Internal Audit

Basic Approach

To contribute to the continuous enhancement of SMBC Group's corporate value, SMBC Group's Internal Audit Unit, as the Third Line, assesses the effectiveness of internal controls from a position independent of (i) the First Line, comprising Head office functions and business units that own and manage risks, and (ii) the Second Line, comprising the functions that support and challenge the First Line from the perspectives of compliance, risk management, and other relevant areas.

Purpose of Internal Audit

The purpose of internal audit at SMBC Group is to enhance and preserve the Group's value by providing objective assurance, advice, insight, and foresight to management and the Board of Directors from a position independent of the First and Second Lines.

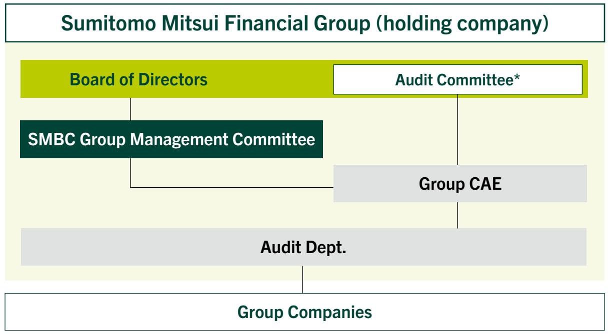
Internal Audit Framework

SMBC Group's Internal Audit Unit is established independently of the First and Second Lines. The Group CAE oversees internal audit activities across the Group.

The Company's Internal Audit Department conducts internal audits of the Company and its Group companies, in accordance with the "Group Internal Audit Charter" and the basic internal audit policy and plan approved by the Board of Directors and the Audit Committee. In addition, by continuously monitoring the internal audit activities of Group companies, we assess the appropriateness and effectiveness of the Group's internal control framework.

Major audit results are periodically reported to the Board of Directors, the Audit Committee, and the Group Management Committee.

Internal Audit Framework



** The Audit Committee has the right to consent to personnel changes involving the Group CAE.*

Basic Policy

Under the slogan "One Team, New Audit," SMBC Group's basic policy for internal audit under the new Medium-Term Management Plan is to conduct agile and advanced audits to support the Group's growth and contribute to establishing a management foundation that meets global standards. Through risk-based auditing aligned with SMBC Group's strategy and the utilization of AI and data analytics, we will conduct root cause analyses of audit findings, synthesize those findings, and provide objective assurance, advice, insight, and foresight.

Global meeting held under the slogan "One Team, New Audit," with internal auditors invited from overseas.

Internal Audit

Becoming a Trusted Advisor

To become a Trusted Advisor to the First and Second Lines, management, the Board of Directors, regulatory authorities, and other stakeholders, we are advancing initiatives to enhance our audit activities and audit foundation across the following four themes.

Agent of Change

Together with the First and Second Lines, we are advancing initiatives to establish a more effective Three Lines structure. Specifically, we are globally deploying the Management Self-Identified Issues (MSII) framework that enables auditee departments to proactively report challenges and improvement measures they have identified to the Internal Audit Unit.

We are also focusing on building frameworks for sharing risk awareness with the First and Second Lines, and developing methods for analyzing root causes underlying multiple audit observations and issues. Through these initiatives, we not only provide timely and appropriate recommendations to the First and Second Lines, but also aim to deliver forward-looking insights and advice to management and the Board of Directors.

Forward Looking Audit

To deepen our understanding of auditee departments' day-to-day operations and to identify risk events in a timely manner, we actively conduct off-site monitoring (collection of risk information and interviews, etc.) and incorporate these findings into our audit activities. AI and data analytics are utilized to collect and analyze risk information, providing assessment of current conditions and the identification of emerging risk trends. These value-added information support decision-making by the First and Second Lines, management, and the Board of Directors.

We will also further promote the global utilization of AI and data analysis toward achieving greater audit efficiency and improving audit quality. By leveraging AI for activities such as preparing audit plans and reports, and analyzing documents provided by auditee departments, we will streamline verification processes, allowing auditors to focus more on higher-value-added tasks.

Better Audit Framework

SMBC Group not only complies with the standards of the Institute of Internal Auditors (IIA), an international internal audit organization, but also actively adopts advanced practices from financial institutions in Japan and overseas.

We are working to standardize audit procedures and systems and enhance quality assessment. Furthermore, to address issues common across regions, we have established cross-Group specialist teams within the Internal Audit Unit. By sharing information on expanding businesses and the risks and issues arising from them as needed, we aim to further improve the quality of the entire Internal Audit Unit.

Through these initiatives, we are advancing the global enhancement of our audit framework to consistently practice high-quality audits across the entire SMBC Group.

Growth of Auditors

To respond to the increasing diversity and complexity of its business, SMBC Group is working to enhance the expertise of its auditors. Specifically, we are focusing on enriching our training programs to deepen business understanding and specialized knowledge of each business area subject to audit, as well as related skills such as communication and problem-solving abilities. We also actively encourage auditors to obtain international qualifications such as Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA). Furthermore, through recruiting experienced professionals with audit knowledge and expertise, and global personnel exchanges within SMBC Group, we are advancing auditor skill improvement and securing specialist personnel.