Risk Management

Our Basic Position

Major changes in the business environment for financial institutions, including economic, financial, and regulatory conditions, have increased the importance of promoting appropriate risk-taking practices at SMFG—a diversified financial services company—as it develops its businesses and pursues its management and financial targets. We need to be accurate in our perception of the business environment and risk and rigorous in our risk analysis and management.

SMFG conducts business operations based on its overarching Risk Appetite Framework (RAF).

SMFG Risk Appetite Framework

The SMFG Group introduced RAF to ensure that risk and return levels are appropriate. RAF clarifies the types and levels of risk that we are willing to take on or are prepared to tolerate in order to grow profits based on an accurate understanding of the operating environment and the inherent risks (risk appetite). RAF also contains provisions for controlling group-wide risk. Accordingly, RAF provides a central pillar of business management alongside business strategy.

Our basic position and risk appetite specifics are set out in an internal document for group-wide use.

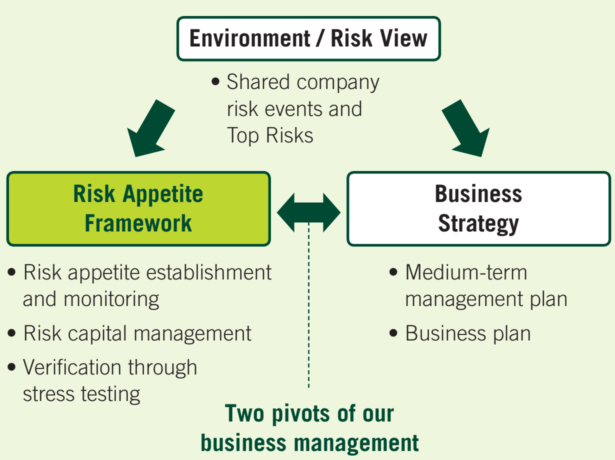
Risk Appetite

At SMFG, we have a Risk Appetite Statement that provides a qualitative explanation of our approach to risk taking and risk management for various risk categories. We also have quantitative Risk Appetite Measures that function as benchmarks for risks that we are considering taking and for risk/return.

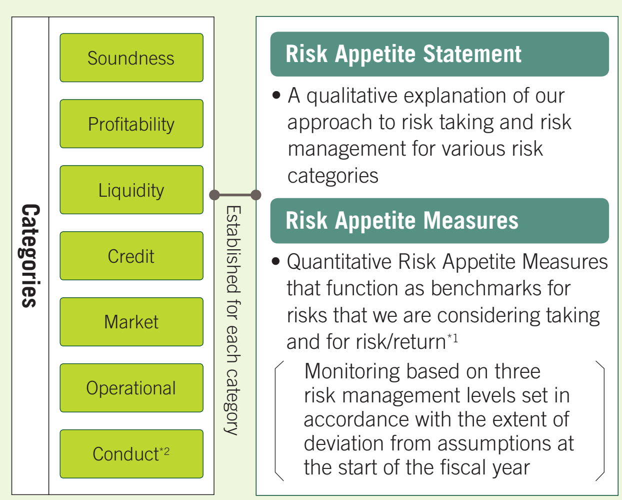
As an illustration, for the soundness category, our Risk Appetite Statement has "maintain a sufficient level of capital to support sustainable growth" as the overall policy. It also includes specific policies for the fiscal year in question based on our view of the environment and risk. The common equity Tier 1 (CET1) ratio, the leverage ratio, and several other indicators have been established as Risk Appetite Measures.

Individual risk appetites have been established for specific business units or strategies as necessary based on the overall risk appetite of SMFG.

Risk Appetite Framework Positioning



Risk Appetite Composition



*1 Separately, measures are established for use in predicting change in Risk Appetite Measures and understanding the current risk situation. Monitoring is conducted based on these measures.

*2 Conduct Risk Management
SMFG positions conduct risk as one category of risk appetite. Conduct risk is the risk that our conduct negatively affects customers, market integrity, or effective competition. This risk is managed by implementing preventive measures through RAF.

Operation of Risk Appetite Framework

The process of setting risk appetite for each fiscal year begins with discussions and the sharing of information on the current and future business environment and risks by the Management Committee and the Board of Directors. Risks that threaten to severely impact management are identified as Top Risks. Risk appetite is then decided on the basis of risk analyses (stress testing) that illustrate the impact if a risk should be realized. Business strategies and policies for the conduct of business are drawn up on the basis of risk appetite decisions.

The outlooks for the operating environment and risks, including Top Risks, are continuously updated over the course of the fiscal year's business and the risk appetite situation is monitored regularly through the medium of Risk Appetite Measures and other controls. Risk Appetite Measures and business strategies are revised as necessary.

Three risk management levels are set for Risk Appetite Measures, which are monitored accordingly.

Authority and Responsibilities Regarding RAF

Function	Organization	Authority and Responsibilities
Oversight	Board of Directors	Approval of risk appetite
	Risk Committee	Deliberation on matters related to RAF implementation and provision of advice to the Board of Directors
Business Execution	Management Committee	Decision of risk appetite
	Risk Management Committee	Updating of outlooks for the operating environment and risks during fiscal year Monitoring of risk appetite situation Revision of risk appetite

Comprehensive Risk Management

As shown in the table below, the risks needing to be managed on a group-wide basis have been defined as (1) credit risk, (2) market risk, (3) liquidity risk, and (4) operational risk. Risks are managed based on their characteristics.

