

Small Meeting with Outside Director
Presentation summary / Major questions and answers

1. Presentation Summary (Eriko Sakurai)

First, let me introduce my career. After graduating from a Japanese university, I went to a graduate school in the US and majored in neuro-psychology. After graduate school, I decided to stay and work in the US, and joined Dow Corning Corporation, a chemical firm, in 1987. Since then, I have worked globally in many product units such as cosmetics, building materials and automobiles. During the past few years, I have been learning the principles of corporate governance as the regional president of Japan and Korea, as the company has been reinforcing governance in each country around the world.

This is my third year as Outside director of SMFG, but a year before I started at SMFG, I started working as an Outside director of Sony Corporation. SMFG offered me to become Outside director at a time when corporate governance started to garner attention in Japan. At first, I hesitated if I should accept the offer, since I didn't have a background of finance. However, I was told that they wanted to bring in people from different backgrounds, as SMFG was in the process of changing dramatically, so I decided to accept the offer.

In the past two years, I believe SMFG changed dramatically. At first, I felt occasionally that discussions were made mainly through the perspective of the bank. However, SMFG has rapidly changed its point of view to consider how to pursue growth as a financial group. SMFG also transformed into a Company with Three Committees in June of this year, but I believe the shift has been smooth since we already had been operating in a similar framework. I have been thinking about the best form of supervisory and execution, and how far supervisory could step into management. After two years since I became SMFG's Outside director, I believe we are gradually getting to a good form. As the new governance framework starts this year, I would like to work with renewed sense of tension as an Outside director.

2. Major questions and answers

Q1. Please tell us your thoughts on the differences between industrial companies and financial institutions, especially on the difference in the function of Outside directors.

A1. In a broad sense, there are no differences between industrial companies and financial institutions in the principles of governance, what the Outside directors should monitor, or the function of Outside directors. However, since financial institutions have many requirements such as the international financial regulations, the way they take risks differs from industrial companies. Another difference is that the risks in industrial companies have little chance of being realized at once since they have a business portfolio of various independent products, whereas in financial institutions, their portfolio is linked as a whole. Therefore, I feel that the judgments on taking risks for financial institutions are a little more conservative than that of industrial companies. Meanwhile, I am sometimes envious of financial institutions as they could provide new services using digitalization promptly, whereas it takes a few years for manufacturing companies to launch new products.

Q2. Please tell us your thoughts on the function of Outside directors at normal times and the difference between that in a crisis.

A2. The basics of governance do not change whether it is in normal times or in a crisis. Since critical problems occur abruptly even in normal times, we always need to keep in mind what potential risks are hiding. For example, Mr. Kohno, who is a former diplomat and an Outside director of SMFG, points out that even if SMFG or Japan seems to be in normal times, we should consider that there are disputes occurring in many parts of the world, or we should think about what kind of effect the US situation would have to global financial institutions. Also, the normal times allow us to take the time to think about long-term subjects such as the welfare of our employees or training personnel for the next generation. We do not need any short-term actions at the moment, as we are not in a crisis, but I believe there is no time to rest in governance.

Q3. Please explain how you reflect the stakeholders' perspective as an Outside director, when making decisions.

A3. When we have discussions within the Board of Directors, we always consider what is preferable for key stakeholders. Since the number of Outside directors increased, we could now discuss from many perspectives. I believe the role of Outside directors includes to question and to request analysis on various options, pros and cons, and what kind of future we should draw in the long term.

Even if a subject was discussed thoroughly in the Management Committee, we sometimes go back to the starting point and discuss all over again. When important decisions are made, the top management gives us feedback on the reactions of stakeholders against the decision in the next Board of Directors. We always make sure to connect to the next action by following up and making reviews on the results with every member of the Board of Directors.

Q4. Please explain the difference between Internal directors and Outside directors, and how they developed a mutual understanding.

