	For the fiscal year ended and at March 31,				
	2023	2022	2021	2020	2019
	(In millions, except per share data)				
Net profit	¥ 935,849	¥ 515,075	¥ 705,076	¥ 230,983	¥ 647,586
Profit attributable to:					
Shareholders of Sumitomo Mitsui Financial Group, Inc.	¥ 911,831	¥ 499,573	¥ 687,483	¥ 200,052	¥ 541,932
Non-controlling interests	12,708	4,771	4,471	18,567	93,779
Other equity instruments holders	11,310	10,731	13,122	12,364	11,875
Earnings per share:					
Basic	¥ 668	¥ 364	¥ 502	¥ 145	¥ 388
Diluted	668	364	501	145	387
Weighted average number of common shares in issue (in thousands of shares)	1,364,770	1,370,738	1,370,214	1,375,118	1,397,599
Dividends per share in respect of each fiscal year:					
Common stock	¥ 220	¥ 200	¥ 195	¥ 185	¥ 175
	$ 1.65	$ 1.63	$ 1.76	$ 1.70	$ 1.58
Consolidated statements of financial position data:					
Total assets	¥257,687,038	¥248,160,847	¥235,024,987	¥212,158,463	¥195,503,623
Loans and advances	111,891,134	104,635,815	97,714,938	94,671,818	90,682,938
Total liabilities	244,150,073	235,379,155	222,748,837	201,223,585	183,730,177
Deposits	172,927,810	162,593,492	155,493,654	138,431,418	134,404,652
Borrowings	15,371,801	20,584,651	19,423,355	17,121,362	12,167,858
Debt securities in issue	11,984,994	11,428,437	11,228,600	10,985,048	11,171,209
Total equity	13,536,965	12,781,692	12,276,150	10,934,878	11,773,446
Capital stock	2,342,537	2,341,878	2,341,274	2,339,965	2,339,443

3.B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

3.D. RISK FACTORS

Investing in our securities involves risks. You should carefully consider the risks described below as well as all the other information in this annual report, including, but not limited to, our consolidated financial statements and related notes included elsewhere in this annual report and “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.” Our business, operating results and financial condition could be adversely affected by any factors, including, but not limited to, those discussed below. The trading prices of our securities could also decline due to any of these factors including, but not limited to, those discussed below. Moreover, this annual report contains forward-looking statements that involve risks and uncertainties. Our actual results could also differ from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the risks faced by us described below and elsewhere in this annual report. See “Cautionary Statement Regarding Forward-Looking Statements.” Forward-looking statements in this section are made only as of the filing date of this annual report.

Summary

The principal risks that could have a material adverse effect on our business, results of operations, financial condition or capital position include:

Risks Related to the Economic and Financial Environment

- The effects of Russia’s aggression against Ukraine and collateral events.
- Deterioration of Japanese and global economic conditions and financial markets.
- Declines in the value of our securities portfolio.
- Changes in market rates or prices related to financial instruments.

Risks Related to Our Business

- Failure to satisfy capital adequacy requirements.
- Financial difficulties of counterparties and other financial institutions.
- Adverse regulatory developments or changes in government policies.
- The transition away from and discontinuation of the London Interbank Offered Rate (“LIBOR”) and other interest rate benchmarks.
- Changes in the competitive environment around financial institutions and financial systems.
- Adverse economic conditions affecting our customers and deterioration of their financial condition.
- A significant downgrade of our credit ratings.
- Challenges in achieving the goals of our business strategy.
- Exposure to new risks as we expand the scope of our business.
- Failure of our business strategies through our subsidiaries, affiliates and other business alliance partners.
- Changes in the legal environment for the consumer finance industry.
- The recoverability of deferred tax assets.
- Declines in returns on our plan assets or revised actuarial assumptions for retirement benefits.
- Insufficient liquidity.
- Market price impact and dilution from sales of our shares by us.
- Damage or failure of our information technology systems as a result of various incidents including cyberattacks.
- Fraud, misconduct or other unlawful behavior by directors, officers and employees or third parties.
- Exposure to Iran and other countries and targets that are subject to U.S. or other financial sanctions.
- Natural disasters, terrorism, pandemics and other calamities.
- The effects of climate change and various other environmental issues such as damage to natural capital and loss of biodiversity.
- Inability of our risk management policies and procedures to adequately address unidentified or unanticipated risks.
- Litigation and regulatory proceedings around the world.

- Damage to our reputation.
- Improper development, use or failure of our models.
- Our failure to establish, maintain and apply adequate internal controls over financial reporting.

Risks Related to Owning Our Shares

- Restrictions on U.S. investors’ ability to effect service of process on us or to enforce U.S. court judgments against us.

Risks Related to Owning Our ADSs

- Limitations on rights of holders of our American Depositary Shares (“ADSs”) as shareholders.

Risks Related to the Economic and Financial Environment

Russia’s aggression against Ukraine and collateral geopolitical and economic consequences are having, and may continue to have, an adverse effect on our business, financial condition and results of operation.

Following Russia’s aggression against Ukraine, which began in February 2022, the Japanese government and authorities in several other jurisdictions, including the U.S., the European Union, the United Kingdom, Canada and Australia have imposed significant sanctions targeting Russia, such as bans on imports and exports, asset freezes, and revoking Russia’s most favored nation trade status. Furthermore, Russia has taken various measures to defend its economy and mitigate the effect of sanctions, such as seizing the assets of foreign companies that have withdrawn from Russia and demanding payment in rubles for its exports. As a result of these geopolitical factors and the uncertain consequences, financial and commodity markets have experienced, and may continue to experience, significant disruptions and volatility. Moreover, these factors have exacerbated ongoing supply chain constraints, contributing to long-term inflationary pressure.

If Russia’s aggression against Ukraine is further prolonged or increases in severity, or the situation spreads to other countries, global economic conditions and financial and commodities markets could worsen substantially, which could result in a variety of adverse impacts on our business, such as additional credit costs and valuation losses on securities. In addition, the seizure and nationalization of foreign capital by the Russian government may adversely affect the execution of our business strategies, results of operations and financial condition, given the presence of our local subsidiary in Russia and aircraft assets of our aviation leasing affiliate. Moreover, geopolitical tensions such as Russia’s aggression against Ukraine may increase the risk of cyberattack, including cyberattacks by state actors or others in retaliation against the sanctions imposed by the international community, as well as cyberattacks by other actors directed against our local operations in Russia or otherwise seeking to take advantage of the ongoing crisis. In order to address this risk, in addition to the cybersecurity measures described in “—Our business relies on our information technology systems, which are at risk of being damaged or failing as a result of various incidents including cyberattacks, and their failure could harm our relationships with customers or adversely affect our provision of services to customers,” we have enhanced security measures such as strengthening our surveillance system, including information gathering efforts, and issued alerts to directors, officers and employees. However, there can be no assurance that these measures will be sufficient or effective to detect or protect against such attacks.

The extent to which Russia’s aggression against Ukraine and the collateral geopolitical and economic consequences will affect our business, results of operations, financial condition and business performance depends on the duration and future course of the conflict, which are uncertain and difficult to predict. To the extent that the Russia/Ukraine situation adversely affects our business, results of operations and financial condition, it may also have the effect of increasing the likelihood and magnitude of the other risks described in “Item 3.D. Risk Factors.”

For more information on the impact of Russia's aggression against Ukraine on the operating environment, our results of operations and our financial condition, see "Item 5 Operating and Financial Review and Prospects."

We may be adversely affected if Japanese and global economic conditions and financial markets deteriorate.

Our financial condition and results of operations are materially affected by general economic conditions and financial markets in Japan and foreign countries, which would be influenced by various factors such as monetary policies taken by the Bank of Japan ("BOJ") and other central banks, and fiscal policies, policies on financial markets, as well as related laws, regulations and agreements adopted by governmental authorities. Those factors include, for example, monetary easing by the BOJ, monetary tightening by the Federal Reserve Board and other central banks, the increase of tariffs and other protectionist trade policies of countries including the U.S. Furthermore, geopolitical instability in various parts of the world, including North Africa, the Middle East, Asia and Eastern Europe, and material changes in regional economic or political unions or associations between countries could contribute to economic instability in those and other regions. Such regional economic instability could adversely affect Japanese and global economic conditions.

