

# Corporate Governance

## Our Approach

We position “Our Mission” as the universal philosophy underpinning the management of SMBC Group and as the foundation for all of our corporate activities. We are working toward effective corporate governance as we consider the strengthening and enhancement of corporate governance to be one of our top priorities in realizing “Our Mission.”

## Initiatives for Improving Corporate Governance

- 2002
  - Establishment of Sumitomo Mitsui Financial Group
  - Voluntary establishment of Nominating Committee, Compensation Committee, and Risk Committee as internal committees of the Board of Directors
- 2005
  - Voluntary establishment of Audit Committee as internal committee of the Board of Directors
- 2006
  - Formulation of “Basic Policy on Internal Control Systems” through internal control resolution made based on “Our Mission” and “Code of Conduct” in order to establish frameworks for ensuing appropriate operations
- 2010
  - Listing of shares on the New York Stock Exchange in order to improve transparency of financial reporting, increase convenience for investors, and diversify fund procurement methods
- 2014
  - Appointment of independent directors and independent auditors based on stipulations of the Tokyo Stock Exchange

- 2015
  - Establishment of the “SMFG Corporate Governance Guideline”
  - Increase in the number of outside directors to five and the number of outside corporate auditors to three
- 2016
  - Strengthening of Group governance by appointing the Chairman of SMBC Nikko Securities as a director of Sumitomo Mitsui Financial Group along with the President of SMBC
  - Commencement of evaluations of the effectiveness of the Board of Directors
- 2017
  - Transition to a Company with Three Committees; increase in the number of outside directors to seven; establishment of voluntary Risk Committee together with legally mandated Nomination Committee, Compensation Committee, and Audit Committee; and appointment of outside directors as chairmen of three legally mandated committees
  - Institution of new Group governance system through introduction of group-wide business units and CxO system
- 2019
  - Transition to the Company with Audit and Supervisory Committee structure by core subsidiaries SMBC and SMBC Nikko Securities

## Sumitomo Mitsui Financial Group's Corporate Governance System

We have set forth a “Code of Conduct” to serve as action guidelines across all business activities with the aim of sharing the principles of “Our Mission” throughout the Group. In addition, the “SMFG Corporate Governance Guideline,” a guideline for corporate governance, has been formulated and disclosed. We are promoting awareness and understanding regarding these guidelines among all SMBC Group officers and employees.

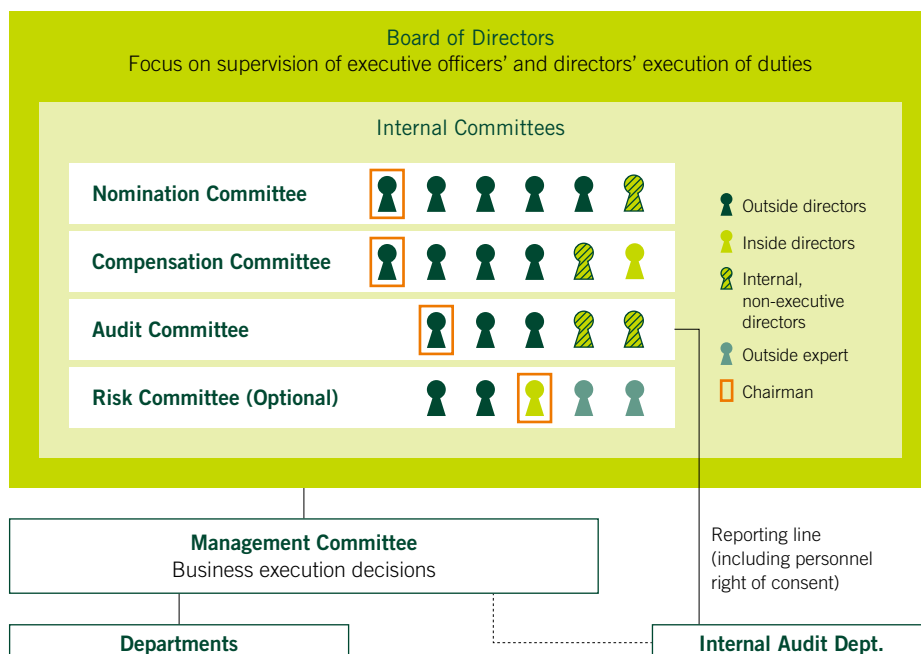
SMBC Group employs the Company with Nominating Committee, etc., structure described in the Companies Act. This structure was adopted in order to establish a corporate governance system that is globally recognized and is aligned with international banking regulations and supervision requirements and achieve enhanced oversight of the exercise of duties by the Board of Directors and expedite this exercise of duties. In addition, core subsidiaries SMBC and SMBC Nikko Securities transitioned to the Company with Audit and Supervisory Committee described in the Companies Act in June 2019.

