

## Corporate Governance

### ● Corporate Governance System

SMBC's corporate governance system is being strengthened to improve decision-making transparency and soundness. We are bolstering the oversight functions of the Board of Directors (the Board) and implementing a separate executive officer system at the operational level. In addition, we are incorporating opinions from outside advisors regarding the following two areas in particular.

1. Advice regarding all aspects of management
2. Operational reviews from perspectives independent of the Bank

To facilitate Item 1 above, we established an Advisory Board to the chairperson and president in July 2001. For Item 2, we have asked the Board's outside directors to focus primarily on oversight of operational reviews in Board meetings and subcommittees.

### ● Advisory Board

The Advisory Board is a council comprised of prominent individuals from outside the Bank given the mandate to provide advice on the entire range of issues facing the Bank, including important management strategies, industry-wide problems, economic and political trends, major industry and competitive developments, the consumer mindset and social trends. The appointed members, listed below, are current or former corporate executives, management consultants or scholars.

<b>Shoichiro Toyoda</b>	<i>Honorary Chairman, and Member of the Board, Toyota Motor Corporation</i>
<b>Naohiko Kumagai</b>	<i>Senior Advisor to the Board, Mitsui &amp; Co., Ltd.</i>
<b>Tetsuro Kawakami</b>	<i>Senior Advisor, Sumitomo Electric Industries, Ltd.</i>
<b>Toshiomi Uragami</b>	<i>Advisor, Sumitomo Life Insurance Company</i>
<b>Yoshio Tsukio</b>	<i>Professor, Graduate School of Frontier Sciences, The University of Tokyo</i>
<b>Yoshinori Yokoyama</b>	<i>Director, McKinsey &amp; Company, Inc., Japan</i>

### ● Oversight System

Under the current Commercial Code, the Board of Directors bears responsibility for “setting policy for important management issues” and “overseeing performance.” At SMBC, we place particular emphasis on the latter function. We introduced an executive officer system that separates decision making at the operational level from the Board's oversight functions. In particular, the Chairman of the Board is prohibited from assuming direct responsibility for operational duties and is primarily charged with their oversight. Moreover, we reinforced the Board's oversight functions by setting up three subcommittees: the Risk Management, Compensation and Nominating Committees. Two outside directors, with respective certified public accountant and lawyer backgrounds, have been appointed to each committee. In particular, an outside director has been appointed as the Chairman of the Compensation Committee. This system allows the supervision of operations to be conducted from a suitably objective perspective. Each of the Board subcommittees is authorized by the Board to supervise the following areas and report on them to the Board.

#### ● Risk Management Committee

Risk Management and Compliance

1. Issues related to overall risk management policies and the risk management system
2. Issues related to market and liquidity risk management policies and the risk management system
3. Issues related to credit risk management policy and the risk management system
4. Other issues with a potential material impact on operations

#### ● Compensation Committee

Board Members and Executive Officer Remuneration

1. Issues related to remuneration, salaries and incentive plans
2. Issues related to the stock option plan
3. Other remuneration issues

#### ● Nominating Committee

Selection of Directors, Managing Directors and Representative Directors

1. Issues related to the selection of directors
2. Issues related to the appointment of executive officers and the president
3. Other major personnel issues for the Board

## ● A Separate Operations System

At SMBC, the executive officers selected by the Board perform their duties under the direction of the president. As of June 30, 2001, there were 65 executive officers, including the president. Of them, 23 are concurrently appointed as directors.

The Management Committee is the highest decision-making body at the operations level. The president chairs the committee and selects its members from the executive officers. The committee members deliberate on important issues facing the Bank, and final decisions lie with the president.

The president also designates certain executives in the Management Committee as representatives of particular departments or units, who then implement the directives from the Management Committee in that group.

The Bank adopted a stock option system to strengthen the incentives for executive officers to increase shareholder value. As part of the incentives to upgrade the long-term

performance of the Bank, we extended the scope of the stock option system to include a larger group of managers. It was resolved at the Annual General Meeting of Shareholders in June 2001 to extend stock options to a total of 432 people in the Bank.

## ● Internal Audit Unit

We formed the Internal Audit Unit in April 2001, giving it the responsibility to inspect the operations of the Bank in a process separate from the oversight exercised by the Board on the shareholders' behalf. The unit is charged with conducting objective audits to test compliance and the correct discharge of bank duties. The responsibility for auditing operations, administrative procedures, market transactions, information systems and assets is centralized in this unit. By operating independently of the other units, the unit is contributing to strengthening of our inspection systems and ensuring that the Bank's activities are reviewed objectively.