The deterioration of Japanese and global economic conditions, or financial market turmoil, could result in a worsening of our liquidity and capital conditions, an increase in our credit costs, and a decrease in the fair values of our investment securities and, as a result, adversely affect our business, financial condition and results of operations.

Future declines in securities prices on Japanese stock markets or other global markets could cause us to experience realized and unrealized losses on our equity securities portfolio, which could negatively affect our financial condition, results of operations and regulatory capital position.

The value of a listed equity security is measured at its market price. Declines in the Japanese stock markets or other global markets could result in realized and unrealized losses on the securities in our equity securities portfolio, adversely affecting our results of operations and financial condition.

Our regulatory capital position and that of SMBC depend in part on the fair value of our equity securities portfolio. Substantial declines in securities prices on Japanese stock markets or other global markets would negatively affect our and SMBC's capital positions, and limit SMBC's ability to make distributions to us.

Our equity securities portfolio mainly consists of equity instruments at fair value through other comprehensive income. The reported value of our equity instruments at fair value through other comprehensive income accounted for 1.8% of our total assets at March 31, 2023, approximately 78.9% of which were Japanese equity securities. This value depends mainly on prices of the instruments in the stock market. In addition, the reported value, and gross unrealized gains and losses of those equity instruments at fair value through other comprehensive income at March 31, 2023 are described in "Item 5.A. Operating Results—Financial Condition—Investment Securities."

In recent years, we have been reducing our strategic shareholding investments in order to mitigate the impact of share price fluctuations on our financial base. Any further disposal by us of equity holdings of our customers' shares could in turn cause our customers to dispose of their equity holdings of our shares, which could adversely affect the market price of our shares.

Changes in market rates or prices related to financial instruments could adversely affect our financial condition and results of operations.

We engage in trading and investing activities dealing with various kinds of financial instruments such as bonds, equities, currencies, derivatives and funds. For example, we have substantial investments in debt securities. At March 31, 2023, we had ¥10 trillion of Japanese government bonds classified as debt instruments at fair value through other comprehensive income, which accounted for approximately 3.7% of our total assets.

Our financial condition and results of operations could be adversely affected by actual changes or volatility in interest rates, foreign exchange rates and market prices of investment securities. Increases in interest rates could substantially decrease the value of our fixed income portfolio, and any unexpected changes in yield curves could adversely affect the value of our bond and interest rate derivative positions, resulting in lower-than-expected revenues from trading and investment activities. Market volatility may also result in significant realized and unrealized losses on such instruments. Furthermore, the downgrading of investment securities by credit rating agencies may also cause declines in the value of our securities portfolio.

Risks Related to Our Business

Failure to satisfy capital adequacy requirements could constrain our and SMBC's operations.

We and SMBC are subject to capital adequacy requirements established by the Financial Services Agency of Japan ("FSA") which are based on the Basel rules text published by the Basel Committee on Banking Supervision ("BCBS").

With respect to the quality of the capital base, certain capital instruments, including existing preferred securities and subordinated debt, were eligible for inclusion as Tier 1 capital or Tier 2 capital only for the prescribed 10-year phase-out period. Preferred stocks convertible into common stocks no longer qualify as Common Equity Tier 1 capital but qualify as Additional Tier 1 capital if they satisfy certain requirements including the requirement of loss absorbency at the point of non-viability under the Basel III rules. In addition, securities with step-up clauses no longer qualify as Additional Tier 1 capital, and if the relevant security is classified as a liability for accounting purposes, it must satisfy the requirement of loss absorbency at a pre-specified trigger point, which must be 5.125% or more of Common Equity Tier 1 risk-weighted capital ratio as well as the aforementioned requirement of loss absorbency at the point of non-viability to qualify as Additional Tier 1 capital. With respect to Tier 2 capital, under the Basel III rules, the relevant security must satisfy the requirement of loss absorbency at the point of non-viability to qualify as Tier 2 capital, and subordinated debt securities callable at the initiative of the issuer within five years or with step-up clauses no longer qualify as Tier 2 capital.

With respect to the quantity of the capital base, the minimum Common Equity Tier 1 risk-weighted capital ratio and minimum risk-weighted capital ratio applicable to us and SMBC have been 4.5% and 8% respectively since March 2015. Moreover, we are required to hold a capital conservation buffer to withstand future periods of stress and a countercyclical buffer as additional capital to reduce the buildup of systemic risk in periods and locations of excessive credit growth. The capital conservation buffer has been 2.5% since March 2019. As a result, taking the capital conservation buffer into account at March 2023, the total minimum Common Equity Tier 1 risk-weighted capital ratio has been 7%, and the total minimum risk-weighted capital ratio has been 10.5%. The countercyclical buffer is calculated as the weighted average of the buffers in effect in the jurisdictions to which we have credit exposure, with a maximum of 2.5% from March 2019.

In addition, the requirements for additional capital, in the form of a capital surcharge above the Basel III minimum requirement, have been applied from 2016 to those financial institutions identified by the Financial Stability Board ("FSB") as Global Systemically Important Banks ("G-SIBs"), including us. This requirement is commonly referred to as the G-SIB capital surcharge. The FSB updates its list of G-SIBs on an annual basis. Based on the list, we have been required to maintain an additional 1% of Common Equity Tier 1 capital as a percentage of risk-weighted assets from 2019.

G-SIBs are also subject to a global standard for Total Loss-Absorbing Capacity ("TLAC"), which defines certain minimum requirements for total loss-absorbing capacity so that if G-SIBs fail, they will have sufficient loss absorbing and recapitalization capacity available in resolution. In November 2015, the FSB published the final TLAC standards ("FSB's TLAC Standards") and, in March 2019, the FSA published its regulatory guidelines and related documents for the implementation of the TLAC standards in Japan ("Japanese TLAC Standards") to which we are subject as a G-SIB.

Furthermore, under the FSA's guidelines for the leverage ratio, which have been applied from March 31, 2019, banks and bank holding companies with international operations must maintain a leverage ratio of at least 3% on both a consolidated basis and a nonconsolidated basis for banks and on a consolidated basis for bank holding companies.

In June 2020, in light of the increasing impact of the COVID-19 pandemic, the FSA published amendments to its guidelines for the leverage ratio, which mainly exclude deposits with the BOJ from the denominator for the calculation of the leverage ratio in order to maintain harmonization with the monetary policy implemented by the BOJ and the prudential regulations for banks and other financial institutions. These amendments came into effect in June 2020 and were scheduled to expire in March 2021, but the expiry date of these amendments was extended to March 2022, and extended again until March 31, 2024. On July 15, 2022, the FSA published amendments to its guidelines for the leverage ratio. Under the amended guidlines, the leverage ratio buffer requirement for G-SIBs in Japan took effect from March 31, 2023, while the finalized definition of the leverage ratio exposure measure will take effect from March 31, 2024, except for banks that have notified the FSA that they wish to apply the amended requirements earlier. Furthermore, on November 11, 2022, the FSA published amendments to its guidelines for the leverage ratio, which provide that from April 1, 2024 onward the minimum leverage ratio will be increased from 3% to 3.15%, the minimum leverage-based Total Loss-Absorbing Capacity ratio will be increased from 6.75% to 7.10% and the leverage buffer applicable to G-SIBs will be increased by 0.05%, while excluding amounts of deposits to the BOJ from the total exposure, taking into account exceptional macroeconomic conditions and other circumstances.

At March 31, 2023, on a consolidated basis, our total risk-weighted capital ratio, Tier 1 risk-weighted capital ratio and Common Equity Tier 1 risk-weighted capital ratio were 15.98%, 14.94% and 14.02%, compared to the minimum required ratios of 11.6%, 9.6% and 8.1%, respectively. Such minimum required ratios include the capital conservation buffer of 2.5%, the G-SIB capital surcharge of 1.0% and the countercyclical buffer of 0.10%.

