

Risk management systems are in place at the individual Group companies in accordance with SMFG's Groupwide basic policies for risk management. For example, at SMBC, specific departments have been appointed to oversee the handling of the four risk categories listed above, in addition to risks associated with settlement. Each risk category is managed taking into account the particular characteristics of that category. In addition, the Risk Management Unit has been established—independent of the business units—and the risk management framework has been strengthened by consolidating the functions for managing major risks—credit, market, liquidity and operational—into the Risk Management Unit and enhancing our across-the-board risk monitoring ability. A board member is assigned to oversee the Risk Management Unit comprising the Corporate Risk Management Department and Credit & Investment Planning Department. The Corporate Risk Management Department—the unit's planning department—comprehensively and systematically manages all categories of risk in cooperation with the Corporate Planning Department. Moreover, the Internal Audit Unit—independent of all business units—conducts periodic audits to ensure that the management system is functioning properly.

Furthermore, under our system top management plays an active role in the approval of basic policies for risk management. The decision-making process for addressing credit, market, and liquidity risk at the operating level is strengthened by the Credit Risk Management Committee and the Market Risk Management Committee, which are subcommittees of the Management Committee. The Management Committee is also attended by the relevant department heads.

Integrated Risk Management

(1) Risk Capital-Based Management

In order to maintain a balance between risk and return as well as ensure the soundness of the Group from an overall perspective, we employ the risk capital-based management method. We measure "risk capital" based on value at risk (VaR), etc. as a uniform basic measure of credit, market, and operational risk, taking account of the special characteristics of each type of risk and the business activities of each Group company. We then allocate capital appropriately and effectively to each unit to keep total exposure to various risks within the scope of our resources, i.e., capital.

In the case of credit and market risk, we set maximum risk capital limits, which indicate the maximum risk that may be taken during the period, taking account the level of stress stipulated in business plans. In addition, for operational risk, we also allocate risk capital, and, for the Group as a whole, we set total risk capital allocations within SMFG's capital. Risk capital limits are subdivided into guidelines or ceilings for each business including VaR and loss limits. Therefore, by strictly observing the VaR and loss limits, and other factors, SMFG maintains the soundness of the Group as a whole.

In this framework, risk capital includes credit concentration risk and interest rate risk in the banking book which are taken into account under the Second Pillar of Basel II. In addition, we conduct risk capital-based management activities on a consolidated basis, including each Group company.

■ Risk Management Framework

Framework	Risk Category	
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	Banking Risk/Trading Risk
		Strategic Equity Investment Risk
		Other Market-Related Risks
	Operational Risk	Operational risk is the possibility of losses arising from inadequate or failed internal processes, people, and systems or from external events.
		Processing Risk
		System Risk
ALM/ Funding Gap	Liquidity Risk	Liquidity risk is the risk that there may be difficulties in raising funds needed for settlements, as a result of the mismatching of uses of funds and sources of funds or unexpected outflows of funds, which may make it necessary to raise funds at higher rates than normal levels.
Management by Risk Type	Other Risks (Settlement Risk and Others)	—