24-D-1026
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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 (24-D-1027, 24-D-1028, and 24-D-1029) concerning the reasons for the ratings of individual companies.

Rating Viewpoints

(1) JCR has affirmed all issuer ratings of the bank holding companies and core companies of the megabank groups with Stable outlook. The groups' creditworthiness is supported by the facts that a certain level of net income is expected to be secured on a stable basis, backed by the groups' overall strength and sound assets, and that a high level of capital is expected to be maintained under a disciplined capital policy.

(2) The business foundation of the megabank groups are extremely solid. With entities that have a strong presence in each of the fields such as banking, trust, and securities, they are able to meet the diverse needs of companies and individuals from multiple perspectives. They have a particularly large customer base in Japan, and JCR believes that their strength in having a huge customer base will be increasingly reflected in its earnings with the recent changes in the interest rate environment. Overseas, they are working to strengthen their global CIB business, which provides comprehensive financial solutions to large companies through collaboration with banks, securities companies, etc., and to strengthen their business in Asia, which has significant growth potential, and their business foundation is in the direction of being further expanded.

(3) The earnings have been strong. Their net business incomes before transfer to general allowance for loan losses for the fiscal year ended March 2024 have all reached record highs. Although the weak yen and rising overseas interest rates have provided a tailwind, the results can also be seen as a reflection of their efforts to strengthen non-interest businesses and overseas operations, and to improve management efficiency, in the face of the prolonged period of ultra-low interest rates in Japan. With an emphasis on improving capital efficiency, the megabank groups have become more conscious of the profitability of their investments and loans, and there has also been an improvement in profitability when measured against risk assets. JCR believes that the rise in domestic interest rates will have a positive effect on the earnings of the megabank groups, but the extent of this will depend on future interest rate trends and the balance sheet management of each group. In addition, the earnings of the megabank groups are also affected by exchange rates and overseas interest rates. JCR will reflect changes in the external environment and their impact on earnings in the assessments, based on actual results.

(4) Their asset quality remains sound. The non-performing loans ratio under the Financial Reconstruction Act of the megabank groups on a consolidated basis is low at around 1%. The financial position of large and mid-sized companies in Japan, which are the megabanks' main customers, has been improving over a long period of time, and the majority of overseas lending is to highly rated borrowers. Some caution is required with regard to the fact that each group has a certain amount of large-lot credit risk, as well as the risk of being affected by overseas economic fluctuations, but so far there have been no signs of significant costs being incurred. Market risks are also being managed at a level commensurate with management strength. In addition to flexible management in response to market conditions, their large valuation gains, centered on the strategic stock holdings, are a risk buffer.

(5) The capital of each group is sufficient as a buffer against risks, and the adjusted Tier 1 ratio, on which JCR places importance, is maintained at a level appropriate for the AA range. 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 issues with regard to liquidity of capital. Although the management of foreign currency liquidity is a challenge common to megabank groups, 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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