Our and SMBC's capital ratios could decline as a result of decreases in Tier 1 and Tier 2 capital or increases in risk-weighted assets. The following circumstances, among others, could reduce our risk-weighted capital ratio and that of SMBC:

- declines in the value of securities; and
- increases in risk-weighted assets resulting from business growth, strategic investments, borrower downgrades, changes in parameters such as probability of default ("PD") or regulatory reforms.

We and SMBC have adopted the advanced internal rating-based ("IRB") approach for measuring exposure to credit risk and the advanced measurement approach ("AMA") to measure exposure to operational risk. If the FSA revokes its approval of such implementation or otherwise changes its approach to measure capital adequacy ratios, our and SMBC's ability to maintain capital at the required levels may be adversely affected.

In December 2017, the Group of Central Bank Governors and Heads of Supervision (the "GHOS") endorsed the outstanding Basel III regulatory reforms. The endorsed reforms include the following elements:

- a revised standardized approach for credit risk;
- revisions to the internal ratings-based approach for credit risk;
- revisions to the credit valuation adjustment framework;
- a revised standardized approach for operational risk;
- revisions to the measurement of the leverage ratio and a leverage ratio buffer for G-SIBs; and
- revisions to the capital floor.

We will be subject to the final Basel III reform, as implemented in Japan.

If our or SMBC's capital ratios fall below required levels, the FSA may require us or SMBC to take a variety of corrective actions, including withdrawal from all international operations or suspension of all or part of our operations, which may indirectly affect our ability to fulfill our contractual obligations or may result in restrictions on our businesses. Failure to maintain capital levels under the capital buffer requirements under Basel III and the requirement for the G-SIB capital surcharge will result in restrictions on capital distributions, such as dividends, share buybacks, discretionary payments on other Tier 1 capital instruments and bonuses. In addition, some of our and SMBC's domestic and overseas subsidiaries are also subject to local capital ratio requirements. Failure of those subsidiaries to meet local requirements may result in administrative actions or sanctions imposed by local regulatory authorities.

We may incur losses as a result of financial difficulties of counterparties and other financial institutions.

We regularly execute transactions with counterparties in the financial services industry. Many of these transactions expose us to credit risk in the event of deterioration of creditworthiness of a counterparty or client. With respect to secured transactions, our credit risk may be exacerbated when the collateral cannot be foreclosed on or is liquidated at prices not sufficient to recover the full amount of the loan or other exposures due to us. Losses from our investments in and loans to other financial institutions could materially and adversely affect our business, financial condition and results of operations. We may also be requested to participate in providing assistance to distressed financial institutions that are not our subsidiaries. In addition, if the funds collected by the Deposit Insurance Corporation of Japan ("DIC") are insufficient to insure the deposits of failed Japanese banks, the insurance premiums that we pay to the DIC will likely be increased, which could adversely affect our business and results of operations.

Adverse regulatory developments or changes in government policies could have a negative impact on our results of operations.

Our businesses are subject to extensive regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Japan and the other jurisdictions in which we operate. Those changes and their effects on us are unpredictable and beyond our control.

The Banking Act authorizes the FSA to inspect banks and bank holding companies in Japan at any time and with any frequency. The FSA's inspection processes are revised or amended from time to time. Our compliance with any such changes could result in an increase in our administrative expenses, which could have an adverse effect on our results of operations and financial condition.

The FSA and regulatory authorities in the United States and other jurisdictions, along with the United Nations and the Financial Action Task Force, have continued to make the prevention of money laundering and terrorism financing a focus of governmental policy relating to financial institutions. In April 2019, SMBC and its New York branch entered into a written agreement with the Federal Reserve Bank of New York requiring SMBC and its New York branch to address certain deficiencies relating to the New York branch's anti-money laundering and economic sanctions compliance program. SMBC and its New York branch are required, among other things, to implement corrective measures and submit periodic progress reports to the Federal Reserve Bank of New York. If we fail to comply with the terms of the written agreement, we may become subject to monetary penalties and other regulatory sanctions, which could have a material adverse effect on us. Further, as a result of the deficiencies identified in the written agreement, we no longer meet the requirements to be treated as a financial holding company, and, pending completion of a remediation plan designed to meet these requirements, we are currently subject to restrictions in our ability to engage in certain new categories of financial activities in the United States and to make acquisitions of companies engaged in activities in the United States. If we fail to correct the conditions giving rise to such restrictions within the prescribed period of time, we may be required to divest or terminate certain business activities in the United States, which could adversely affect our operations and impair our ability to implement our business plans. Although we are committed to improving compliance with laws and regulations relating to anti-money laundering and economic sanctions, we will continue to be subject to ongoing inspection by the regulatory authorities in the United States and other jurisdictions. Any adverse regulatory action or change in regulatory focus, whether as a result of inspections or regulatory developments, may negatively affect our banking operations, cause harm to our reputation, and result in expensive remediation, monetary penalties and other regulatory sanctions.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) provides a broad framework for significant regulatory changes across most areas of U.S. financial regulations. The Dodd-Frank Act addresses, among other issues, systemic risk oversight, bank capital standards, the resolution of failing systemically significant financial institutions, over-the-counter (“OTC”) derivatives, the ability of banking entities to engage in proprietary trading activities and invest in hedge funds and private equity funds, consumer and investor protection, and securitization.

Regulatory reforms implemented by the Biden Administration and the Democratically-controlled Congress, or any other kind of significant regulatory developments could adversely affect our capital ratios and results of operations. For further details, see “Item 4.B. Business Overview—Regulations in Japan, Regulations in the United States, and Regulations in Other Jurisdictions.” Since changes in regulation or fiscal or other policies and their effects are unpredictable and beyond our control, we may not be able to comply with those changes at all times, despite our efforts, or may have to incur increased costs or make changes to our operations in order to do so. Any such failures to comply with those changes could result in administrative or judicial proceedings against us, including suspension of our business and financial penalties, which could materially and adversely affect our business, reputation, results of operations and financial condition.

The transition away from and discontinuation of LIBOR and other interest rate benchmarks could have a negative impact on our results of operations.

For several years, global regulators and central banks have been pursuing international efforts to reform interest rate benchmarks, such as the London Interbank Offered Rate (“LIBOR”). In July 2017, the UK Financial Conduct Authority (“FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. In March 2021, the FCA and ICE Benchmark Administration, the authorized and regulated administrator of LIBOR, announced that all the GBP, CHF, JPY, EUR LIBOR settings and the one-week and two month USD LIBOR settings would cease after December 31, 2021, and the remaining USD LIBOR settings would cease after June 30, 2023.

We identified a significant number of assets and liabilities linked to LIBOR and other interest rate benchmarks, across businesses that require transition to alternative reference rates.

The transition away from and discontinuation of LIBOR and other interest rate benchmarks, uncertainty as to the availability and/or suitability of alternative reference rates, and differences between LIBOR, and other interest rate benchmarks and alternative reference rates may have a material adverse effect on financial markets and market participants, including us. Accordingly, we have taken, and are continuing to take, necessary steps to address the transition and meet the industry-recommended and regulatory milestones, including developing internal systems and infrastructure to transition to alternative reference rates, as well as conducting outreach to inform our customers of the necessity to prepare for the cessation of LIBOR. Also, SMFG and major subsidiaries adhere to the IBOR Fallbacks Supplement to the 2006 ISDA Definitions and the ISDA 2020 IBOR Fallbacks Protocol, which came into effect in January 2021.

Despite the steps we have taken to address the transition, it is possible that these measures may be unsuccessful or viewed as insufficient. For example, our customers may consider that the advice and information that we prepare and provide is inadequate and/or inaccurate. Moreover, the valuation of certain of our financial assets and liabilities may change, and the inability of existing hedged and hedging transactions to meet the hedge relationship designation requirements could lead to an increase in profit and loss volatility. All of these could adversely affect our results of operations and financial condition.

We continue to make SMBC Group-wide efforts to address various areas and risks of the transition including but not limited to customer communication and internal controls with effective corporate governance. For further details, see Note 2 “Summary of Significant Accounting Policies—Hedge Accounting—Interest Rate Benchmark Reform,” Note 7 “Derivative Financial Instruments and Hedge Accounting—Hedge accounting—Interest Rate Benchmark Reform” and Note 47 “Interest Rate Benchmark Reform” to our consolidated financial statements included elsewhere in this report.

