

# DISCUSSION

## Round-Table Discussion with Outside Directors

Group CFO Toru Nakashima asked Katsuyoshi Shinbo and Eriko Sakurai, both outside directors of Sumitomo Mitsui Financial Group, and Sonosuke Kadonaga, an outside director of Sumitomo Mitsui Banking Corporation, for their thoughts about the new Medium-Term Management Plan (“the New Plan”) which was announced in May 2020.



**Nakashima** Thank you for taking part in today’s round-table discussion. First, I am going to ask everyone for your thoughts regarding the New Plan. Ms. Sakurai, would you be kind enough to start things off?

**Sakurai** I was also involved in discussions during the formulation of the previous Medium-Term Management Plan (“the Previous Plan”) so I will begin by touching upon the differences that I felt in comparing the two. First, I was impressed by the New Plan’s formulation process. In comparison to the Previous Plan, the involvement of outside directors in discussions began much earlier. In addition, the documents that were used in those discussions were at the draft stage with some pages still being blank. Being able to engage in discussions at the early stages of the respective strategies and goals provided outside directors with ample

opportunity to provide input which in turn led to robust discussions. I believe this represents the changing corporate culture of SMBC Group.

**Shinbo** I agree. I also feel that during the formulation of the New Plan, significant time was spent discussing what the right balance is when attempting to address the needs and expectations of SMBC Group’s shareholders, customers, employees, and society. If we take financial targets as an example, a situation must not arise in which customers are negatively impacted due to employees having to pursue unrealistic targets. Having said this, careful attention must also be paid to shareholders’ expectations and genuine efforts must be made to meet those expectations. I believe that fair, achievable financial targets have been set as a result of the senior management team having developed a common

*Top left:*

**Katsuyoshi Shinbo**

Outside Director, Sumitomo Mitsui Financial Group

*Bottom left:*

**Eriko Sakurai**

Outside Director, Sumitomo Mitsui Financial Group

*Top right:*

**Sonosuke Kadonaga**

Outside Director, Sumitomo Mitsui Banking Corporation

*Bottom right:*

**Toru Nakashima**

Group CFO and Senior Managing Corporate Executive Officer,  
Sumitomo Mitsui Financial Group



The round-table discussion was held via a web-based conference.

understanding by engaging in in-depth discussions regarding what the right balance is.

**Kadonaga** There are three main points that I would like to share. First, the topic of financial targets just came up and in addition to setting quantitative targets I stressed the importance of setting qualitative goals as well. What sort of corporate group do we want to become by the end of the New Plan? For example, what sort of value will SMBC Group add to customers' business operations? Where does SMBC Group want to stand in the financial sector given its competitors in the global and domestic markets? The reason for this being that employees are the ones who take the heaviest burden in the execution of plans and initiatives, and qualitative goals are a valuable tool to boost employee motivation.

My second point is that while further efforts to optimize cost structures must be undertaken as market conditions surrounding the financial sector are becoming even more challenging, SMBC Group must also clarify where it will allocate capital including investments. My third point deals with SMBC Group's future business model. In other words, what kind of business model will SMBC Group strive to create given that levels of past growth can no longer be realized through its traditional bank-centric model. Although identifying a solution to this predicament is by no means an easy task, we engaged in discussions from the standpoint of how and where management resources, such as capital and personnel, should be allocated in SMBC Group's efforts to establish its future business model.

**Shinbo** I agree that very active discussions regarding the future of SMBC Group beyond the three years covered under the New Plan took place. As I have been involved in the securities industry in my capacity as a lawyer, in connection to growth strategies of SMBC Group's securities business I offered my thoughts on the topics of digitalization, winning young customers, and strengthening the overseas presence. While there is no direct connection, I believe that

the conclusion of a basic agreement in April 2020 with SBI Group concerning a strategic capital and business alliance reflects SMBC Group's commitment to taking the necessary measures to ensure its growth and development beyond the New Plan.

