanded investments in human resources and IT, the overhead ratio (OHR) remains controlled below a certain level. In addition to widening earnings opportunities, such as increasing corporate activities by large companies, since they conduct conservative balance sheet management anticipating future interest rate hikes, there is a room to improve ROA in line with interest rate trends. They are also taking measures contributing to future profit improvement, such as asset replacements involving temporary losses, utilizing increased earnings, including large gains from the sale of strategic shareholdings.
- (4) Their asset quality is sound. The non-performing loans ratio under the Financial Reconstruction Act of the megabank groups on a consolidated basis is low at around 1%. Large and mid-sized companies constitute the primary customer base in Japan, while highly rated borrowers account for a large proportion of overseas lending. Although they also engage in relatively high risk lending such as LBO financing in focusing on improving profitability of lending, JCR views that even if credit costs were to increase, they can be fully absorbable by the periodic income, given disciplined management policies including diversification of the credit portfolio. Market risk is managed at an acceptable level, and substantial unrealized gains, primarily those of strategic shareholdings, serve as a risk buffer.
- (5) Capital adequacy is high. Adjusted Tier 1 capital ratio, on which JCR places importance, is maintained at a level appropriate for the AA range rating. Under the risk appetite framework (RAF), which emphasizes balance among risk, return, and capital, megabank groups are promoting the use of capital, including shareholder returns and growth investments, while focusing on soundness. There are no particular problems with fund liquidity. The procurement base for yen deposits is robust, and

they do not have an unstable fundraising structure where financing of long-term investment is dependent on short-term financing from market.

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<Reference>

Issuer: Mitsubishi UFJ Financial Group, Inc.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: MUFG Bank, Ltd.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Mitsubishi UFJ Trust and Banking Corporation

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Mizuho Financial Group, Inc.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Mizuho Bank, Ltd.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Mizuho Trust & Banking Co., Ltd.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Sumitomo Mitsui Financial Group, Inc.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Sumitomo Mitsui Banking Corporation

Long-term Issuer Rating: AA Outlook: Stable

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