Changes in the competitive and financial environment and financial systems could have a negative effect on the financial services industry and us.

Deregulation of the financial system, consolidation among financial institutions, diversification within the financial services industry, and the expanded presence of foreign financial institutions and investors have made the Japanese financial services market highly competitive. Moreover, competition in overseas markets has intensified due to global consolidation, convergence and alliances among financial institutions. In addition, the development of new technologies in the “Fintech” and other sectors, along with the corresponding rise of new entrants from these sectors into the financial services industry, may further intensify competition in the business environments in which we operate. We compete with various types of financial services companies, including:

- banking groups, including Japan’s other major banking groups;
- government-controlled and government-affiliated entities;
- regional banking institutions;
- major investment banks;
- non-bank financial institutions; and
- other firms that are engaged in providing similar products and services.

Increased competition in Japan may put downward pressure on prices for our financial services, cause us to lose market share or require us to incur additional expenses in order to remain competitive. Internationally, various forms of financial support provided by foreign governments to foreign banks and other financial institutions may reduce the cost of capital to those institutions and otherwise give them competitive advantages. In addition, with technological advances, new competitors in the financial services industry continue to emerge, and as a result, we may be forced to adapt our business to compete more effectively. There can be no assurance that we will be able to respond effectively to current or future competition.

Changes in the financial environment in Japan may also have a negative effect on the Japanese financial services industry. For example, prolonged monetary easing by the BOJ may continue to lower domestic interest spreads. This may significantly affect the businesses of commercial banks in Japan, including us. For further information on the BOJ’s monetary policy measures, see “Item 5. Operating and Financial Review and Prospects—Overview—Factors Affecting Results of Operation.”

Adverse economic conditions affecting our customers and deterioration of their financial condition could increase our credit costs.

Our non-performing loans (“NPLs”) and credit costs for corporate and individual customers may increase significantly if:

- domestic or global economic conditions worsen or do not improve;
- our customers do not repay their loans, due to reasons including deterioration of their financial condition; and
- the value of collateral declines.

We have substantial exposure to corporate customers in the following sectors: real estate and goods rental and leasing, manufacturing, transportation, communications and public enterprises, wholesale and retail, and services, including electric utilities, and to individual customers mainly through housing loans. The financial condition of those customers may be subject to changes in the industry-specific economic conditions, including, for example, fluctuations in the prices of oil, gas and other natural resources, as well as general economic conditions. In addition, adverse region-specific economic conditions or changes in economic conditions due to unexpected incidents such as pandemics, Russia's aggression against Ukraine and collateral events could worsen our customers' financial condition or could decrease the value of our collateral provided to us in such regions. As a result, we may be required to record increases in our allowance for loan losses.

Moreover, for certain borrowers, we may choose to engage in debt-for-equity swaps or provide partial debt write-offs, additional financing or other forms of assistance as an alternative to exercising our full legal rights as a creditor if we believe that doing so may increase our ultimate recoverable amount of the loan. We may be required to, or choose to, provide new or additional financing to customers who may incur unexpected liabilities, have difficulty in the future in continuing operations, encounter difficulties or need to devote significant resources to repair their infrastructures, as a result of natural disasters or other calamities.

In addition, changes in laws or government policies may have an adverse impact on the rights of creditors. For example, the Government of Japan has provided or may provide in the future government guarantees and other government support measures in response to the financial crisis or other unexpected incidents such as widespread pandemics, large-scale natural disasters and any subsequent collateral events. Even if our current or future loans to borrowers have received or will receive any government support measures, it is unclear to what extent those loans will benefit, directly or indirectly, from the current or any future government guarantees or support measures.

In addition, our NPLs may increase and there may be additional credit costs if we fail to accurately estimate the expected losses in our loan portfolio. These estimates require difficult, subjective and complex judgments such as credit evaluation of our borrowers, valuation of collateral and forecasts of economic conditions.

The ratio of impaired loans and advances to the total loans and advances, both net of allowance for loan losses, were 0.7%, 0.8% and 0.8% at March 31, 2023, 2022 and 2021, respectively. For further information, see "Item 5.A. Operating Results—Financial Condition—Loans and Advances."

A significant downgrade of our credit ratings could have a negative effect on us.

At the date of this annual report, the Company has the issuer ratings of A1/P-1 from Moody's Japan K.K., the issuer credit rating of A- from S&P Global Ratings Japan Inc. and the foreign and local currency issuer default ratings of A-/F1 from Fitch Ratings Japan Limited. There can be no assurance that these ratings will be maintained.

A material downgrade of our credit ratings may have various effects including, but not limited to, the following:

- we may have to accept less favorable terms in our transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions;
- foreign regulatory bodies may impose restrictions on our overseas operations;
- existing agreements or transactions may be cancelled; and
- we may be required to provide additional collateral in connection with derivatives transactions.

Any of these or other effects of a downgrade of our credit ratings could have a negative impact on the profitability of our treasury and other operations, and could adversely affect our regulatory capital position, liquidity position, financial condition and results of operations. For more information about our credit ratings, see "Item 5.B. Liquidity and Capital Resources."

We face significant challenges in achieving the goals of our business strategy, and our business may not be successful.

In May 2023, we announced our medium-term management plan through March 2026. We believe that we have targeted appropriate business areas. However, our initiatives to offer new products and services and to increase sales of our existing products and services may not succeed if market conditions do not stabilize, market opportunities develop more slowly than expected, our initiatives have less potential than we envisioned originally or the profitability of these products and services is undermined by competitive pressures. Consequently, we may be unable to achieve or maintain profitability in our targeted business areas.

In order to implement our business strategy successfully, we need to hire and train qualified personnel continuously and in a proactive manner, as well as to attract and retain employees with professional experience and specialized product knowledge. However, we face competition from other commercial banks, investment banks, consumer finance companies and other financial services providers in hiring highly competent employees. There can be no assurance that we will succeed in attracting, integrating and retaining appropriately qualified personnel.

We are exposed to new risks as we expand our businesses, the range of our products and services, and geographic scope of our businesses overseas.

As part of our business strategies we have expanded and may continue to expand our businesses or our range of products and services beyond our core business, commercial banking. This could expose us to new risks, such as adverse regulatory changes, more competition or deterioration in the operating environments that affect those businesses, products and services. Some of those risks could be types with which we have no or only limited experience. As a result, our risk management systems may prove to be insufficient and may not be effective in all cases or to the degree required.

In accordance with our strategy to further increase our presence in the international financial markets, we may continue to expand the scale of our overseas businesses, especially in emerging economies, notably Asian countries and regions. The expansion of our overseas businesses may further increase our exposure to risks of adverse developments in foreign economies and markets, including interest rate and foreign exchange rate risk, regulatory risk and political risk. Our overseas expansion also exposes us to the compliance risks and the credit and market risks specific to the countries and regions in which we operate, including the risk of deteriorating conditions in the credit profile of overseas borrowers.

Failure of our business strategies through our subsidiaries, affiliates and other business alliance partners could negatively affect our financial condition and results of operations, including impairment losses on goodwill or investments.

Aligned with our business strategies, we have made and may undertake acquisition of a subsidiary, investments in affiliates and other business alliance partners, and reorganization within SMBC Group companies. It is uncertain whether we will receive the expected benefits from those business strategies, due to any adverse regulatory changes, worsening of economic conditions, increased competition or other factors that may negatively affect the related business activities. Furthermore, unanticipated costs and liabilities may be incurred in connection with those business strategies, including liabilities from the claims related to the businesses prior to our business alliances, and cost from actions by regulatory authorities.

When we acquire a subsidiary, we may recognize goodwill and intangible assets. Impairment losses on goodwill or intangible assets in connection with acquisitions must be recognized when the recoverable amount of goodwill or intangible assets of the business is lower than the carrying amount at the time of impairment testing, which is performed annually or whenever there is an indication that the goodwill or intangible assets may be impaired.