**Sakurai** In comparison to the Previous Plan's formulation process, I feel the discussions had evolved, not only in terms of quantity, but also quality. Our involvement in the formulation of the New Plan began at the stage where the ideas and theories which would later act as the building blocks for individual initiatives were still being addressed, for example the future vision for SMBC Group and the corporate values that act as the basis of the Group's business as Messrs. Shinbo and Kadonaga pointed out. As a result, the discussions that followed had a level of depth which was not present in earlier discussions. In addition, by using advance briefings to address specific matters pertaining to individual initiatives and the Group CxOs themselves presenting material and conducting Q&A sessions during Board meetings, discussions from a high vantage point were made possible. I also feel that in-depth discussions for each section of the New Plan's growth investments were made possible by holding study sessions on SMBC Group's capital policy and creating the opportunity for the Board to reach a consensus.

**Nakashima** Obtaining input from our outside directors at the earliest possible stage was one of our key focus points during the New Plan's formulation. We also worked to further enhance the quality of our discussions by not limiting them to Board meetings, but also expanding them to include advance briefings and study sessions. For example, in the study sessions covering SMBC Group's capital policy, for the first time ever we organized a meeting between our outside directors and investors/analysts. Mr. Shinbo highlighted the importance of viewing matters from a shareholder's perspective earlier and this is a mindset that all of us at SMBC Group share. I felt the meeting was an excellent opportunity

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for our outside directors to also share in this mentality.

As you can see, the New Plan has incorporated much of the input we received from our outside directors, and I would like to take this opportunity to thank you all once again. Would anyone like to add anything else?

**Kadonaga** Ms. Sakurai touched upon the concept of corporate values earlier, and I think very highly of the fact that “Integrity” was added to the Five Values, a set of shared beliefs and behavioral guidelines for all SMBC Group employees, in line with the formulation of the New Plan. As the Five Values were already firmly embedded in the SMBC Group mindset, I believe that introducing change to those values was a challenge. However, I believe that adding “Integrity” to the Five Values will prove to be beneficial to SMBC Group’s shareholders and investors considering the increased attention being directed to ESG-themed investments, by bringing together the Group’s employees, and helping attract talented personnel. This is a point that I have repeatedly raised from the discussion phase of the New Plan.

**Shinbo** I was also of the opinion that “Integrity” should be added to the Five Values. For example, in recent years corporate fiduciary duty has drawn increasing interest and SMBC Group established the Basic Policy for Customer-Oriented Business Conduct as part of its efforts to ensure that it was in compliance with its fiduciary duty. However, SMBC Group employees most likely viewed the concept of SMBC Group’s fiduciary duty strictly within the context of marketing financial products. By incorporating “Integrity” into SMBC Group’s Five Values, a set of values which forms the basis of the Group’s business conduct, a clear message was sent to all SMBC Group employees that the concept of “Integrity” applies to all aspects of their actions, in short, that SMBC Group must possess and act according to a strict code of ethics.

**Sakurai** From the standpoint of preparing the New Plan’s strategies, being able to discuss SMBC Group’s future vision was very valuable. Given the reality that the current business environment is undergoing sudden and substantial change, it is not realistic to focus on determining the details of each

initiative and apply an overly rigid approach to their execution. The New Plan recognizes that the future is not fixed. It takes into consideration that events which result in material changes to the business environment, for example the COVID-19 pandemic, will occur and the New Plan shows the broad vision which SMBC Group will work towards through its various initiatives that have been prepared in a manner which allows for sufficient flexibility in their execution. As a result, the initiatives’ varying levels of importance have been made clear.

**Kadonaga** A phrase that I often use is: “do more better.” It means that even within the same framework, a little more effort can lead to a substantial improvement. However, I believe that it is important that everyone goes one step ahead of this mindset when carrying out the New Plan. Especially in terms of building SMBC Group’s future business model, frank and open discussions must continue, taking into consideration factors such as how consumer behavior and society will change in the post-COVID-19 world.

