

Corporate Governance

SMBC takes many steps to ensure that the Bank's corporate governance system is effective and transparent. By establishing an executive officer system at the operations level, we have divided functions between executive officers and the Board of Directors, resulting in a strengthened role for the Board. In addition, by establishing an Advisory Board we have ensured that we listen to the opinions of external advisors and incorporate them in our management.

Oversight System

SMBC's Board of Directors has two functions: setting policy for important management issues and overseeing the execution of business activities. At SMBC, we place particular emphasis on the latter function. We employ an executive officer system that separates decision making at the operations 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 have reinforced the Board's oversight functions by setting up three subcommittees: the Risk Management Committee, the Compensation Committee, and the Nominating Committee. Two outside directors, one a certified public accountant and the other a lawyer, 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.

The Board has authorized the respective committees to debate the following issues and submit reports to the Board:

○ Risk Management Committee

Risk Management and Compliance

1. Issues related to comprehensive 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 Member 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

1. Issues related to the selection of candidates for Board directorships
2. Issues related to the appointment of managing directors having specific management responsibilities, and issues related to the appointment of representative directors
3. Other major personnel issues related to directors

Separate Operations System

Executive officers are selected by the Board to manage each of SMBC's businesses. As of June 30, 2002, there were 66 executive officers, including the president, 13 of whom 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 debate important management issues, and the president has the authority to make final decisions after considering the committee's recommendations.

The president designates certain members of the Management Committee as Authorized Management Committee Members in charge of particular Head Office departments and particular credit departments within each business unit, and charges them with implementing the directives from the Management Committee within the businesses they oversee.

Advisory Board

SMBC requires external directors to attend meetings of the Board of Directors and its internal committees to debate issues related to the supervision of the Bank's operations system. To provide an additional forum for prominent individuals from outside SMBC to extend advice to the chairman and president on management issues of all types, we have also established the Advisory Board.