We account for some of our investments in affiliates under the equity method. Therefore, net losses incurred by equity method investees may cause us to record our share of the net losses. Furthermore, we may lose the capital which we have invested in business alliances or may incur impairment losses on securities acquired in such alliances. We may also be required under contractual or other arrangements to provide financial support, including credit support and equity investments, to business alliance partners in the future. Additionally, we may also incur credit costs from our credit exposure to such partners.

We are exposed to the industry specific risks of the consumer finance industry.

Changes in the legal environment have severely and adversely affected the business performance of consumer lending and credit card companies. We have exposures to the risks specific to the consumer finance industry through our subsidiaries, including SMBC Finance Service Co., Ltd. (“SMBC Finance Service”) and SMBC Consumer Finance Co., Ltd. (“SMBC Consumer Finance”).

Consumer lending and credit card companies had offered unsecured personal loans, which included loans with so-called “gray zone” interest in excess of the maximum rate prescribed by the Interest Rate Restriction Act (ranging from 15% to 20%) up to the 29.2% maximum rate permitted under the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates (“Contributions Act”). However, amendments to laws regulating moneylenders, which increased the authority of government regulators, prohibited gray zone interest and introduced an upper limit on aggregate credit extensions to an individual by moneylenders at one-third of the borrower’s annual income, were promulgated in 2006 and became fully effective in June 2010. After the promulgation of such amendments, SMBC Finance Service, SMBC Consumer Finance and other companies engaged in related business reduced their interest rates on loans in preparation for the prohibition of gray zone interest. As a consequence, margins earned by those companies, as well as the amounts of loans extended, decreased.

In addition, as a result of court decisions unfavorable to those companies, claims for refunds of amounts paid in excess of the applicable maximum allowed rate by the Interest Rate Restriction Act have continuously occurred. Although SMBC Finance Service, SMBC Consumer Finance and other subsidiaries each recorded a provision for claims for refunds of gray zone interest on loans, we may be required to recognize additional losses if such provisions are determined to be insufficient, and the additional losses could have an adverse effect on our results of operations and financial condition.

Inability to generate sufficient future taxable profits or adverse changes to tax laws, regulatory requirements or accounting standards could have a negative impact on the recoverability of certain deferred tax assets.

We recognize deferred tax assets relating to tax losses carried forward and deductible temporary differences only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the temporary differences can be utilized. The deferred tax assets are quantified on the basis of currently enacted tax rates and accounting standards and are subject to change as a result of future changes to tax laws or the rules for computing taxable profits and allowable losses. Failure to generate sufficient future taxable profits or changes in tax laws or accounting standards may reduce our estimated recoverable amount of net deferred tax assets. Such a reduction could have an adverse effect on our financial condition and results of operations.

Declines in returns on our plan assets or revised actuarial assumptions for retirement benefits may adversely affect our financial condition and results of operations.

SMBC and some of our other subsidiaries have various defined benefit plans. We have experienced in the past, and may experience in the future, declines in returns on plan assets and changes in the discount rates and other actuarial assumptions. If returns on plan assets decrease, or if we revise the discount rates and other assumptions, the deficit of the impacted defined benefit plan may increase and adversely affect our financial condition and results of operations. Because approximately half of our plan assets are composed of equity instruments, the plan assets are greatly affected by volatility in the prices of equity securities. Substantial declines in the prices for publicly traded Japanese stocks would negatively affect our plan assets. For further information, see Note 24 “Retirement Benefits” to our consolidated financial statements included elsewhere in this annual report.

Our liquidity could be adversely affected by actual or perceived weaknesses in our businesses and by factors we cannot control, such as a general decline in the level of business activity in the financial services sector.

We need liquidity to maintain our lending activities, meet deposit withdrawals, pay our operating expenses and pay interest on and principal of debt and dividends on capital stock. Adverse market and economic conditions in the domestic and global economies may limit or adversely affect our access to liquidity required to operate our business. If our counterparties or the markets are reluctant to finance our operations due to factors including actual or perceived weaknesses in our businesses as a result of large losses, changes in our credit ratings, or a general decline in the level of business activity in the financial services sector, we may be unable to meet our payment obligations when they become due or only be able to meet them with funding obtained on unfavorable terms. Circumstances unrelated to our businesses and outside of our control, such as, but not limited to, adverse economic conditions, disruptions in the financial markets or negative developments concerning other financial institutions perceived to be comparable to us, may also limit or adversely affect our ability to replace maturing liabilities in a timely manner. Without sufficient liquidity, we will be forced to curtail our operations, which could adversely affect our business, results of operations and financial condition.

Sales of our shares by us may have an adverse effect on the market price of our shares and may dilute existing shareholders.

We may issue shares from the unissued portion of our authorized share capital and sell shares held as treasury stock, generally without a shareholder vote. Sales of shares in the future may be at prices below prevailing market prices and may be dilutive.

Our business relies on our information technology systems, which are at risk of being damaged or failing as a result of various incidents including cyberattacks, and their failure could harm our relationships with customers or adversely affect our provision of services to customers.

In all aspects of our business, we use information technology systems to deliver services to and execute transactions on behalf of our customers as well as for back-office operations. We therefore depend on the capacity and reliability of the electronic and information technology systems supporting our operations. We may encounter service disruptions in the future, owing to failures of these information technology systems. Our information technology systems are at risk of being damaged or failing as a result of quality problems, human errors, natural disasters, power losses, sabotage, acts of terrorism, cyberattacks and similar events.

In particular, cybersecurity risks for financial institutions have significantly increased in recent years. This is partly because of the continuous introduction of new technologies and the use of the internet and telecommunications technologies as well as the elaboration of the cyberattacks, which include computer viruses, malicious code such as ransomware, phishing and other forms of social engineering or other security breaches. Geopolitical tensions may also increase the risk of cyberattacks from foreign governments and state-sponsored actors. As we rely on information technology systems in our business and our receipt and handling of confidential personal information from our customers, any impairment, compromise or destruction of such systems may interfere with, or temporarily prevent us from, continuing our operations. In addition, we also face indirect cybersecurity risks relating to our customers and other third parties, including counterparties in the financial services industry and financial data aggregators. As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure or cyberattack could have a material impact on counterparties or other market participants, including us. Any third-party technology failure or cyberattack could adversely affect our ability to execute transactions or deliver services to our clients effectively. For example, vulnerabilities in third-party technology systems may increase the risk that our information technology systems are exposed to cyberattacks.

Accordingly, we have taken steps to protect information technology systems from these risks, including by establishing data recovery capability and functionality, and to address contingencies that could arise in the event of a major disruption of services. Particularly, we have adopted our "Declaration of Cyber Security Management" in order to further strengthen our cybersecurity capabilities. In this declaration, our management recognizes cybersecurity as a major management issue and takes a leadership role in implementing measures such as allocating appropriate resources based on discussions at the meetings of the Management Committee and the board of directors, establishing a special department and manual for emergencies and enhancing security measures for our services including internet banking services.

However, these measures may not be sufficient, especially considering the increasing frequency and sophistication of recent cyberattacks. In addition, we may not be prepared to address all contingencies that could arise in the event of a major disruption of services. The failure to address such contingencies could harm our relationships with customers or adversely affect our provision of services to customers.

We handle personal information obtained from our individual and corporate customers in relation to our banking, securities, consumer lending, credit card, asset management and other businesses. The systems we have implemented to protect the confidentiality of personal information, including those designed to meet the strict requirements of the Act on the Protection of Personal Information, may not be effective in preventing disclosure of personal information by unauthorized access from a third party. Leakage of personal information could expose us to demands for compensation or lawsuits for ensuing economic losses or emotional distress, administrative actions or sanctions, additional expenses associated with making necessary changes to our systems and reputational harm. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Fraud, misconduct or other unlawful behavior by directors, officers and employees or third parties could subject us to losses and regulatory sanctions.