A4. Because of the different backgrounds, it is often the case where things that are ordinary for the financial industry are not for the Outside directors. The words used are very different. The same word often has different meanings and the internal technical terms are sometimes difficult to understand. Therefore, we confirm the meaning of words each time to make sure we all speak the same language. I believe we have established a healthy routine where Outside directors speak out anything they think is good or questionable. Because of the hard efforts of the SMFG employees, I believe the Internal and Outside directors have gained further understanding of each other. It is not healthy to become too accustomed to the environment, but last month, new members of the Outside directors joined the Board, and we have gained a nice sense of tension.

Q5. Please tell us if the governance framework in SMFG is appropriate for Outside directors to supervise management.

A5. The operation is run in order not to generate difference between the information the Outside directors and the Internal directors can get. For example, Outside directors are, with their given iPad, able to access SMFG's internal network and obtain various information and database. Also, Outside directors could always receive thorough explanation if anything is unclear. If it is hard to make a decision on an individual deal, we always confirm its background and details until we are satisfied enough to vote in the Board of Directors. On the execution side, they became better in making explanations showing the complete picture and story to accomplish the goal. So, I believe both sides have developed.

Q6. Please explain what essential elements should be considered when

agreeing or disagreeing to big deals such as M&A.

A6. We make much account of the whole story when considering not only big deals, but also small deals. Therefore, the Outside directors requested the top management of execution to explain the deals at the Board of Directors even if they were explained by working staff before the Board of Directors. We wanted them to explain from the background of the deal at a high standpoint, in order for us to understand the entire story including the details. We also place emphasis to think about what it would mean not only for SMFG, but also for our stakeholders including shareholders and customers.

Q7. Please explain what discussions were made when transforming into Company with Three Committees, and what has changed since the transformation.

A7. It is this year that SMFG transformed into a Company with Three Committees, but we had been operating in a similar monitoring framework by organizing discretionary internal committees. For example, the top management appointed this year was determined through thorough discussions in the (former) Nominating Committee which was formed mainly by Outside directors. Since we have been operating in this framework, we are comfortable in transforming to the new framework by continuing what we have been doing. However, the transformation means the Nomination Committee, the Compensation Committee and the Auditing Committee became legal committees. The most important point of this transformation is that the Three Committees are chaired by Outside directors, and that it is guaranteed the final decision will be made at each Committee.

Q8. Please explain what discussions were made when the new Medium-Term Management Plan was formed.

A8. We discussed about the Medium-Term Management Plan for more than a year and a half. In addition to having several discussions in the Board of Directors, we read through the documents used in the Management Committee and held meetings with the working staff to get updates of the progress. In that process, I requested to show the business portfolio graphically based on profitability and growth potential, and the working staff made one that clearly indicated the

business areas we should focus on. As to the business areas that are not showing high growth, we had discussions on why that was the case. For business areas where it is not easy to exit, we discussed on how we can alter its business model. In this way, we were able to create a satisfying future vision of our business portfolio. This new Medium-Term Management Plan was formed through this process, so I believe everyone including the Outside directors were satisfied when we made the announcement. Now that the plan is announced, it is important to breakdown the plan into concrete measures and to follow-up the commitments we posted. We, Outside directors will also take ownership and work on this process.

Q9. Please explain the strengths and weaknesses of SMFG.

A9. I believe the competitive domestic retail business and the business style that bears closely on each customer's needs are the strengths of SMFG. In addition, every time I speak with employees from working staff to managers, I always feel that there are so many that have good personality, are hard-working, and are passionate about their work. I have heard from leaders of global large companies praising SMFG/SMBC's top-down organizational capability and speedy response. On the other hand, as we expand our overseas business, I believe SMFG needs to focus more on training human resources who could be successful internationally, and I think we have potential there.

Q10. Please tell us your thoughts on SMFG's Group-wide business units.

A10. First, it is not that we intended to apply the Group-wide business units from the beginning. When we were forming the new Medium-Term Management Plan, we discussed on how we can respond to the broad demands of our customers. And with the environment changing globally and considering SMFG's growth potential, we came to the conclusion to introduce the Group-wide business units. It is important to keep a good balance between the business units and the entities and not to determine which is superior. The long-term business plans are formed by each business unit and the leader of each entity needs to communicate well with the employees and make various timely decisions. I believe creating a balance here means an organization with team work. In the first Board of Directors after we introduced the Group-wide business units, we had a free discussion not on the things that went well, but on the things that

were confusing or caused problems. We would like to continue monitoring its progress.

