

Sumitomo Mitsui Financial Group

Issuer View • 19 October 2022

Authors: Melanie Kiene // Dr Frederik Kunze

The Sumitomo Mitsui Banking Corporation (SMBC) is a globally active universal bank that is headquartered in Tokyo. It is one of the biggest institutes in Japan. With the creation of the holding company, Sumitomo Mitsui Financial Group (SMFG), and the transfer of shares from SMBC to SMFG, SMBC became a wholly owned subsidiary of SMFG. SMFG is one of the 30 global systemically important banks (G-SIBs, additional capital buffer 1.0%). In terms of geographical allocation, 66% of the loan portfolio is attributable to the domestic market (FY 2022). In Japan, the bank has more than 454 branches and serves around 27 million retail customers. Customers are offered financial products and services in the banking sector as well as services in the areas of leasing, securities, credit cards and consumer finance. These services are partly provided through the global network of more than 80 subsidiaries in over 40 countries. The Group reports in the following business segments: Retail, Wholesale, Global, Global Markets and Head Office Account and Other. SMBC has been issuing green bonds to support its sustainability obligations as part of its green bond framework since 2015. As at March 2021, the volume of green bonds issued amounts converted to around EUR 1.7bn. SMFG's TLAC ratio of 24.98% (FY 2022) already exceeds the regulatory requirement for 2022 (21.05%). The Group's NPL ratio increased by 10 basis points to 1.08% (0.77% SMBC) in FY 2022 and stood at 0.92% in Q1 2023. The CET1 ratio was 14.45% (FY 2022; fully loaded) and 14.05% as at 30 June 2022, respectively. The bank's financial year ends on 31 March each year.

Ratings

	Rating	Outlook
Fitch	A	Negative
Moody's	A1	Stable
S&P	A-	Stable

Homepage

www.smbc.co.jp

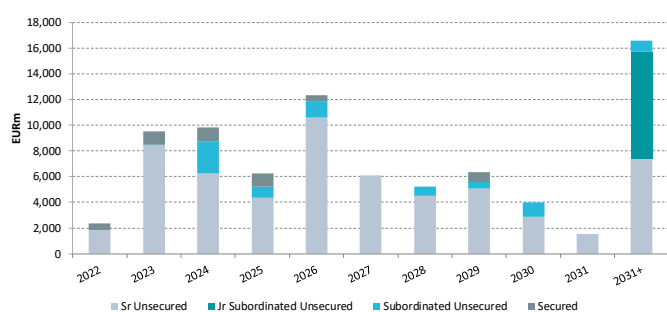
Balance Sheet

(EURm)	2020Y	2021Y	2022Y
Net Loans to Customers	693,806	650,744	667,298
Total Securities	456,050	477,665	482,889
Total Deposits	1,160,505	1,190,937	1,198,363
Tier 1 Common Capital	81,030	81,370	77,529
Total Assets	1,859,406	1,868,750	1,910,385
Total Risk-weighted Assets	520,949	508,493	536,337

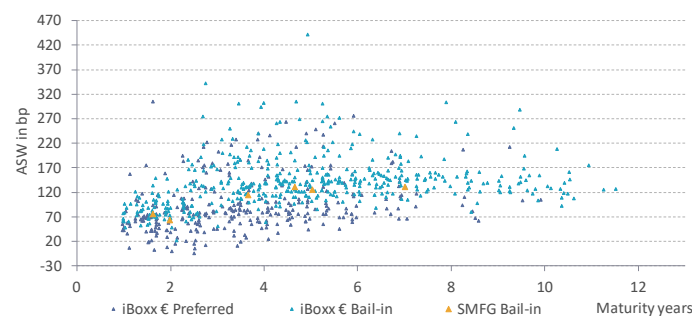
Income Statement

(EURm)	2020Y	2021Y	2022Y
Net Interest Income	10,819	10,803	11,708
Net Fee & Commission Inc.	9,007	8,891	9,237
Net Trading Income	2,176	1,615	775
Operating Expense	14,401	14,135	13,954
Credit Commit. Impairment	1,413	2,917	2,102
Pre-tax Profit	7,356	5,439	7,123

Redemption Profile



Senior Unsecured Bonds (EUR BMK)



Company Ratios

	2020Y	2021Y	2022Y	2020Y	2021Y	2022Y	
Net Interest Margin	1.02	0.93	0.98	Liquidity Coverage Ratio	125.68	140.14	141.77
ROAE	6.42	4.57	5.87	IFRS Tier 1 Leverage Ratio	4.46	4.43	4.12
Cost-to-Income	61.20	61.98	58.07	NPL/ Loans at Amortised Cost	0.79	1.14	1.29
Core Tier 1 Ratio	15.55	16.00	14.46	Reserves/Loans at Amort. Cost	0.58	0.77	0.90