We are exposed to potential losses resulting from fraud, misconduct and other unlawful behavior by directors, officers and employees. Directors, officers and employees may bind us to transactions that exceed authorized limits or present unacceptable risks, hide from us and from our customers unauthorized activities, improperly use confidential information or otherwise abuse customer confidences. Third parties may engage in fraudulent activities, including fraudulent use of bank accounts or the use of false identities to open accounts for money laundering, tax evasion or other illegal purposes. Third parties could also use stolen or forged ATM cards, engage in credit card fraud or transfer funds illegally through online banking fraud, and we may be required to indemnify victims of such fraud for related losses. In the broad range of businesses in which we engage, fraud, misconduct and other unlawful behavior are difficult to prevent or detect. In addition, with or without actual fraud, misconduct and other unlawful behavior by directors, officers and employees, investigations, administrative actions or litigation could commence in relation to them. Furthermore, we may not be able to recover the losses caused by these activities, including possible deterioration of our reputation.

Transactions involving Iran and other countries and targets that are subject to U.S. or other financial sanctions may lead some potential customers and investors to avoid doing business with us or investing in our securities or may limit our business operations.

U.S. law generally prohibits or substantially restricts U.S. persons from doing business with countries, regions and persons that are the subject of sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") or other agencies ("Restricted Targets" which include Iran, North Korea, Syria, Cuba and the Crimea, Donetsk People's Republic, and Luhansk People's Republic regions of Ukraine). Other applicable financial sanctions are administered by the Ministry of Finance of Japan and authorities in other countries.

We maintain a SMBC Group-wide policy designed to ensure compliance with U.S. and other applicable sanctions laws and regulations. Our non-U.S. offices engage in transactions relating to the Restricted Targets in compliance with applicable laws and regulations. These activities include or have included remittance of Japanese yen with respect to our customers' export or import transactions, maintenance of correspondent banking accounts with Iranian banks, including the Central Bank of Iran, and the payment of fees in Japanese yen to certain Iranian banks in connection with performance bonds issued in the past by SMBC through such Iranian banks related to our customers' projects in Iran. All such transactions were permissible under applicable laws and regulations at the times they were engaged in. SMBC has discontinued activities that have become impermissible as a result of changes in applicable laws and regulations. See "Item 4.B. Business Overview—Regulation in the United States—Laws Prohibiting Money Laundering and Terrorist Financing—U.S. Sanctions Targeting Iran Related Activities." The performance bonds expired and have not been renewed, but SMBC continues to be obligated to pay certain fees to the Iranian banks. In addition, we maintain a representative office in Iran that mainly performs an information-collecting function and liaises with non-designated Iranian financial institutions and non-SDN Iranian parties on behalf of our non-U.S. offices.

We do not believe that our operations relating to the Restricted Targets materially affect our business, financial condition or results of operations. A limited number of potential violations of U.S. economic sanctions by SMBC have been identified and voluntarily disclosed to OFAC. These transactions resulted from the inherent limitation on information about underlying transactions that can be obtained in the course of normal banking operations, inadvertent operational errors, or from the lack of familiarity of some personnel of SMBC with the requirements of the relevant regulations in the past. We have continuously strengthened our SMBC Group-wide OFAC and other financial sanctions compliance program in an effort to prevent the recurrence of such potential violations. We settled some of the voluntarily disclosed potential violations with OFAC and others were closed without a penalty. However, in light of the inadvertent nature of such potential violations and the degree to which our strengthened compliance program aims to mitigate the risk of potential violations, we do not believe that our settlement with OFAC, or any possible penalties that OFAC may impose with respect to the other potential violations that remain unsettled, will have a material impact on our reputation, financial condition or results of operations, or on the prices of our securities.

We are aware of initiatives by U.S. states and U.S. institutional investors, such as pension funds, to adopt laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities engaged in certain business with Iran and other Restricted Targets. It is possible that such laws and initiatives may result in our inability to enter into transactions with those entities that are subject to such prohibitions or to retain or acquire such entities as customers or investors in our securities.

In recent years, the U.S. government implemented a number of sanctions targeting non-U.S. persons for activities undertaken outside the United States ("secondary sanctions") that involve specific sanctions targets or certain activities including, among other things, certain transactions related to Iran's energy, petrochemical, shipping and shipbuilding sectors. Pursuant to the July 14, 2015 Joint Comprehensive Plan of Action ("JCPOA") agreed to by the five permanent members of the United Nations Security Council plus Germany and Iran, with the European Union, on January 16, 2016 ("Implementation Day"), the United States lifted U.S. nuclear-related secondary sanctions targeting Iran. Even after Implementation Day, certain secondary sanctions remained in effect, including those targeting significant transactions involving Iranian or Iran-related Specially Designated Nationals and Blocked Persons ("SDNs"). However, in 2018, the United States terminated its participation in the JCPOA. At November 5, 2018, following the conclusion of certain "wind-down" periods, all U.S. sanctions (both primary and secondary) that had been waived or lifted under the JCPOA have been re-imposed and are fully effective, and additional sanctions were put into place in 2019 and 2020. While the parties to the JCPOA have engaged in negotiations concerning a possible return to the agreement by the United States, as of June 29, 2023, all such sanctions remain in effect. In accordance with applicable laws and regulations, SMBC intends to provide certain services, including settlement services in connection with customers' trade transactions between Japan and Iran, to the extent that such activities are permissible under U.S. secondary sanctions. For more details of relevant laws and regulations, see "Item 4.B. Business Overview—Regulations in the United States—Laws Prohibiting Money Laundering and Terrorist Financing."

In addition, the U.S. government and authorities in several other jurisdictions, including the European Union, the United Kingdom, Japan, Canada, and Australia, have imposed significant sanctions and export control measures targeting Russia in response to Russia's aggression against Ukraine in February 2022. In broad terms, the U.S. restrictions enacted to date include: territorial embargoes on the Donetsk People's Republic and Luhansk People's Republic regions of Ukraine, prohibitions on trade in certain goods and services between the United States and Russia and new investment in Russia by U.S. persons, asset blocking sanctions on a number of Russian individuals and entities, restrictions on transactions involving certain Russian financial institutions and Russia's Central Bank, National Wealth Fund, and Ministry of Finance, and restrictions on dealing in Russian sovereign debt and debt or equity of certain Russian companies. Additional or expanded sanctions may be imposed in the future. The 2022 Russia-related sanctions are in addition to sanctions previously enacted by the U.S. government and other authorities in response to Russia's 2014 annexation of Crimea, including those under the U.S. Ukraine-/Russia-Related Sanctions Regulations, the U.S. Ukraine Freedom Support Act of 2014, as amended, and "sectoral" sanctions on the financial, energy and defense sectors of the Russian economy.

The U.S. government has imposed targeted sanctions against individuals in China and Hong Kong pursuant to the Hong Kong Autonomy Act and Executive Order 13936, and has also imposed restrictions pursuant to Executive Order 13959, as amended, on transactions by U.S, persons in securities issued by or linked to certain Chinese companies determined to be associated with the Chinese military-industrial complex. Additionally, pursuant to the Global Magnitsky Human Rights Accountability Act and Executive Order 13818, the U.S. government has sanctioned a number of Chinese entities and individuals in connection with China's actions with respect to the Xinjiang Uyghur Autonomous Region ("Xinjiang"), and published an advisory warning U.S. and non-U.S. companies with supply chain exposure to Xinjiang of reputational, economic, and legal risks of involvement with entities that engage in human rights abuses, including but not limited to forced labor in the manufacture of goods intended for domestic and international distribution. On December 23, 2021, President Biden signed into law the Uyghur Forced Labor Prevention Act, which establishes a rebuttable presumption, effective June 21, 2022, that goods, wares, articles, and merchandise mined, produced, or manufactured wholly or in part in Xinjiang may not be imported into the United States. In June 2022, U.S. government agencies published additional guidance concerning this restriction and on due diligence best practices. While the sanctions imposed under these authorities to date have not materially impacted our business, it is possible that future sanctions may have a more significant effect on us.

In February 2021, in response to the coup in Burma, President Biden issued Executive Order 14014, authorizing the imposition of targeted sanctions against individuals and entities in Burma. Pursuant to the order, OFAC has added to the SDN List a number of individuals involved in or supporting the coup, family members of such individuals, as well as a number of Burmese state-owned enterprises. If additional sanctions are imposed, it is possible that they could have an adverse impact on the operations of SMBC's branch in Yangon or on our customers' business involving entities in Burma.