We realize that there is no perfect form for corporate governance structures. Accordingly, we will continue working toward the strengthening and enhancement of corporate governance in order to realize higher levels of effectiveness.

### Code of Conduct

- To strive to increase shareholder value whilst also maintaining healthy relationships with customers, employees, and other stakeholders. To give utmost consideration to the trust which people have in the firm, to abide by all laws and regulations, to maintain a high ethical standard, and to act fairly and sincerely;
- To continue improving our knowledge and capability and, at the same time, to raise our productivity in order to provide superior financial services at competitive prices;
- To establish a top brand global financial group by understanding the needs of each customer and by providing valuable services which meet those needs;
- To be selective and focused in the implementation of our business strategy, to define and develop the competitive advantages which we have over our competitors and, by allocating managerial resources strategically to those businesses, to become a top player in our selected markets;
- To be creative, proactive, and courageous in order to be in a leading position in all business areas and always a step ahead of our competitors;
- To build a strong organization based on market practice and sound principles whilst reflecting our diverse values. To delegate internal authority under an efficient and effective management system which facilitates speedy decision-making and execution;
- To support our business growth and the development of our employees by setting challenging targets within an evaluation and compensation framework which emphasizes their capabilities and achievements.

### Corporate Governance System



## Board of Directors

### ■ Role of the Board of Directors

The Board of Directors of the Company is primarily responsible for making decisions on the matters that are within its legally mandated scope of authority, such as basic management policies, as well as for overseeing the exercise of duties of executive officers and directors. Authority for execution decisions other than those legally required to be made by the Board of Directors will, in principle, be delegated to executive officers. The purpose for this delegation is to enhance the oversight function of the Board of Directors and to expedite the exercise of duties.

The Board of Directors works toward the realization of “Our Mission” and the long-term growth of corporate value and the common interests of the shareholders. Any action that may impede those objectives will be addressed with impartial decisions and response measures.

Furthermore, the Board of Directors is responsible for establishing an environment that supports appropriate risk taking by executive officers. It will develop a system for ensuring the appropriateness of SMBC Group’s business operations pursuant to the Companies Act and other relevant legislation in order to maintain sound management. Another responsibility of the Board of Directors is to exercise highly effective oversight of executive officers from an independent and objective standpoint. Accordingly, the Board of Directors endeavors to appropriately evaluate company performance and reflect these evaluations in its assessment of executive officers.



### ■ Composition of the Board of Directors

The Board of Directors is comprised of directors with various backgrounds and diverse expertise and experience. The Company strives to maintain the appropriate number of directors in order to enable the Board of Directors to function with the greatest degree of effectiveness and efficiency. In addition, the Board of Directors is to be comprised of at least two directors, and more than one-third of all directors should be outside directors designated as independent directors based on the stipulations of the Tokyo Stock Exchange.

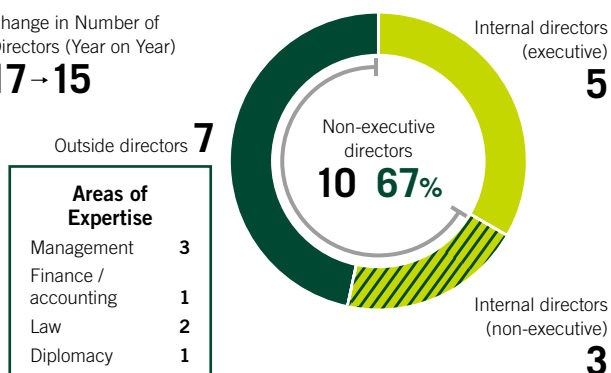
As of June 27, 2019, the Board of Directors was comprised of 15 directors. Ten of the 15 directors did not have business execution responsibilities at the Company or its subsidiaries, with seven of these 10 directors being outside directors. The chairman of Sumitomo Mitsui Financial Group, who does not have business execution responsibilities, served as the chairman of the Board of Directors. This membership ensures an objective stance toward supervising the exercise of duties by executive officers and directors.