As of: 19.10.2022; Source: Bloomberg, S&P Global Market Intelligence, NORD/LB Markets Strategy & Floor Research

Strengths / Opportunities

- Market position in Japan
- Liquidity situation
- Probability of state support

Risks / Weaknesses

- Inorganic growth
- Need for foreign currency funding
- Profitability (peer to peer)

Covered Bonds

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SMBC has been issuing covered bonds in EUR benchmark format since October 2018

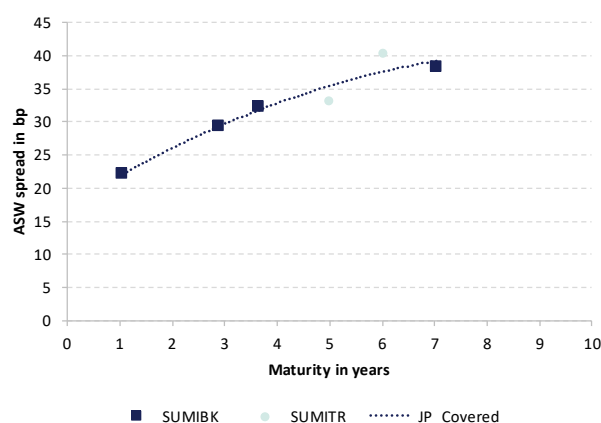
SMBC's covered bond programme is based on a contractual framework and not on covered bond legislation, as this does not yet exist in Japan. The cover pool of the programme, from which the Issuer has already been issuing covered bonds in the EUR benchmark format since October 2018, is primarily composed of residential mortgage-backed securities (RMBS) rated "Aaa". The RMBS must meet certain requirements at the time of transfer to the cover pool. The RMBS must be SMBC's own issues based on a JPY-denominated loan issued by SMBC or fully guaranteed by a subsidiary of SMBC. In addition, they must be "Aaa" rated senior tranches. Cash and "Aa" rated RMBS are also eligible as cover assets, the latter being subject to a 20% haircut. Furthermore, Japanese government bonds can be used as substitute cover for up to 10% of the cover pool. SMBC is represented by four EUR benchmarks in the iBoxx EUR Covered composition for October 2022.

Programme data

15 August 2022	Mortgage (RMBS)
Covered bonds outstanding	JPY 644.1bn (appr. EUR 4.7bn)
Cover pool volume	JPY 900.7bn (appr. EUR 6.6bn)
Current OC (nominal / committed)	39.8% / 25.0%
Type	100% Residential
Country	100% Japan
Number of borrowers	42,059
Share of 10 largest Exposures	0.2%
NPL	0.0%
Average loan size	JPY 24,043,837 (appr. EUR 175,900)
LTV (unindexed / indexed)	83.9% / 72.7%
WAL (Cover Pool / CBs)	29.0y / 2.9y
CB Rating (Fitch / Moody's / S&P)	- / Aaa / -

Source: Issuer, rating agencies, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview (BMK) – Japan



Cover assets: Total cover assets amount to JPY 901bn

In its latest investor report, SMBC shows "Total Cover Assets" with a volume of JPY 901bn. Due to the RMBS focus, the primary cover assets are exclusively residential assets. With regard to the substitute cover assets (JPY 50bn), there is an almost equal distribution between the positions "Cash" and "Japanese Government Bonds (JGB)". The granularity of the pool is reflected in the number of loans (42,059), the average loan size (JPY 24.043 million) and the share of the ten largest exposures (0.2%). In terms of geographical distribution, the focus is on Tokyo (44.0%), followed by Osaka (15.4%), Kanagawa (15.3%) and Hyogo (11.5%). The pool does not contain any non-performing loans. All residential cover assets belong to the "owner/family occupied" category.

Regulatory and rating

The rating agency Moody's gives the issuer's covered bonds the top rating of "Aaa". The agency also indicates the Timely Payment Indicator (TPI) and TPI Leeway as "Probable" and "2", respectively. A risk weight of 20% applies to the covered bonds in accordance with the CRR. In our understanding, the EUR benchmarks are not suitable as eligible assets in the context of the LCR, also due to the fact that covered bond legislation does not yet exist in Japan, and do not count as eligible assets in the context of the ECB collateral framework.

Appendix

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