Q11. Please tell us your thoughts on the increasing overhead ratio of SMFG.

A11. I believe it is not meaningful to only discuss about how to reduce the overhead ratio. What I always question is how much expense is used for future return. For example, as the IT system investment cost for this fiscal year was less than last year, I asked "Isn't this opposing to our goal to be No.1 in digitalization?". The answer was that the reduction was mainly because of smaller maintenance cost, which made sense. Obviously, we can't do everything just because it will contribute for the future, and I always exert myself to make decisions after understanding which business area we should focus our investments.

Q12. Please tell us your prospects on the banking industry.

A12. This is exactly the point we discussed when forming the new Medium-Term Management Plan. In this challenging business environment, SMFG needs to respond to various customer demands in order to achieve continued growth. Maybe M&A or a change in business model will be necessary, but I believe the most basic and ultimate measure is to realize our customers' demands. We are not in an era where we could achieve growth only by simply executing transactions.

Q13. Please explain what were the arguing points when discussing about shareholders' equity and capital cost.

A13. When talking about capital, obviously cost and return are important. However for financial institutions, the difference compared to industrial companies is that in addition to the regulatory factor, risks realize cumulatively when something happens. Therefore, I believe financial institutions need to operate a little more conservatively looking at the worst case scenario in order to preserve as being a healthy institution. On the other hand, initiatives for growth are also important. As Outside director, I believe one of my contributions is that I can make advice based on long term perspectives.

Q14. Please explain with which company you make comparison when determining shareholder return policy including payout ratio.

A14. I believe shareholder return policy should be determined within the balance of “securing financial soundness” and “investing for growth” of SMFG and not by comparing it with other companies. When creating the Medium-Term Management Plan, we had thorough discussions based on multiple scenarios looking at external factors including the tightening of international financial regulations and came to the conclusion to adopt a progressive dividend policy and set a payout ratio target of 40%.

Q15. Please tell us your thoughts on the compensation incentives of the top management.

A15. The directors’ most important role is to think based on the perspective of key stakeholders. This time we introduced new stock compensation plans for executives, in order for executives to hold shareholder perspectives with a good balance. By introducing the malus (forfeiture) of restricted stock and claw-back of vested stock allocated to the executives, and by assigning an Outside director as chairman of the Compensation Committee, I believe we have a compensation framework that can be monitored appropriately. We receive opinions that the compensation of top management of Japanese financial institutions are lower compared to overseas companies, but during the revision of this year’s executive compensation, we looked at various benchmarks including global peers and made our decision based on our long term compensation policy. Therefore, I believe we have come to the right conclusion based on the current situation. Going forward, we would like to discuss what kind of compensation system would be necessary to attract global talent in the Compensation Committee.

Q16. As a member of the Nomination Committee, please explain how you plan to select future top management and if there is any chance that someone from outside the company will be selected.

A16. For this year’s management change, we thoroughly discussed what kind of personnel would be appropriate to be the leader of SMFG. We discussed and defined what kind of leadership or international mindset will be necessary for

SMFG and selected who would fit these criteria. In other words, we first looked at what kind of company SMFG would like to become, defined the necessary figure to lead the company and then selected who would fit this figure. The committee is always discussing about the candidates who fit this definition for leaders of the next generation. Creating a pool of these candidates is an important task going forward. I believe it is important to discuss what kind of leader we need regardless of whether it is from the inside or outside.

Q17. Please tell us your thoughts on SMFG's culture from the perspective of promoting women's contribution.

A17. I, personally raising two children while working full time at a foreign company, have been talking in detail with SMFG management about what kind of working environment is suitable for women. Through these discussions, I am impressed to learn how strong the commitment of top management is about this topic. At SMFG, women are promoted because of their talent, not because to create numbers to show how many female managers it has. I take the opportunity to talk with the female working staff, and initiatives toward work style reform are underway. The importance of diversity and inclusion is that it is not just about gender but that employees with various backgrounds and ways of thinking lead to the results of the business. This topic is frequently discussed at the Board of Directors.