

Response to the Administrative Actions and Efforts to Prevent Recurrence

In response to the market manipulation cases in which former executive officers and employees of SMBC Nikko Securities (“SMBC Nikko”), a subsidiary of Sumitomo Mitsui Financial Group (“the Company”), violated Article 159, Paragraph 3 of the Financial Instruments and Exchange Act (i.e., illegal stabilization transactions) as well as the cases of exchanging non-public information between executives officers and employees of SMBC Nikko and with those of Sumitomo Mitsui Banking Corporation (“SMBC”), a subsidiary of the Company, and violated regulations on the firewall between banking and securities operations (violations of regulations on the firewall between banking and securities operations), the Board of Directors of the Company has been discussing on issues of business management system and improvement measures, among others. In November 2022, the Company, SMBC Nikko, and SMBC each formulated and announced the improvement plans to prevent a similar incident from occurring again. Since then, we have been working to strengthen our business management system and internal control system and foster a sound corporate culture through the steady implementation of measures based on the improvement plans.

May 31, 2023

Sumitomo Mitsui Financial Group

Table of contents

Progress of improvement plan (overall)	1
Progress of improvement plan for market manipulation cases (SMBC Nikko)	2
Progress of improvement plan for market manipulation cases (the Company)	4
Progress of improvement plan (violations of regulations on the firewall between banking and securities operations)	5
Reference Material	6

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Progress of Improvement Plan (overall)

November 2022 : Formulate an improvement plan

Present

Formulation and Establishment of a Framework to Prevent Recurrence

Implementation and Verification of Effectiveness

Dissemination and Establishment

Market manipulation cases	<p>1 Strengthen the Business Management System SMBC Nikko</p> <ul style="list-style-type: none"> Strengthen supervision of management execution Appoint a new outside director (scheduled) Implement compliance training for executives Prioritize the allocation of resources on "defense" Increase personnel in the second and third lines, and make IT investment of over ¥10 billion to strengthen internal control systems Strengthen expertise in the first and second lines of defense Promote to hire outside specialists Establish the Product and Service Council Discuss risks, issues and measures regarding products and services among the first and second lines of defense 	<p>2 Strengthen the Internal Control System</p> <ul style="list-style-type: none"> Improve the effectiveness of the Three Lines of Defense system(*) Formulate and implement a target operating model by utilizing external knowledge Reorganize compliance division Strengthen supervisory functions, and Clarify roles and responsibilities Establish the Fraudulent Trade Prevention Committee Strengthening the trade control system by discussing the risk of unfair trading among the first and second lines 	<p>3 Foster a Sound Corporate Culture</p> <ul style="list-style-type: none"> Formulate new corporate philosophy systems Restructure the existing philosophy systems to incorporate SMBC Group's "Five Values" Dialogue between management and employees Establish a forum for discussion on improvement measures, company direction, etc. (held at 271 locations in total)
	the Company	<ul style="list-style-type: none"> Increase involvement in SMBC Nikko Securities' executive personnel and resource allocation plan, and verify its sufficiency 	<p>Establish the Group Business Management Department Strengthen capabilities to deal with irregularities and scandals on a Group-wide basis</p>
Violation of regulations on the firewall between banking and securities operations	<p>4 Strengthen the Business Management System</p> <ul style="list-style-type: none"> Implement whistle-blowing training Reinforce the Company's Compliance Department structure 	<p>5 Strengthen the Customer Information Management System</p> <ul style="list-style-type: none"> Establish and enforce information management rules Enhance the post-event monitoring by utilizing artificial intelligence, etc. 	<p>6 Foster Awareness of Compliance</p> <ul style="list-style-type: none"> Establish a new rule for compliance training management and increase training opportunities

(*) SMBC Group's "Three Lines of Defense"

The Basel Committee on Banking Supervision's recommends "three lines of defense" as a framework for risk management and governance. Based on this framework, we have clarified the roles and responsibilities of the first line (Business Units), the second line (Risk Management and Compliance Departments) and the third line (Audit Department), and we are taking steps to achieve more effective and stronger risk management and compliance frameworks.