In addition, necessary guidance is provided to Group companies in identifying categories of risk they need to address in their particular businesses. These risk categories are continuously reviewed and new ones may be added in response to changes in the operating environment.

Thorough assessments of the operating environment and risks, including Top Risks, are carried out to ensure effective operation of RAF, after which risks are managed systematically through frameworks for risk analysis via stress testing and risk capital management.

Top Risks

SMFG identifies those risks that threaten to significantly impact management as Top Risks.

The selection of Top Risks involves comprehensive screening of risk factors, evaluation of each risk scenario's possibility of occurrence and potential impact on management, and discussion by the Risk Management Committee and the Management Committee. Top Risks are utilized to enhance risk management by being incorporated into discussions of RAF and the formulation of business strategies and into the creation of risk scenarios for stress testing.

Please see page 77 for Top Risks of SMFG.

Risk Management Categories

Risk Management Framework	Risk Categories	
Risk Capital-Based Management	Credit Risk	Credit risk is the possibility of a loss arising from a credit event, such as deterioration in the financial condition of a borrower, that causes an asset (including off-balance sheet transactions) to lose value or become worthless.
	Market Risk	Market risk is the possibility that fluctuations in interest rates, foreign exchange rates, stock prices, or other market prices will change the market value of financial products, leading to a loss.
	Operational Risk	Operational risk is the possibility of losses arising from inadequate or failed internal processes, people, and systems or from external events.
ALM	Liquidity Risk	Liquidity risk is defined as uncertainty around the ability of the firm to meet debt obligations without incurring unacceptably large losses. Examples of such risk include the possible inability to meet current and future cash flow / collateral needs, both expected and unexpected. In such cases, the firm may be required to raise funds at less than favorable rates or be unable to raise sufficient funds for settlement.
Management by Risk Type	Conduct risk, etc.	—

Risk Management

Stress Testing

At SMFG, we use stress testing for the development and implementation of forward-looking business strategies, seeking to analyze and comprehend the impact on SMFG's businesses of changes in economic or market conditions.

In our stress testing, we formulate multiple risk scenarios based on the aforementioned Top Risks, discussions with experts and related departments, and macroeconomic indicators such as GDP, stock prices, interest rates, and foreign exchange rates.

When developing business strategies, we formulate scenarios assuming stressed business environments such as serious economic recessions and market disruption to assess risk-taking capabilities at SMFG and verify whether adequate soundness can be maintained under stress.

In addition, SMFG conducts detailed stress testing of credit risk, market risk, and liquidity risk, based on which it develops and revises strategies for risk taking.

Risk Capital Management

In managing credit risk, market risk, and operational risk affecting the entire Group, we apply a uniform standard, risk capital[*1] based on value at risk (VaR),[*2] for use in monitoring and managing risks. This standard is applied while taking into account the characteristics of each risk and of the businesses of Group companies. Specific risk capital measures include setting upper limits for risk exposure based on group-wide and business unit risk appetite and group-wide management constitution. Each business unit operates business operation within that limit. Through these precautions, we practice management that maintains an appropriate balance between risks and returns based on a comprehensive perspective and secure sufficient financial soundness.

*1 Risk capital: The amount of capital required to cover the theoretical maximum potential loss arising from risks of business operations.
*2 VaR: The maximum loss that can be expected to occur with a certain degree of probability when holding a financial asset portfolio for a given amount of time.

Stress Testing Process

(1) Scenario Design	Scenarios are designed by the Corporate Risk Management Department after compiling information on SMFG's Top Risks and the views of related departments on such factors as future global trends.
(2) Scenario Finalization	Scenarios are revised as necessary based on the outcome of discussions between specialists and related departments.
(3) Calculation of Impact	The scenario's impact on each financial item is estimated for analysis of the impact on such indicators as the CET1.
(4) Confirmation by the Management Committee	At the Management Committee, business strategies are examined based on analyses of risk impact amounts and then verified from the perspective of capital adequacy.

SMFG's Risk Management System

Top management plays an active role in the risk management process out of recognition for the importance of risk management. The group-wide basic policies for risk management are determined by the Management Committee before being authorized by the Board of Directors.

In line with these basic policies for risk management, the functions for managing major risks are consolidated within the Risk Management Unit, which is independent from business units, and we seek to refine our risk management system through such means as enhancing comprehensive reviews of each risk category. In addition, the Internal Audit Unit conducts internal audits on the status of risk management to verify that risk is appropriately managed.

Risk management systems are in place at individual Group companies that have been established based on the characteristics of their particular businesses and in accordance with the basic policies. Furthermore, SMFG is sharing information on group-wide risk management and strengthening related systems through the Group CRO Committee, which consists of the Group CRO and risk management representatives from strategically important Group companies.

Risk Committee

The Risk Committee is an internal committee of the Board of Directors, composed of outside directors as well as experts from inside and outside of the Company who possess specialized insight.

The Risk Committee meets regularly to discuss risk management topics, including Top Risks and RAF, from a specialist viewpoint. The results are reported to the Board of Directors as necessary.

Risk Management Committee

Chaired by the Group CRO and membered by representatives from risk management divisions and business units, the Risk Management Committee is tasked with compiling and sharing information related to group-wide risk management and discussing this information as necessary.

The committee discusses risks, RAF, and other matters related to all areas of risk management and reports its findings to the Management Committee.

SMFG's Risk Management System