Outside directors serve as chairmen and members of the Company’s legally mandated and voluntarily established committees when necessary, outside directors will request reports on compliance, risk management, or other matters from the relevant divisions in order to promote appropriate coordination and supervision.

### Composition of the Board of Directors

Change in Number of Directors (Year on Year)

**17 → 15**



| Areas of Expertise   |   |
|----------------------|---|
| Management           | 3 |
| Finance / accounting | 1 |
| Law                  | 2 |
| Diplomacy            | 1 |

## Internal Committees

### ■ Nomination Committee

The Nomination Committee is responsible for preparing proposals regarding the appointment and dismissal of directors to be submitted to the general meeting of shareholders. This committee also deliberates on matters regarding personnel decisions pertaining to officers of the Company and major subsidiaries and the selection of successors to the presidents of the Company and of core subsidiaries. The Nomination Committee comprises one internal director and five outside directors. In order to ensure transparency in deliberations on officer personnel decisions, an outside director has been appointed to serve as the chairman of this committee.

### ■ Compensation Committee

The Compensation Committee is responsible for deciding policies for determining the compensation of executive officers and directors of the Company as well as compensation amounts of individual executive officers and directors of the Company based on those policies. In addition, this committee deliberates on the policies for determining the compensation of the executive officers of major subsidiaries and the compensation amounts of individual executive officers of the Company. The Compensation Committee is comprised of two internal directors and four outside directors. In order to ensure transparency in deliberations on officer compensation, an outside director has been appointed to serve as the chairman of this committee.

### ■ Audit Committee

The Audit Committee is responsible for the auditing of the execution of duties by the executive officers and directors of the Company, preparation of audit reports, and determination of the content of proposals for election, dismissal, or non-re-election of the accounting auditor to be submitted to the general meeting of shareholders. Committee members are appointed by this committee to perform audits of the operations and assets of the Company and its subsidiaries. The Audit Committee is comprised of two internal directors and three outside directors. An outside director has been appointed to serve as the chairman of this committee in order to guarantee the objectivity of audits and independence from business execution. In principle, at least one member of this committee is to possess specialized expertise in finance.

### ■ Risk Committee

The Risk Committee is responsible for deliberation on matters relating to environmental and risk awareness, the operation of the Risk Appetite Framework, and the implementation of risk management systems as well as other important matters pertaining to risk management and reporting to the Board of Directors on these matters. The Risk Committee is comprised of one internal director, two outside directors, and two outside experts.

## Internal Committee Composition

|   |  | ◎ Chairman ○ Member   |  |   |  |
|---|--|---|--|---|--|
|   |  | Nomination Committee<br>(1 inside director,<br>5 outside directors) | Compensation Committee<br>(2 inside directors,<br>4 outside directors) | Audit Committee<br>(2 inside directors,<br>3 outside directors) | Risk Committee<br>(1 inside director, 4 outside<br>directors, and outside experts) |
| <b>Masayuki Matsumoto</b>               | Outside director   | ○   |  | ◎   |  |
| <b>Arthur M. Mitchell</b>               | Outside director   | ○   | ○  |   |  |
| <b>Shozo Yamazaki</b>                   | Outside director   |   |  | ○   | ○  |
| <b>Masaharu Kohno</b>                   | Outside director   | ○   |  |   | ○  |
| <b>Yoshinobu Tsutsui</b>                | Outside director   | ◎   | ○  |   |  |
| <b>Katsuyoshi Shinbo</b>                | Outside director   |   | ◎  | ○   |  |
| <b>Eriko Sakurai</b>                    | Outside director   | ○   | ○  |   |  |
| <b>Takeshi Kunibe</b>                   | Chairman of the Board                                      | ○   | ○  |   |  |
| <b>Jun Ohta</b>                         | Director<br>President                                      |   | ○  |   |  |
| <b>Toru Nakashima</b>                   | Director<br>Senior Managing Corporate<br>Executive Officer |   |  |   | ◎  |
| <b>Atsuhiko Inoue</b>                   | Director   |   |  | ○   |  |
| <b>Toru Mikami</b>                      | Director   |   |  | ○   |  |
| <b>Hirohide Yamaguchi</b> <sup>*1</sup> | Outside expert   |   |  |   | ○  |
| <b>Tatsuo Yamasaki</b> <sup>*2</sup>    | Outside expert   |   |  |   | ○  |

\*1 Chairman of the Advisory Board of Nikko Research Center, Inc., former Deputy Governor of the Bank of Japan

\*2 Specially appointed professor of International University of Health and Welfare

### Meetings Only Attended by Outside Directors

As described in the “SMFG Corporate Governance Guideline,” outside directors may hold meetings that only outside directors may attend to serve as forums for building consensus and exchanging information with regard to matters pertaining to corporate governance and businesses from an independent and objective standpoint. In FY2018, three such meetings were held. During these meetings, outside directors engaged in vigorous discussion regarding topics such as the ideal procedures for selecting agenda items based on the role of the Board of Directors and management issues for SMBC Group. The results of these discussions were communicated to management.