Progress of Improvement Plan for Market Manipulation Cases (SMBC Nikko)

Details of measures taken	Principal progress status items
(1) Strengthen the Business Management System	
Strengthen supervision of management execution	<ul style="list-style-type: none"> ● Bring in outside personnel as directors who have specialized knowledge of securities business and supervision so that the individual can oversee SMBC Nikko's business, principally in the fields of compliance, risk management and business management. ● Ensured more sophisticated collaboration between the Board of Directors and Audit and Supervisory Committee through expanding the scope of information gathering on business execution and reporting such information to the Board of Directors by the committee, as well as increasing staff to support the committee. ● Examine agenda setting and structure of the Board of Directors through the assessment of the effectiveness of the Board of Directors.
Implement compliance training for executives	<ul style="list-style-type: none"> ● Conducted compliance training for management for the purpose of understanding of the law which will serve as a base for improving risk awareness. ● Continually conduct surveys targeting general managers and employees to identify potential company-wide risks.
Prioritize the allocation of resources on "defense"	<ul style="list-style-type: none"> ● When formulating the medium-term management plan and business plan, formulated plans that allocate sufficient resources to the second and third line of defense. <ul style="list-style-type: none"> – When allocating human resources, prioritized allocation to the second and third line of defense on the premise that resource allocation can be reviewed flexibly during the period. – For IT investment, allocated over 10 billion yen under the medium-term management plan for projects for strengthening internal control system.
Strengthen expertise in the first and second lines of defense	<ul style="list-style-type: none"> ● Allocated human resources on each of the first and second lines of defense, management and supervision in each, to complement each other and strengthen check functions. <ul style="list-style-type: none"> – First line of defense: Global markets unit hired outside personnel well-versed in the equity business to engage in overall control jointly, strengthening mutually complementary check functions. – Management execution: continued having position specifically responsible for identifying potential risks.
Establish the Product and Service Council	<ul style="list-style-type: none"> ● Held consultations between the first and second lines of defense over risks, issues and response, strengthening management system for products and services.
(2) Strengthen the Internal Control System (including the system to prevent unfair trading)	
Improve the effectiveness of the Three Lines of Defense system	<ul style="list-style-type: none"> ● Created and implemented frameworks (Target Operating Model) for implementation of strategies that leverage outside knowledge. Finalized a concrete action plan for achieving our future vision, and move it into the implementation phase.
Reorganize compliance division	<ul style="list-style-type: none"> ● Reorganized Compliance Division (*1). Strengthened supervising functions and clarified roles and responsibilities.
Establish the Fraudulent Trade Prevention Committee	<ul style="list-style-type: none"> ● Used specific incidents to encourage first and second line of defense to discuss the risk of improper transactions in order to strengthen sales management system. Outside lawyers participated as observers.

Progress of Improvement Plan for Market Manipulation Cases (SMBC Nikko)

Details of measures taken	Principal progress status items
(3) Foster a Sound Corporate Culture that Values Compliance	
Formulate new corporate philosophy systems	<ul style="list-style-type: none"> ● Formulated new Corporate Philosophy Systems at SMBC Nikko (*2) that includes five new SMBC Nikko’s core values that encapsulate the group’s common Five Values, clearly defined and clarified the relationship and relative positioning of the Corporate Philosophy Systems at SMFG and those at SMBC Nikko. In addition to the perspective of the Five Values, added “Market integrity” which is a unique value that is important for securities companies to the Corporate Philosophy Systems.
Dialogue between management and employees	<ul style="list-style-type: none"> ● Repeatedly explained improvement plans and company direction to employees through branch visits (*3). <ul style="list-style-type: none"> – Completed briefings at all branches (held at 271 locations in total). Discussed participant’s opinions with members of the Management Committee and reflected those opinions into various policies.
Foster awareness of compliance	<ul style="list-style-type: none"> ● Formulated and implemented plans designed to encourage the understanding of risk culture in each division.
Review the personal evaluation	<ul style="list-style-type: none"> ● Introduced, from the perspective of compliance and risk management, occupational ethics/compliance evaluations that is common to all personnel courses, and conducted a review of the evaluation system for each course.

