

# Independent Auditor's Report

To the Board of Directors of  
Sumitomo Mitsui Financial Group, Inc.:

## Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Mitsui Financial Group, Inc. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The reasonableness of management's assessment of the reserve for possible loan losses for SMBC's corporate loans	
The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of Sumitomo Mitsui Financial Group, Inc. and its consolidated subsidiaries (collectively referred to as the “Group”) as of March 31, 2021, the reserve for possible loan losses (the “Reserve”) was ¥456,861 million on loans and bills discounted (the “Loans”) of ¥85,132,738 million (or approximately 35.1% of total assets). Included in such balances were mainly corporate loans and the related reserve of Sumitomo Mitsui Banking Corporation (“SMBC”), a commercial banking subsidiary.</p> <p>As discussed in “Notes (Significant accounting policies for preparing consolidated financial statements), 4. Accounting policy, (5) Reserve for</p>	<p>The primary procedures we performed to assess the reasonableness of management's assessment of the Reserve for SMBC's corporate loans included the following:</p> <p><b>(1) Internal control testing</b></p> <p>We evaluated the design and tested the operating effectiveness of certain of SMBC's internal controls over its process to assess the Reserve for SMBC's corporate loans, which included addressing the impact of COVID-19. In this assessment, we focused on the controls that related to:</p> <ul style="list-style-type: none"> <li>· approval of the internal rules for accounting for the</li> </ul>

possible loan losses” to the consolidated financial statements, SMBC assesses all claims including the Loans in accordance with the internal criteria for self-assessment of asset quality, and classifies borrowers into credit categories through examining individual credit risk profiles. On the basis of each borrower category, reserves and write-offs are recorded based on the historical loan-loss ratios or the probability of default, and a discounted cash flow (DCF) method in accordance with its internal policy for write-offs and provisions. Additionally, considering the recent economic environment and risk factors, a potential loss amount that is deemed to have incurred in specific portfolios, among others, is reflected in the Reserve based on an overall assessment of a probable future outlook for those portfolios that has not been fully captured in the historical data or individual borrower classification.

Further, as discussed in “Notes (Significant accounting estimates)” and “Notes (Additional information)”, the assessment of the Reserve for SMBC’s corporate loans involved significant estimation uncertainty, and required a high level of management judgment primarily in the following aspects:

- classifying borrowers into appropriate credit categories through performing an obligor-specific qualitative assessment, including the use of forward-looking information;
- determining whether additional provisions for specific portfolios, among others, are deemed necessary, and selecting appropriate methodologies to estimate such provisions based on the future outlook in light of the recent economic environment and risk factors; and
- projecting future cash flow scenarios as an input to the DCF method for borrowers with large claims classified mainly as substandard or lower level classifications.

During the course of the assessment in the current fiscal year, it was required to incorporate, especially, the impact of the spread of COVID-19, which remained uncertain. Included in such an assessment were evaluating any adverse impact on individual borrowers including their liquidity positions, as well as estimating the credit risk implications of changes in the economic environment and market conditions

- Reserve, including the criteria for self-assessment and the policy for write-offs and provisions;
- validation of the obligor grading models;
- classification of individual borrowers into credit categories through a qualitative assessment;
- determination of additional provisions for specific portfolios, among others, based on the future outlook in light of the recent economic environment and risk factors; and
- projection of future cash flow scenarios used in the DCF method.

### (2) Evaluation of the appropriateness of the policy for reserve for possible loan losses and the obligor grading models

We evaluated the policy for provisions for compliance with the accounting principles generally accepted in Japan. Additionally, we involved credit risk specialists with industry-specific knowledge and expertise who assisted us in evaluating the obligor grading models, which provided the basis for borrower classification, through analyzing the consistency of obligor grades with external ratings, and also through retrospectively assessing the models’ capability to identify potentially defaulting borrowers.

### (3) Evaluation of the appropriateness of borrower classification taking into account qualitative factors

For SMBC’s corporate borrowers that we selected based on certain criteria, we evaluated the appropriateness of borrower classification taking into account qualitative factors including a prolonged impact of COVID-19 through:

- analyzing the borrowers’ current business performance including liquidity positions;
- assessing the reasonableness of the borrowers’ business plans as a basis for management’s borrower classification, by comparing the plans with the industry outlook and the recent performance, and also by analyzing the impact of stressed scenarios and other factors considered by management;
- analyzing the forecasts of liquidity position incorporating financial support programs by governments and financial institutions in each country and the borrowers’ business plans; and
- evaluating the implications on borrower

caused by voluntary restraints and other restrictions on social and economic activities, considering the effects of government support programs on the trends of bankruptcy cases and other attributes.

We, therefore, determined that management's assessment of the Reserve for SMBC's corporate loans, specifically, classifying borrowers into credit categories through a qualitative assessment, determining additional provisions for specific portfolios, among others, based on the future outlook in light of the recent economic environment and risk factors, and projecting cash flow scenarios used in the DCF method, was of most significance in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.

classification from management's credit decisions in response to the situation of individual customers, such as the renewal at maturity or modifications to terms and conditions of the facilities that were originally provided to support customers' liquidity during the COVID-19 pandemic.

**(4) Evaluation of additional provisions for specific portfolios based on the future outlook in light of the recent economic environment and risk factors**

Given that uncertainty remained over the impact of COVID-19 on the economic environment, we evaluated the reasonableness of additional provisions for specific portfolios, among others, through:

- analyzing the respective industry environment by referencing the relevant indices and other information published by external agencies;
- assessing the appropriateness of the selection of portfolios subject to additional provisions, by analyzing the effects of financial support programs from governments and financial institutions in each country on the trends of bankruptcy cases and other attributes, and also by analyzing the observed trends in recent revisions of internal ratings by portfolios;
- assessing the appropriateness of the method used to estimate additional provisions considering the nature of and risk factors identified in each portfolio; and
- assessing the consistency of assumptions used in estimating additional provisions, especially the assumption about the extent to which changes in economic environment and market conditions caused by voluntary restraints and other restrictions on social and economic activities have an impact on each portfolio with the respective industry environment.

**(5) Evaluation of the reasonableness of future cash flow scenarios used in the DCF method**

For borrowers that we selected based on certain criteria among those in scope of the DCF method, we evaluated the reasonableness of future cash flow scenarios through:

- analyzing the feasibility of the restructuring plans considering the recent economic environment and the prospect of the impact of COVID-19;

	<ul style="list-style-type: none"> <li>· analyzing the current progress against the restructuring plans; and</li> <li>· assessing the borrower's ability to repay in light of the schedule and underlying sources of repayments based on the restructuring plans.</li> </ul>
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### Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The Audit Committee is responsible for overseeing the directors and the corporate executive officers' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with

accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in basis of presentation in the notes to the consolidated financial statements.

#### **Interest required to be disclosed by the Certified Public Accountants Act of Japan**

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

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