### Support Systems for Outside Directors

The Company recognizes that outside directors require an in-depth understanding of the Group’s business operations and business activities. Accordingly, we endeavor to continually supply outside directors with the information and insight on business activities that is necessary to supervise management while also providing the opportunities needed to fulfill their roles.

Initiatives to support directors in FY2018 included the following.

- Participation in meetings of general managers of core Group companies and other executive team meetings, tours of bases of Group companies, and discussions with presidents of Group companies for facilitating a greater understanding of business operations and business activities
- Explanatory forums on Board of Directors’ meeting agenda items prior to Board meetings to assist in understanding of items
- Study sessions for outside directors led by external lecturers on topics such as corporate governance and financial regulations
- Small meetings with institutional investors to provide opportunities for understanding the perspectives of stakeholders
- Training through SMBC Academy training website for employees

### Outside Director and Corporate Auditor Independence Standards

In order for an outside director or outside corporate auditor (“Outside Director or Corporate Auditor”) of the Company to be classified as independent, they must not fall under, or have recently fallen under, any of the following categories:

|   |                               |   |
|---|-------------------------------|---|
| 1 | <b>Major Business Partner</b> | <ul style="list-style-type: none"> <li>• An entity that has the Company or SMBC as a major business partner or an executive director, officer, or other person engaged in the execution of business of such an entity.</li> <li>• An entity that is a major business partner of the Company or SMBC or an executive director, officer, or other person engaged in the execution of business of such an entity.</li> </ul>   |
| 2 | <b>Specialist</b>             | <ul style="list-style-type: none"> <li>• A legal expert, accounting expert, or consultant who has received money or other property from the Company or SMBC averaging more than JPY 10 million per year over the last three years, in addition to any compensation received as a director or corporate auditor.</li> <li>• A member of a Juridical Person, etc., or other organization that provides specialist services, such as a law firm, accounting firm, or consulting firm, which has received large amounts of money or other property from the Company or SMBC.</li> </ul> |
| 3 | <b>Donations</b>              | A person who has received – or an executive director, officer, or other person engaged in the execution of business of an entity which has received – on average over the last three years, donations or other payments from the Company or SMBC in excess of the greater of JPY 10 million per year and 2% of the recipient’s annual revenue.  |
| 4 | <b>Major Shareholder</b>      | A major shareholder of the Company or an executive director, officer, or other person engaged in the execution of business of a major shareholder (including anyone who has been a major shareholder, or an executive director, officer, or other person engaged in the execution of business of a major shareholder, within the last three years).   |
| 5 | <b>Close Relative</b>         | A close relative of any person (excluding non-material personnel) who falls under any of the following:<br>(1) A person who falls under any of 1 through 4 above; or<br>(2) A director, corporate auditor, executive officer, or other person engaged in the execution of business of the Company or a subsidiary thereof.  |

▶ Please see Reference 7 of the “SMFG Corporate Governance Guideline” for more information.

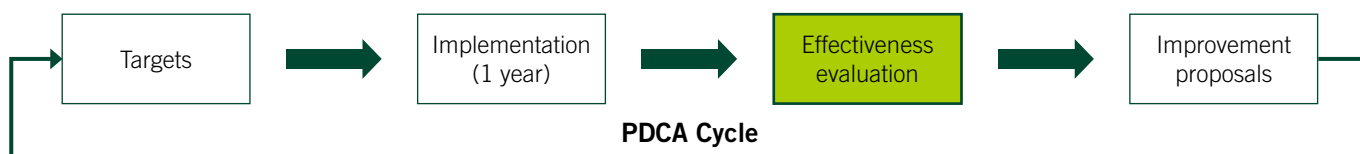
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## Evaluation of the Board of Directors' Effectiveness

The "SMFG Corporate Governance Guideline" contains provisions on evaluating the effectiveness of the Board of Directors. In accordance with these provisions, annual analyses and evaluations are conducted by the Board of Directors to determine whether or not it is executing its duties in line with the guideline, and the results of these analyses and evaluations are disclosed.