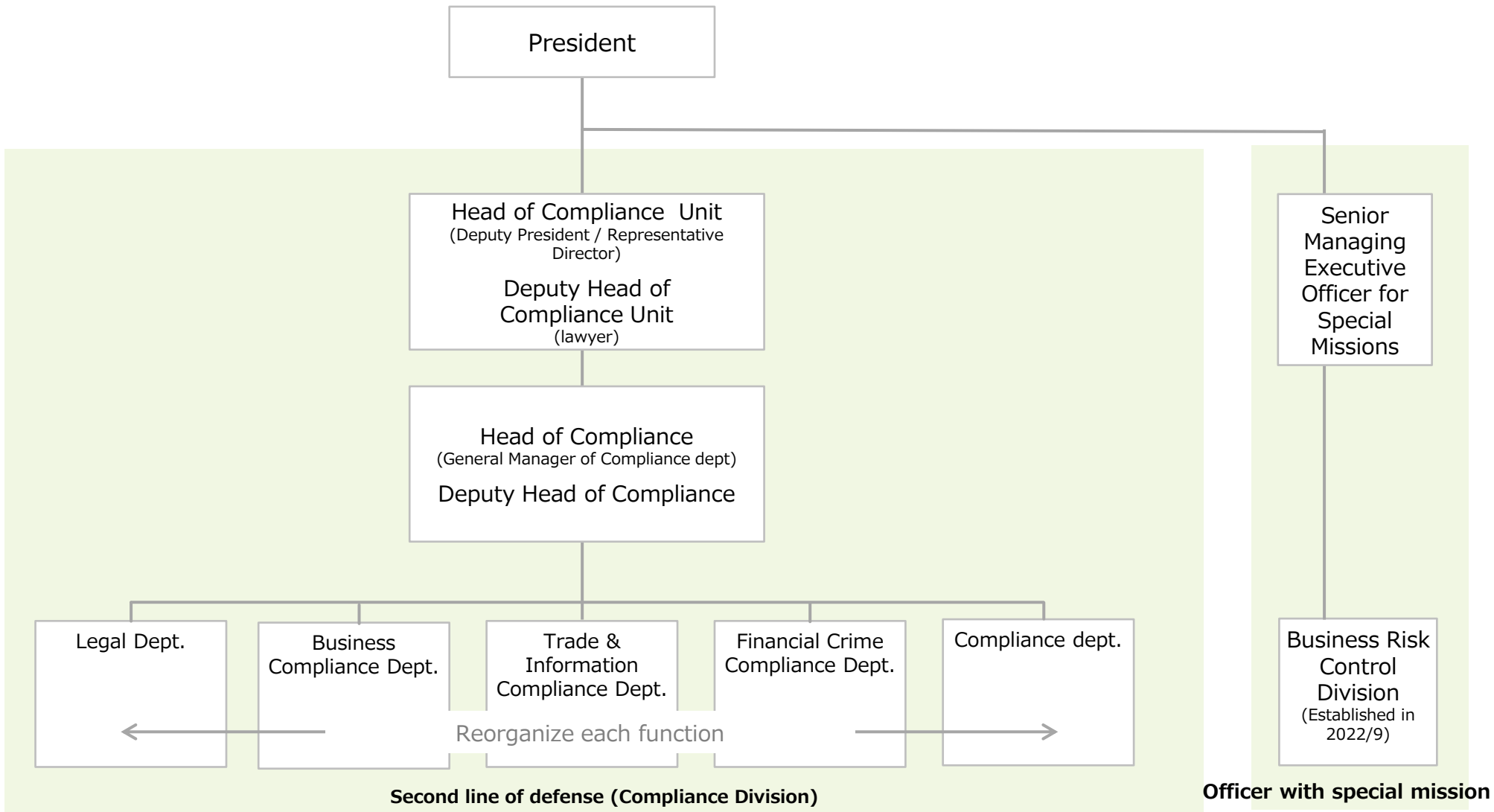
Progress of Improvement Plan for Market Manipulation Cases (the Company)

Details of measures taken	Principal progress status items
(1) Review the management system of products and services	
Follow-up on the revision of operations of proprietary trading at SMBC Nikko	<ul style="list-style-type: none"> ● Participated in discussions on the revision of operations of proprietary trading at SMBC Nikko. Conducted an internal audit on preventive measures.
Follow-up on strengthening of product governance at SMBC Nikko	<ul style="list-style-type: none"> ● Engaged in consultations with SMFG on policy and rule amendments connected to systems-building, and confirmed the details of those discussions. Continued follow up is in progress.
(2) Strengthen SMFG's involvement in human resources	
Follow-up on response to human resources issues at SMBC Nikko	<ul style="list-style-type: none"> ● Established systems to examine the appropriate appointment of executives after having SMBC Nikko check it when changing executives. ● Supported the introduction of a malus/clawback clause for SMBC Nikko's executive compensation plan.
(3) Reorganize the three lines of defense	
Confirm the sufficiency of personnel resources and system resource input	<ul style="list-style-type: none"> ● Not only the department in charge of SMBC Nikko's management and expenses, but also the second and third lines of defense followed up on plans formulated by SMBC Nikko on resource allocation.
(4) Establish a system for responding immediately to an emergency and strengthen SMFG involvement in emergencies	
Improve the contingency system	<ul style="list-style-type: none"> ● Established "Group Business Management Dept." within SMFG (*4). ● Strengthened emergency response by enhancing communication with the eight major subsidiaries including SMBC Nikko.
(5) Initiatives to promote the SMBC group's culture	
Re-disseminate the SMBC Group's core value	<ul style="list-style-type: none"> ● Established five new SMBC Nikko's core values that also encapsulate the group's common Five Values, reviewed the Corporate Philosophy Systems at SMBC, and clarified positioning of the systems. ● Delivered the CEO message at the SMBC Group annual general managers meeting and the SMBC Nikko Securities' general managers meeting.