The laws, regulations and sanctions referenced above or similar legislative or regulatory developments in the U.S., Japan or other jurisdictions where applicable, may further limit our business operations. If we were determined to have engaged in activities targeted by certain U.S. statutes, Executive Orders or regulations, we could lose our ability to open or maintain correspondent or payable-through accounts with U.S. financial institutions, among other potential sanctions. In addition, depending on sociopolitical developments, even though we take measures designed to ensure compliance with applicable laws and regulations, our reputation may suffer due to our association with the Restricted Targets. The above circumstances could have a significant adverse effect on our business or the prices of our securities.

Our business operations are exposed to risks of natural disasters, terrorism, pandemics and other calamities.

Our business operations are subject to the risks of natural disasters, terrorism, pandemics, blackouts, geopolitical incidents and other calamities, any of which could impair our business operations. Despite our preparation of operation manuals and other backup measures and procedures, such calamities could cause us to suspend operations and could adversely affect our businesses, financial condition and results of operations. Large-scale natural disasters such as the Great East Japan Earthquake of March 2011 and any subsequent collateral events, may adversely affect economic conditions in general, the financial condition of our corporate and individual customers and stock market prices, or cause other negative effects, any or all of which could materially and adversely affect our financial condition and results of operations owing to, for example, an increase in the amount of credit-related costs or an increase in losses related to our holdings of securities.

Concerning pandemics, since December 2019, COVID-19 has spread throughout the world. The COVID-19 pandemic has resulted in the implementation of numerous measures to prevent the spread of COVID-19, such as restrictions on movement and closures of schools, businesses, factories and other public and private facilities in many countries and regions. These measures have significantly affected people’s lives and business activities. Coupled with these measures, the COVID-19 pandemic has had a severe impact on both Japanese and global economic conditions. Future waves of the COVID-19 pandemic or the emergence of new variants, or the outbreak of a new virus, could cause the deterioration in the financial condition of our customers, disruption and volatility in financial markets and restriction of our operations, which could adversely affect our business, results of operations and financial condition.

We are exposed to risks associated with climate change, and various other environmental issues such as damage to natural capital and loss of biodiversity.

Risks associated with climate change are subject to increasing societal, regulatory and political focus in Japan and globally. These risks include the physical risks of climate change and risks from the transition to a decarbonized society. In order to address these risks, we have begun efforts to strengthen our climate change scenario analysis and consider countermeasures at the management level. These proposed countermeasures are reported to the Management Committee, risk committee and sustainability committee as internal committees of the board of directors. However, these efforts may not be successful, and even if they are undertaken successfully, they may not be sufficient. In such a case, they may lead to an adverse effect on our financial condition and results of operations.

Physical risks of climate change arise from a number of factors and relate to specific weather events, such as large-scale typhoons. As a result of climate change, the intensity and frequency of extreme weather events has increased. Despite our preparation of operation manuals and other backup measures and procedures, a large-scale disaster due to extreme weather conditions could damage our branches and cause harm to employees, interfering with our business continuity. Large-scale disasters could also adversely affect the financial condition of our customers or the value of properties pledged as collateral, resulting in an increase in our credit costs. In addition, our operating income and values of assets held may decrease due to instability in financial markets, which could also adversely affect our ability to raise financing.

There are also risks from the transition to a decarbonized society. For example, due to changes in climate change policies, tightening of environmental regulations and technological innovation to address climate change, our customers in sectors that are deemed to contribute significantly to climate change may experience declines in the value of their assets (i.e., asset stranding). In addition, our customers’ financial condition and performance could suffer from increasing costs associated with climate change response measures, which could result in an increase in our credit costs.

Following adoption of the Paris Agreement, governments and industry coalitions around the world have made pledges and commitments intended to mitigate the effects of climate change. For example, in October

2020, the Government of Japan announced a net zero greenhouse gas (“GHG”) emissions goal for 2050. There is also growing interest from investors and other stakeholders in climate-related initiatives such as the Task Force on Climate-related Financial Disclosures (“TCFD”) and Sustainable Development Goals (“SDGs”). In line with these global commitments and initiatives, we have set a number of climate-related targets, including our target to achieve net zero GHG emissions in SMBC Group-wide operations by 2030, our goal to increase the amount of sustainable finance to support our clients’ efforts at addressing climate change and transition, and our commitment to achieving net zero GHG emissions across our overall investment and loan portfolio by 2050. See “Item 4.B. Business Overview—SMBC Group’s Response to Climate Change—SMBC Group’s Approach.”

Progress toward achieving our climate-related targets and pursuing the SMBC Group-wide climate change-related initiatives requires significant investment of resources and management time, and implementation of new compliance and risk management systems, internal controls and procedures. Our ability to achieve our climate-related goals, which are to be pursued over the long-term, is subject to numerous risks and uncertainties, many of which are outside of our control, such as changes in environmental and energy regulation and policy, the pace of technological change and innovation, and the actions of our clients, customers and competitors. If we are unable to achieve our climate-related targets within our stated timeframes or at all, or if our efforts and disclosure regarding climate and sustainability issues are perceived as insufficient, we may be subject to reputational harm, negative public sentiment, regulatory scrutiny, litigation and reduced investor and stakeholder confidence, which could adversely affect our business and results of operations, as well as the market price of our shares and/or the environment for our capital raising activities.

In addition, we are also exposed to risks associated with various other environmental issues such as damage to natural capital and loss of biodiversity. Natural capital refers to natural resources such as plants, animals, air, water and soil. In order to address these risks, we have considered countermeasures at the management level. These proposed countermeasures are reported to the Management Committee, and risk committee and sustainability committee as internal committees of the board of directors. Furthermore, there is a growing awareness among investors and other stakeholders of the financial risks from damage to natural capital and loss of biodiversity. Due to our awareness to this issue, we have participated in the international alliance “Task Force on Nature-related Financial Disclosures Forum” in January 2022, in order to be engaged in the establishment of the risk management and disclosure framework and to proactively disclose relevant information. Nevertheless, such efforts may be perceived as insufficient by investors and other stakeholders. In such cases, the market price of our shares and/or the environment for our capital raising activities may be negatively affected. Furthermore, damage to natural capital and loss of biodiversity may have adverse consequences such as contributing to the intensity of natural disasters and food insecurity, which could lead to disruptions in economic conditions and financial markets or deterioration in the financial condition of our customers. The occurrence of such environmental scenarios, in addition to the risks of climate change, could adversely affect our business, results of operations and financial condition.

Our risk management policies and procedures may not adequately address unidentified or unanticipated risks.

Our business operations are subject to various laws and regulations across the jurisdictions in which we do business. In addition, we face significant regulatory scrutiny and expectations with respect to, among other things, governance, infrastructure, data and risk management practices and controls.

We have implemented or enhanced SMBC Group-wide risk management programs and program oversight, including compliance risk management. We have also devoted significant resources to strengthening our risk management framework and the policies and procedures thereunder, and expect to continue doing so in the future. Nevertheless, particularly in light of the continuing evolution of our operations and expansion into new areas, our policies and procedures designed to identify, monitor and manage risks may not be fully effective or sufficient.

Furthermore, management of risks requires, especially for compliance risk management, among other things, policies and procedures to properly record and verify large numbers of transactions and events, but deficiencies in the quality or effectiveness of our data gathering, analysis and validation processes could result in ineffective risk management practices and inaccurate reporting. Some of our methods of managing compliance risks are based upon our use of observed historical market behavior and thus may not accurately predict future risks.

Ineffectiveness or insufficiency of our risk management may result in violations of laws including the Japanese antitrust and fair trade laws by us or by SMBC and/or failure to comply with regulatory and supervisory expectations with respect to our compliance function. As a consequence of such violations or failures, we could be subject to regulatory investigations, enforcement actions and legal proceedings, any of which could result in substantial penalties, fines or other sanctions and damage to our reputation.

Our business could be adversely affected by litigation and regulatory proceedings globally.

