

CORPORATE GOVERNANCE

Sumitomo Bank has embraced the doctrine that the key to enhancing shareholder value is the pursuit of enlightened corporate governance. This view will also be a hallmark of SMBC.

As the result of changes introduced in June 1999, the division of responsibility between policy-making and policy implementation is now clearly defined. The Management Committee is responsible for the day-to-day running of the Bank, while the Board of Directors is charged with providing strategic direction and oversight for its operations.

Under the new reforms, the Board of Directors now oversees the operations of the Bank and promotes the interests of shareholders. As a result of the reform, the size of the Board has been reduced to 18 members, as of the end of June 2000. Nevertheless the number of independent directors from outside the Bank has been increased to three. In addition, committees to address matters such as personnel appointments, compensation and risk management have been constituted from within the Board. The membership of these committees includes, as its core group, the Chairman and the independent directors, as well as other members of the Board of Directors who concurrently serve on the Management Committee. The areas of responsibility of these committees are as follows:

Risk Management Committee: responsible for risk management, compliance and crisis management.

Compensation Committee: responsible for the salaries of members of the Board of Directors and Executive Officers as well as for the Bank's stock option program.

Personnel Committee: responsible for the selection of nominees to the Board of Directors.

The Management Committee, presided over by the President in his capacity as Chief Executive Officer is responsible, as the supreme organ of decision-making, for day-to-day operations of the Bank. The President is charged with the selection of the members (Executive Officers) of the Management Committee. Important operational decisions are to be taken by the President after due discussion by the Management Committee.

A significant number of Executive Officers also sit on the Board of Directors (as of the end of June 2000, for example, 14 of the 33 Executive Officers also served on the Board of Directors). However, the Chairman of the Board is expected to exercise his oversight responsibilities independently and, therefore, is neither a member of the Management Committee nor an Executive Officer.

To strengthen the Bank's system of risk management, and its role in deciding policy in this area, the Management Committee has created two committees, composed of members of the Management Committee as well as the heads of the relevant departments: one responsible for credit risk, and the other for market risk.

Market Risk Committee: responsible for basic market-risk policy and setting market-risk limits.

Credit Risk Committee: responsible for basic credit risk policy, standards of self-assessment, and write-off and reserve standards.

The lines of decision-making in these two areas of risk management are as follows:

The relevant departments (for market risk, the Market Risk Management Department; for credit risk, the Credit Policy Department) are responsible for raising matters for discussion by the Management Committee. After either the

Market Risk Committee or the Credit Risk Committee reviews an issue, the Management Committee will take a decision on it. This decision will then be subject to review by the Risk Management Committee of the Board of Directors. Any final decision must then win the approval of the Board of Directors itself. The Management Committee, the relevant Executive Officers, and the heads of the relevant departments will then execute the risk management policy that has been authorized in this manner.

Corporate governance is about promoting the interests of shareholders in the setting and implementing of bank policy. Since fiscal 1998, the Bank has operated a system of performance-related promotion and compensation, as well as a stock option program for senior managers including Board members. The goal of this system is two-fold:

- 1- To ingrain a commitment to shareholder value in the making of management policy.
- 2- To improve the motivation of senior managers with performance-related incentives. Since fiscal 1999, this system of incentives has been extended to Executive Officers.

Decision Making System for Risk Management



Management and Organization of Sumitomo Mitsui Banking Corporation

Corporate Governance

Corporate governance for the new bank will be based on an executive officer system that separates the management of the day-to-day operations of the bank from the strategic oversight of those functions.

The management committee will be composed of executive officers specifically selected by the president, who will preside over the committee in his capacity as chief executive officer. The committee will be responsible for the day-to-day operations of the bank. In addition, a performance-related promotion and compensation system as well as a stock option system will be instituted as incentives linking compensation of the bank’s most senior executives to the increase in shareholder value achieved.

Complementing the activities of the management committee, the board of directors will oversee the operations of the bank and promote the interests of shareholders. The new bank will adopt current Sumitomo policy, which prohibits the same person from serving simultaneously as an executive officer and the chairman of the board. At the same time, several non-executive independent directors from outside the bank will be appointed. Committees to address matters such as personal appointments, compensation and risk management will be constituted from within the board of directors.

Operational Divisions

SMBC will have six main operational divisions: the Consumer, the Middle Market, the Corporate Finance, International Finance, Treasury and Investment Banking divisions. The organizational structure of the new bank will be flattened to streamline the decision-making process. Outside talent will also be recruited where necessary.