Progress of Improvement Plan (Violation of regulations on the firewall between banking and securities operations)

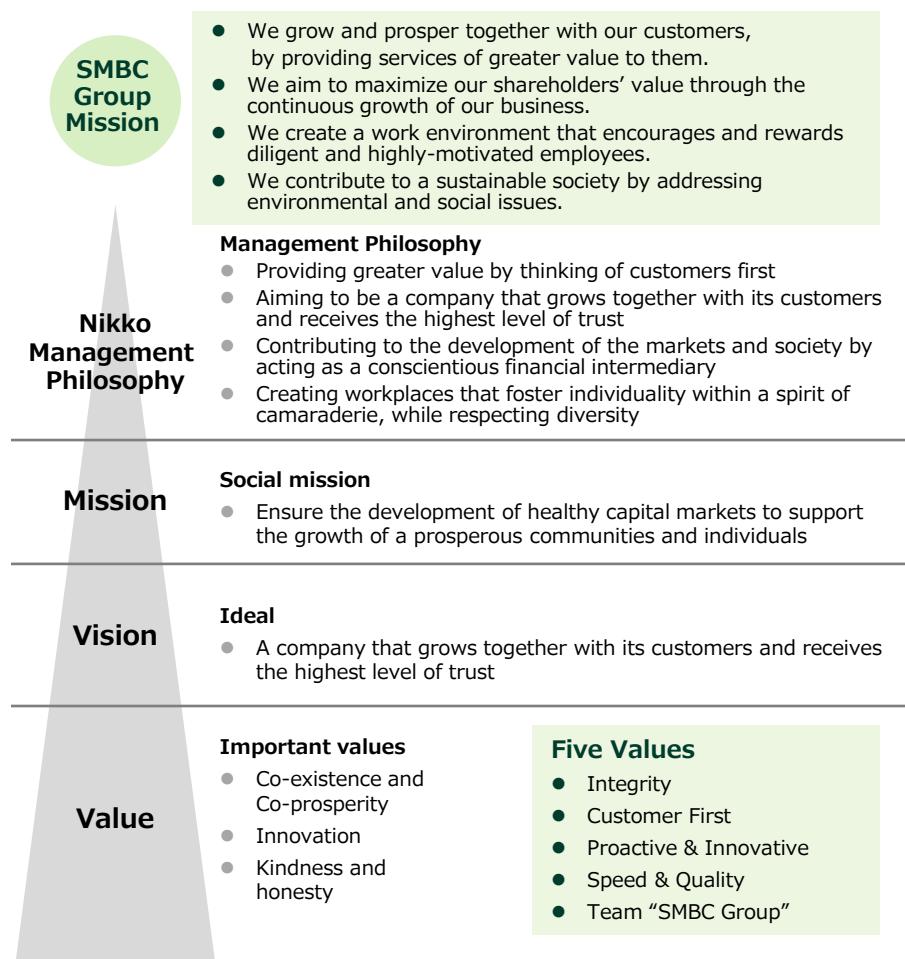
	Principal progress status items
(1) Strengthen the Business Management System	
SMBC Nikko	<ul style="list-style-type: none"> Conducted training for management by outside lawyers and other specialists. Formulated and implemented an action plan designed to encourage the understanding of a sound risk culture.
SMBC	<ul style="list-style-type: none"> Implemented training, conducted by outside lawyers, for the Management Committee member. Conducted training on whistle-blowing on SMBC group basis, and ensure all parties are thoroughly aware of the whistle-blowing system. Carried out personnel exchange between the Compliance Dept. and other business division.
the Company	<ul style="list-style-type: none"> Conducted compliance training lead by the CCO for other group companies. Examined the rationale for control measures on the basis of the results of the compliance risk assessment at SMBC Nikko. Placed individuals who is principally responsible for supervising securities business within the Compliance division at SMFG.
(2) Strengthen the Customer Information Management System	
SMBC Nikko	<ul style="list-style-type: none"> Began using RPA (Robotic Process Automation) to strengthen systems for monitoring call recordings. Amended the "banking-securities collaboration guidelines" to include specific examples, reflecting to the opinions collected through employees' surveys.
SMBC	<ul style="list-style-type: none"> Established and enforced rules on individual opt-outs and implemented monitoring with Artificial Intelligence.
the Company	<ul style="list-style-type: none"> Established a "Management Policy for compliance training seminars" on a group basis which includes regulations on processes for the compliance training cycle, and reporting the results of reviews and the progress of annual training plans to SMFG.
(3) Foster Awareness of Compliance Related to Customer Information Management	
SMBC Nikko	<ul style="list-style-type: none"> Amended the whistle-blowing guidelines to include an internal leniency system (systems for allowing for reduced company penalties for individuals who come forward to report improper activity in which they are involved).
SMBC	<ul style="list-style-type: none"> Conducted training on the firewall regulation for employees seconded to or returning from other organizations.
the Company	<ul style="list-style-type: none"> Began joint training for securities and banking using realistic content on improper incidents and infringements. Established a new "test to confirm knowledge of compliance" for SMFG from FY2023 onwards.

