



Internal Audit System

An Outline of the Group's Internal Audit System

In addition to the SMFG Auditing Committee, which functions as a governance committee reporting to the Board of Directors, we have established the Internal Auditing Committee, which is a part of the Management Committee, to give a higher profile to the internal auditing functions and facilitate effective conduct of internal audits. The Internal Auditing Committee meets every quarter, and its members discuss important matters related to internal auditing based on reports prepared by the departments responsible for internal audits. There is also the Audit Department, which is an internal auditing unit that is independent of the operational departments of the Group.

The Audit Department conducts internal audits of the operations of all the Group's units and departments to contribute to optimal management and ensure the proper conduct of the Group's operations and the soundness of its assets. These audits also have the function of verifying that the Group's internal control systems, including compliance and risk management, are operating appropriately and effectively. The Audit Department is also responsible for the overall supervision of the internal audit systems of Group companies. It monitors the appropriateness and effectiveness of the internal audit systems at Group companies by verifying past data related to internal auditing and monitoring activities, which include inspections and other activities based on actual samples, and, when deemed necessary, by conducting audits. Based on these activities, the Audit Department provides recommendations and guidance to the business units and departments as well as Group companies.

At SMBC, we have formed auditing departments that are independent of bank units involved in marketing and other business activities. Within the Internal Audit Unit of SMBC, we have formed two departments: the Internal Audit Department and the Credit Review Department. As at SMFG, SMBC has an Internal Auditing Committee which is a part of its Management Committee and responsible for examining and conducting deliberations on reports on important matters submitted by the Internal Audit Unit.

The Internal Audit Unit is responsible for auditing compliance and risk management at SMBC — its head office departments, domestic and overseas branches — and SMBC Group companies. Auditing of operations of head office departments is conducted by assessing the appropriateness of all internal control systems of each department. In addition, audits of head office departments focus on material issues that arise in the management of specific operations and categories of risk. These auditing activities emphasize the verification of "Targeted Audit Items" across the whole of the bank's organization.

Moreover, audits of branches and offices are not limited just to checking for control and other deficiencies but also include pointing out compliance and risk management problems and making recommendations for corrective action. In other Group companies, internal audit departments have been formed suited to the respective nature of each company's lines of business.

Initiatives to Enhance the Sophistication and Efficiency of Internal Auditing

The Audit Department has adopted methods following the standards of the Institute of Internal Auditors (IIA)*, an international organization. The Audit Department conducts risk-based audits and works to apply best practices to Group companies.

To fulfill effectively its role as the department in overall charge of internal auditing, the Audit Department is constantly endeavoring to advance the professional skills of personnel engaged in internal auditing. Activities include collecting the latest information on internal auditing from inside and outside Japan and disseminating it to all Group companies. Also, the Audit Department organizes training courses, led by outside experts, for the staff of Group companies and encourages them to obtain international qualifications to enhance their professional knowledge and skills in internal auditing. To improve further the effectiveness of auditing, we also take active measures on a Groupwide basis to assess the quality of our internal auditing in the light of IIA standards.

* The Institute of Internal Auditors (IIA) was founded in 1941 in the United States as an organization dedicated to helping raise the level of specialization and professionalism of internal auditing staff. In addition to conducting theoretical and practical research on internal auditing, the IIA administers examinations for Certified Internal Auditor (CIA), which is the internationally recognized qualification in this field.