**Sakurai** Digitalization is expected to further accelerate in the post-COVID-19 world. The fact that SMBC Group was able to launch initiatives aimed at winning the key digital points of various value chains prior to the commencement of this trend will prove to be very beneficial given SMBC Group’s standing as a leading company in the cashless payment sector.

**Nakashima** Various opportunities, such as Board meetings, will be used to conduct discussions concerning what SMBC Group’s business will look like in the post-COVID-19 world with a range of counterparties, including our outside directors.

To bring today’s discussion to a close, could you kindly share with us how, as an outside director, you will draw upon your personal experiences to contribute to enhancing SMBC Group’s corporate value?

**Sakurai** I am reminded on a regular basis that for the concept of an outside director to properly function, a company’s Board must be comprised of a number of outside directors who have different backgrounds and areas of expertise. As such, I will leverage the experience that I have accumulated

over the many years I have spent at a global corporation, experience which I continue to accumulate today, to help enhance SMBC Group's corporate value. There are a number of differences in the mentality of Western and Japanese firms. For example, Japanese firms view accountability as being identical to responsibility, while in the West they are treated as two separate concepts. In the West, accountability refers to the responsibility of an individual to explain a particular outcome and great importance is placed on who is accountable. As such, this point must be clarified if a business is going to successfully operate in the West. This was one of the perspectives from which I provided advice during the introduction of the CxO framework.

Furthermore, a duty of an outside director is to represent the company's various stakeholders, so I pay careful attention to ensure my comments and questions during Board meetings are made from the standpoint of SMBC Group's shareholders and customers. As such, in addition to regularly checking the share price and reading analyst reports, I visit an SMBC branch or use smartphone apps to understand SMBC Group from a customer's perspective.

As a member of the Nomination Committee, I am entrusted with the heavy responsibility of assisting in the selection of SMBC Group's leaders. To ensure that this process does not become arbitrary, committee members have established a number of common evaluation criteria. When I interview candidates for leadership positions, I add integrity and inclusion to the evaluation criteria so that leaders fitting of SMBC Group are selected.

**Kadonaga** My career as a management consultant spans more than 30 years. In addition, from 2012 I have served as an outside director of Kao Corporation. Based on such experience, I believe I have the following three key roles.

My first role is to check whether the senior management team is pushing forward SMBC Group's various strategies based on an accurate understanding of the circumstances the Group's employees are being placed under and whether the goals of those strategies have been determined in a reasonable, rational manner. You can say that this makes me an overseer of suitability, a role which I believe to be of considerable significance. As such, I place great importance

on realizing opportunities which will allow me to witness employees' honest thoughts and concerns.

My second role is to point out instances where I feel that deliberations undertaken by the Board are becoming short-sighted or narrow-minded. For example, if too much focus is being directed towards SMBC Group's direct competitors, I attempt to expand the scope of the discussion while introducing applicable cases experienced by other companies.

My third role is to act as a catalyst for the candid exchange of views and discussions. I feel that substantial progress has been made in this regard compared to when I joined SMBC's Board of Directors three years ago as an outside director, and I will continue doing my best to carry out this role.

**Shinbo** I believe that my input regarding legal matters is expected given that I am a lawyer. Having said this, I have made a conscious effort to refrain from dealing with the specific details regarding legal matters as I believe that is the responsibility of a corporate lawyer and not of an outside director. Of course, I firmly believe that it is very important that I put forward my honest opinion without any compromise regarding issues which I feel contain significant risk for SMBC Group. Lawyers need to establish a close relationship with clients but must take care not to lose their objectivity. I believe that using this objectivity to convey tough feedback when needed is the role expected of me. This also applies to my responsibilities as a member of the Remuneration Committee, and I do not hesitate to voice my concerns when I feel that an irregularity exists with the existing compensation framework.

The final role of an outside director, and this applies to situations when the company itself is going down an incorrect path, for example pursuing unattainable goals or strategies involving too much risk, is to support individuals who are attempting to correct the direction the company is pursuing and stand with them against the senior management team.

**Nakashima** Thank you very much for your valuable opinions today. I look forward to receiving your frank, continuous input.