(*1) Reorganized Compliance Division at SMBC Nikko (2023/1)

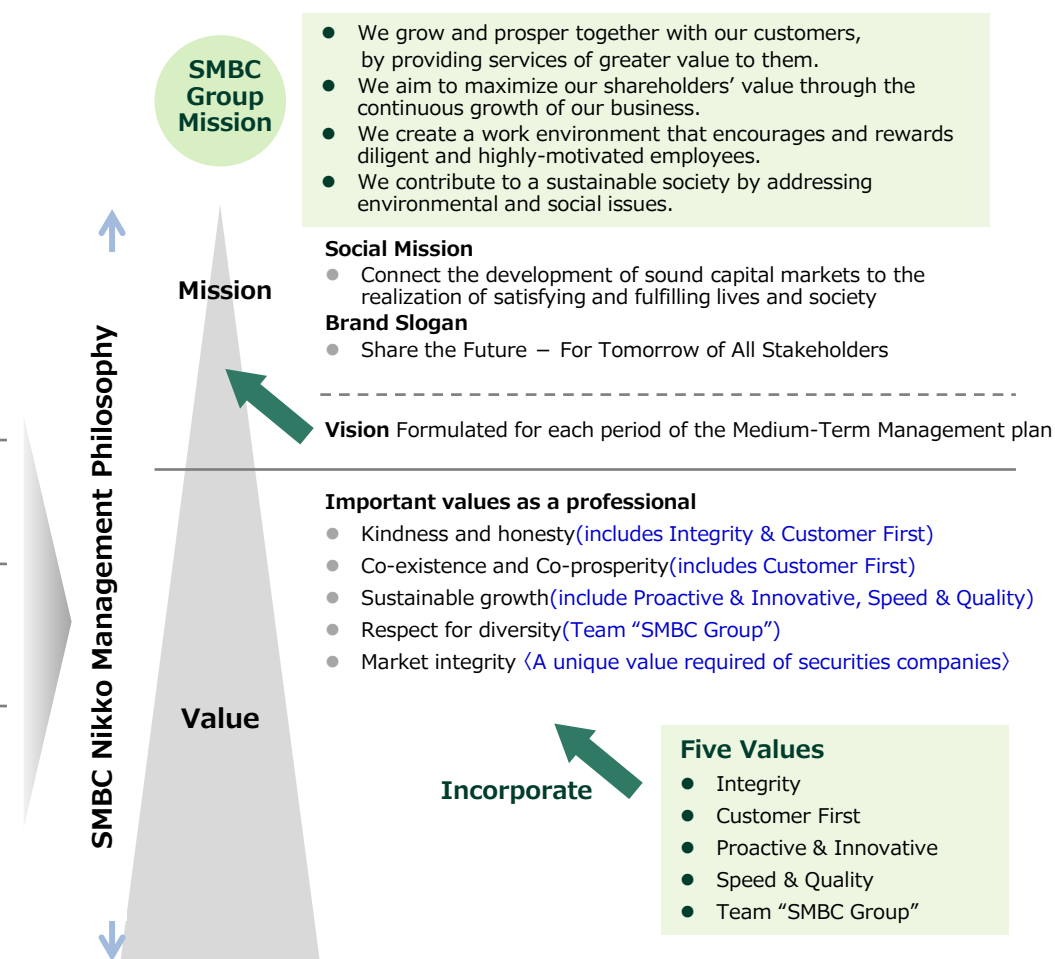


(*2) Formulated new Corporate Philosophy Systems at SMBC Nikko

Previous Corporate Philosophy Systems



New Corporate Philosophy Systems



(*3) Dialogue between the president of SMBC Nikko and employees



(*4) Established "Group Business Management Dept." within SMFG