In FY2018, the evaluation focused on the four areas described below, which are areas for which provisions exist in Japan's Corporate Governance Code and the "SMFG Corporate Governance Guideline." All seven outside directors were asked

for their opinions regarding these areas at meetings of the Board of Directors held in April and May 2019, and interviews of internal directors were conducted thereafter. The primary subject of interviews with internal directors was their expectations of outside directors. Discussions based on the findings took place at Board of Directors' meetings in June, after which analyses and evaluations were carried out to determine whether or not the Board of Directors was executing its duties in line with the "SMFG Corporate Governance Guideline." Moreover, reviews by external specialists with expertise from developed nations are received at each stage of the evaluation process.



### Overview of Evaluation Results

#### Role of the Board of Directors

- Steps are taken to invigorate discussions while taking advantage of the highly specialized expertise of the outside directors. These discussions were geared toward medium- to long-term improvements in corporate value based on the interests of various stakeholders while incorporating important matters related to business strategies to contribute to the fulfillment of "Our Mission."
- Based on the executive-side discussions of the Management Committee, matters related to business plans and other basic management policies as well as the status of the business execution were presented and reported on several occasions. As a result, effective deliberations on these matters were able to take place and oversight functions were exercised properly.
- Further evaluations and revisions are necessary for enabling outside directors to better exercise their functions based on the issues and future direction for SMBC Group, ongoing, in-depth discussions on the overarching management issues (big picture) pertaining to medium- to long-term targets, and the expectations of outside directors.

#### Proceedings of the Board of Directors

- The number and content of agenda items as well as the amount of time dedicated to discussion of agenda items were more or less around the appropriate level.
- Discussions were livelier than in the previous fiscal year due to the allocation of time to discuss topics not included in agenda and seating arrangement-related measures.
- The following measures were taken to encourage frank discussion at meetings of the Board of Directors.
  - Preparation of clearer explanations and materials on the points to be discussed
  - Measures related to the direction of proceedings

#### Composition of the Board of Directors

- As of March 31, 2019, the Board of Directors consisted of 17 directors, seven of which were outside directors. Accordingly, outside directors represented over 40% of all directors.
- It was once again acknowledged that the outside directors represented a diverse range of expertise, genders, and nationalities and that the Board of Directors features an atmosphere conducive to outside directors voicing opinions regarding management.
- There is a need to continue evaluating and revising the number of members and the composition of the Board of Directors to ensure that the Board of Directors is suitable based on its role.

#### Support Systems for Outside Directors

- Information necessary for making flexible management decisions in a changing operating environment and for exercising effective oversight functions continued to be supplied to Board of Directors' members in an appropriate and timely manner.
- The Company continued to provide systems for effectively supporting the Board of Directors in making management decisions through venues such as study sessions for outside directors and forums for discussions between outside directors and internal directors, executive officers, and the accounting auditor.
- It is desirable for the Company to continue promoting initiatives for utilizing the insight of outside directors (such as by arranging forums for exchanges of valuable information between outside directors or between the executive and oversight functions and increasing the amount of information provided to outside directors).