We conduct business in many locations in and outside of Japan. We face the risk of litigation and regulatory proceedings in connection with our operations. For example, if we engage in activities targeted by certain U.S. sanctions, this could result in the imposition of monetary penalties or other restrictions by the U.S. government against us. Lawsuits and regulatory actions may result in penalties or settlements of very large indeterminate amounts or limit our operations, and costs to defend either could be substantial.

On October 7, 2022, the FSA announced administrative actions against SMBC Nikko Securities Inc. (“SMBC Nikko Securities”), SMBC and SMFG in relation to findings by the Securities and Exchange Surveillance Commission of Japan (“SESC”) of multiple violations of the Financial Instruments and Exchange Act (“FIEA”). The violations identified by the SESC included, among others, improper stabilization activity and related deficiencies in transaction monitoring and business practices by SMBC Nikko Securities in connection with a series of “block offer” transactions in publicly listed securities (collectively, the “market manipulation conduct”). Separately from the market manipulation conduct, the SESC found that SMBC Nikko Securities committed violations of the so-called “firewall regulations” of the FIEA, in connection with impermissible sharing of customer information between SMBC Nikko Securities and SMBC.

The SMBC Group has been cooperating with the FSA to formulate, submit and implement business improvement plans within the timeframes required under the administrative orders. Specifically, on November 4, 2022, SMFG, SMBC and SMBC Nikko Securities timely submitted plans and/or reports to the FSA as required by the respective orders. Each is further required to provide periodic status reports to the FSA on the implementation of the measures detailed therein. In addition, SMFG, SMBC and SMBC Nikko Securities announced reductions in the remuneration of certain executives, among other internal disciplinary actions, while SMBC Nikko Securities was subject to a three-month suspension of any new block offer business for the period from October 7, 2022 to January 6, 2023.

In relation to the market manipulation conduct, a criminal proceeding before the Tokyo District Court (the “Court”) was brought against SMBC Nikko Securities and several of its former officers and employees on allegations of illegal stabilization transactions in violation of the FIEA. On February 13, 2023, SMBC Nikko Securities was convicted of the FIEA violations and sentenced to pay a fine of ¥700 million and to forfeit ¥4,471 million.

The SMBC Group takes the administrative actions of the FSA and the decision of the Court extremely seriously and has been striving to implement improvement measures and taking steps to prevent the reoccurrence of similar violations on a company-wide basis to restore the trust of our customers and other stakeholders. However, despite efforts to implement remediation measures that address the concerns identified in the FSA orders, there is no guarantee that the FSA will consider the proposed measures and our implementation progress to be satisfactory, or that additional deficiencies will not be uncovered in the process, and it is possible that additional sanctions may be imposed on us or our group companies in the future. In addition, we and our group companies have experienced and may continue to experience reputational harm as a result of these regulatory and legal actions, which have resulted and may continue to result in reduced business opportunities with current and prospective clients.

Moreover, SMBC and one of its subsidiaries contribute or used to contribute to financial benchmarks such as the Tokyo Interbank Offered Rate ("TIBOR") for certain specific currencies. These benchmarks are or were referenced in jurisdictions in which we operate and do not operate. An adverse regulatory decision, judgment or ruling in investigation, litigation and regulatory proceedings that we face or may face, including in jurisdictions we do not operate in, could have a material adverse effect on our business, results of operations and financial condition.

Damage to our reputation may have an adverse effect on our business and results of operations.

Maintaining our reputation is vital to our ability to attract and maintain customers, investors and employees. Our reputation could be damaged through a variety of circumstances, including, among others, fraud or other misconduct or unlawful behavior by directors, officers or employees, systems failures, compliance failures, investigations, adverse litigation judgments or regulatory decisions, or unfavorable outcomes of governmental inspections. Adverse publicity or negative information regarding Japan's financial services industry or us that may be published or broadcast by the media or posted on social media, non-mainstream news services or other parts of the internet, even if inaccurate or not applicable to us, may have a materially adverse effect on our brand image and undermine depositor confidence, thereby affecting our businesses and results of operations. For example, actual or rumored investigations of us or our directors, officers or employees, or actual or rumored litigation or regulatory proceedings, or media coverage of the same, may have a material adverse effect on our reputation and could negatively affect the prices of our securities. Actions by the financial services industry generally or by certain members in the industry can also adversely affect customers' confidence on the financial services industry. In addition, investors and other stakeholders have placed emphasis and focus on environmental and social issues, including climate change due to global warming and human rights violations in supply chains. Our reputation may be adversely impacted by negative perceptions of us and our operations in light of these environmental and social concerns, or if we are unable to meet stakeholder expectations in our efforts to address them. Such reputational harm could also lead to a decreased customer base, reduced revenues and higher operating costs.

Improper development, use or failure of our models may adversely affect our judgments on management and business operations.

We use models in our managerial decisions and business judgments. We define models as quantitative method, system, or approach that applies theories, techniques, and assumptions to process input data into quantitative estimates. The use of models is susceptible to a variety of risks from errors, improper use or design flaws. For example, operational errors in the development or implementation of models or use of models beyond the scope of the assumptions and limitations for the models to work appropriately, could lead to errors that can adversely affect managerial decisions and business judgments. We strive to mitigate such risks by implementing proper management of model development and usage. However, an occurrence of deviations between the assumptions built into models and the actual conditions in the economic, financial and business environments, or improper use of models by directors, officers and employees, may increase the output uncertainty of our models and cause us to make erroneous or suboptimal decisions and judgments, which could adversely affect our business and results of operations.

Our failure to establish, maintain and apply adequate internal controls over financial reporting could negatively impact investor confidence in the reliability of our financial statements.

In order to operate as a global financial institution, it is essential for us to have effective internal controls, corporate compliance functions, and accounting systems to manage our assets and operations.

As a New York Stock Exchange ("NYSE")-listed company and a registrant with the U.S. Securities and Exchange Commission ("SEC"), under section 404 of the U.S. Sarbanes-Oxley Act of 2002 our management is required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal controls are effective. Our independent registered public accounting firm has to conduct an audit to evaluate and then render an opinion on the effectiveness of our internal control over financial reporting. The Financial Instruments and Exchange Act of Japan ("FIEA") also requires companies listed on a Japanese stock exchange, such as us, to file, together with their annual securities reports required by the FIEA, audited internal control reports assessing the effectiveness of their internal controls over financial reporting.

We have established internal controls over financial reporting, as well as rules for evaluating those controls, in order to provide reasonable assurance of the reliability of our financial reporting and the preparation of financial statements. However, these controls may not prevent or detect errors. Any evaluation of effectiveness of future periods is subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. To the extent any issues are identified through the foregoing processes, there can be no assurance that we will be able to resolve them in a timely manner or at all. If this occurs, our reputation may be damaged, which could lead to a decline in investor confidence in us.

Risks Related to Owning Our Shares

It may not be possible for investors to effect service of process within the United States upon us or our directors or senior management, or to enforce against us or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws.

We are a joint stock corporation incorporated under the laws of Japan. Almost all of our directors and senior management reside outside the United States. Many of our assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon us or these persons or to enforce, against us or these persons, judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal or state securities laws. We believe that there is doubt as to the enforceability in Japan, in original actions or in actions to enforce judgments of U.S. courts, of claims predicated solely upon the U.S. federal or state securities laws mainly because the Civil Execution Act of Japan requires Japanese courts to deny requests for the enforcement of judgments of foreign courts if foreign judgments fail to satisfy the requirements prescribed by the Civil Execution Act, including requirements that:

- the jurisdiction of the foreign court be recognized under laws, regulations, treaties or conventions;
- proper service of process be made on relevant defendants, or relevant defendants be given appropriate protection if such service is not received;
- the judgment and proceedings of the foreign court not be repugnant to public policy as applied in Japan; and
- there exist reciprocity as to the recognition by a court of the relevant foreign jurisdiction of a final judgment of a Japanese court.

Judgments obtained in U.S. courts, predicated upon the civil liability provisions of the U.S. federal or state securities laws, may not satisfy these requirements.

Risks Related to Owning Our ADSs

As a holder of our American Depositary Shares ("ADSs"), you have fewer rights than a shareholder of record in our shareholder register because you must act through the depositary to exercise these rights.

The rights of our shareholders under Japanese law to take actions such as voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and