Roundtable Discussion on Risk Management

Building Resilience Through In-Depth Analysis of Uncertainty

Geopolitical risks are intensifying, cyber threats are becoming more advanced with highly sophisticated AI, and Japanese interest rates are rising. Amid this unprecedentedly complex and interconnected risk environment, the SMBC Group is working to achieve a high level of resilience. Charles D. Lake II, an outside director and chair of the Risk Committee, joined Group Chief Risk Officer (CRO) Natsuhiro Samejima and Group Chief Financial Officer (CFO) and Group Chief Strategy Officer (CSO) Kazuyuki Anchi to discuss SMBC Group's current governance framework and the challenges that lie ahead.

Charles D. Lake II
Outside Director
Chair of Risk Committee

Natsuhiro Samejima
Senior Managing Executive Officer
and Group CRO

Kazuyuki Anchi
Group CFO & Group CSO, Director
Senior Managing Executive Officer

Incorporating Risk into Management Strategy

Samejima: I feel that the nature of the risks we are currently facing is fundamentally different from before. These include the protracted instability in the Middle East, shifts in U.S. tariff policy, credit uncertainty in the private credit market, cyberattacks and technological risks arising from the use of highly sophisticated AI, as well as scenarios in which fading AI expectations lead to AI-related stocks decline. These risks are increasingly likely to materialize in a complex and interconnected way rather than emerging independently. Looking at Japan, the trend toward rising interest rates is intensifying competition for deposits and making balance sheet management more difficult.

Anchi: In formulating our new Medium-Term Management Plan, we spent more time than ever assessing the external environment and identifying risks. In addition, geopolitical risks in the Middle East materialized in the final stages of the process, so the new Medium-Term Management Plan effectively began under conditions of extremely high uncertainty. In that sense as well, it has become more important than ever to discuss how to incorporate risk into management strategy in order to achieve the targets set out in the plan.

Lake: To ensure an effective risk management framework, I see three key points that the Risk Committee should focus on. The first is setting the committee agenda strategically. For the Risk Committee, which is an internal committee of the Board of Directors, to truly contribute to deeper discussions of priority strategic areas at the Board level, it is essential to work closely with the operations side, and that includes working with Mr. Samejima, our Group CRO, to identify issues that are directly linked to management strategy. In 2025, in preparation for the new Medium-Term Management Plan, we focused our discussions on key areas such as recognition of external environmental risks, the Risk Appetite Framework, and basic policies for risk management. By supporting the formulation, execution, and review of the management strategy, these elements can make a meaningful contribution to integrated risk management. The second point is fully drawing on the insights of each committee member, based on their expertise and practical experience. In addition to Outside Director Isao Teshirogi, the Risk Committee includes external experts such as Tatsuo Yamasaki*[1] and Hirohide Yamaguchi*[2], who bring a wealth of knowledge and experience. It is important that members engage in substantive, real-time discussions about SMBC Group's risk environment, rather than formal or procedural exchanges. As chair, I make a conscious effort to build on members' comments by asking further questions, encouraging an active exchange of perspectives that leads to new insights and deeper discussion. The third point is the active participation and engagement of senior management in the Risk Committee. A framework in which management internalizes the Committee's discussions in real time and ties them directly to agile operations and to the Board's oversight function enables stronger responsiveness and effectiveness in governance amid rapid change.

Transitioning to a More Resilient Business Portfolio

Lake: In executing our management strategy, I believe one of the most important changes in the external environment is the structural shift in the interaction between geopolitics and the economy. Geopolitical risks are shifting significantly, with risks materializing on a much larger scale and at a far faster pace, while their impacts are becoming less predictable. This creates a particularly challenging environment. The Risk Committee has repeatedly emphasized the importance of looking beyond individual risk events to assess the [broader] world order and macroeconomic implications, as well as reviewing risk management as an integrated set along with strategy formulation.

Anchi: Rather than focusing only on surface-level developments, I have once again come to appreciate the importance of always questioning the underlying core of these changes.

Samejima: We have made it our highest priority to build resilience—the capacity to keep our business running under any circumstances responding to such environmental changes. Specifically, we identify top risks based on internal and external developments, map out the risk transmission pathways, and prepare countermeasures accordingly. We modeled a scenario where three risks— protracted Middle East conflict, disruptions in private credit markets, and fading AI expectations—materialize in combination and simulated their impact on financial soundness through stress testing. Based on the results, we are reviewing our operating policies and putting in place contingency plans for crisis situations. Another key area of focus is strengthening frontline risk ownership. Frontline teams are expected to detect early signs of a situation that differs from normal conditions and escalate them appropriately. We are also reinforcing a framework in which the first and second Line work closely together to determine which risks to take and which must be avoided.

Lake: In addition, it remains critically important to enhance early warning monitoring and strengthen our response when events occur. To achieve this, it is crucial to make full use of the Risk Committee, where members with deep expertise come together and engage in high-quality, real-time discussions centered on scenarios developed by the operations side. As SMBC Group continues to grow as a key player in the global financial and capital markets, we aim to further strengthen the Risk Committee functions to ensure a highly effective risk management framework that enables SMBC Group to maintain its agile management under a robust governance structure, even in a rapidly changing environment.

Anchi: In such a highly uncertain environment, I believe it is essential to proceed with two pillars: portfolio transformation and strengthened risk management. Risk management alone is not enough; we must fundamentally transform our portfolio into one that is resilient to risk. By steadily promoting these efforts over time, I am confident that we can ultimately demonstrate to our stakeholders both the stability of our performance and our ability to respond to and recover from crises.

**1 Tatsuo Yamasaki (Specially appointed professor at the International University of Health and Welfare, former Vice Minister of Finance for International Affairs)*
**2 Hirohide Yamaguchi (Chairman of the Advisory Board of Nikko Research Center, former Deputy Governor of the Bank of Japan)*

See page 62 for more information on the Risk Committee's activities.