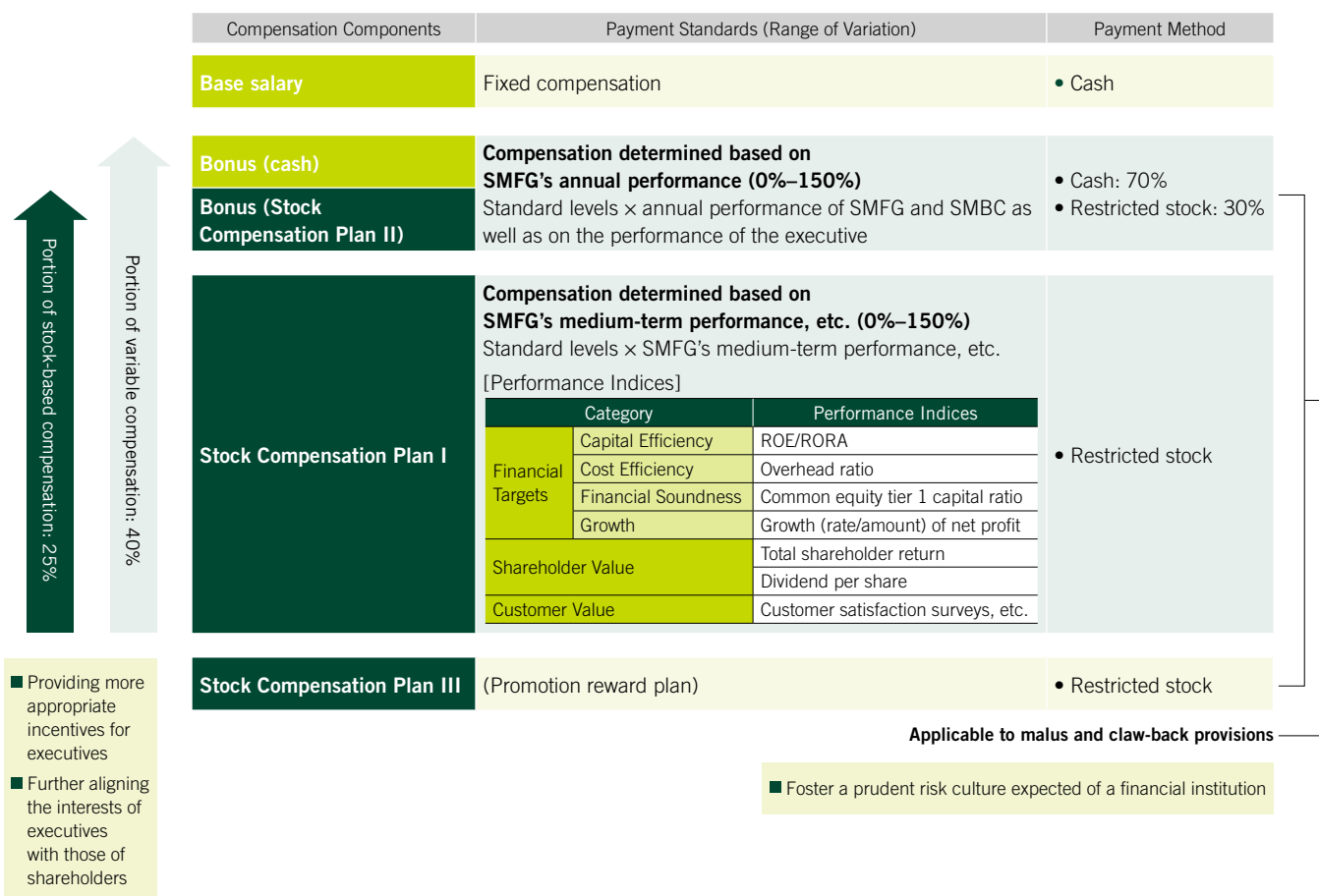
## Compensation Program

We revised the executive compensation program and introduced new Stock Compensation Plans as a part of the executive compensation program, for the purpose of:

1. Providing more appropriate incentives for executives, strengthening linkage with our short-, medium-, and long-term performance, and
2. Further aligning the interests of executives with those of shareholders, by increasing the weight of stock compensation and enhancing the shareholding of our executives.

We also introduced the malus (forfeiture) of restricted stock and the claw-back of vested stock allocated to the executives under the Plans to restrain excessive risk-taking and foster a prudent risk culture expected of a financial institution.

## Executive Compensation System



## Executive Management Systems

### Management Committee

The Management Committee is set up under the Board to serve as the top decision-making body. The Management Committee is chaired by the President of Sumitomo Mitsui Financial Group with other members including executive officers and other officers designated by the President. The President of Sumitomo Mitsui Financial Group considers important matters relating to the execution of business in accordance with the basic policies set by the Board of Directors and based on discussions held by the committee members.

### Group-Wide Business Units and CxO System

In April 2017, the Company introduced group-wide business units and the CxO system with the aim of enhancing Group management. The group-wide business unit structure entailed the creation of the Retail Business Unit, the Wholesale Business Unit, the International Business Unit, and the Global Markets Business Unit. The goal of this structure is to heighten our ability to address the various needs of customers on a group-wide basis by enabling the business units to formulate and implement business strategies based on their respective customer segments. The CxO system entails the appointment of nine Group chief officers in charge of specific areas in addition to the Group CEO (President of Sumitomo Mitsui Financial Group). This system is meant to improve Group management capabilities centered on the holding company. The heads of business units as well as the chief officer positions will, in principle, be filled with executive officers of the Company, with the one exception being the Group Chief Audit Executive (CAE). Individuals appointed to these positions are expected to exercise their duties as the person responsible for overseeing their business unit or head office division and report on the execution of their duties to the Board of Directors.