

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 ensuring 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



2015

- Establishment of the “SMFG Corporate Governance Guideline”
- Increase in the number of outside directors to five and in 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
- Decrease in the number of directors from 17 to 15 and increase in the ratio of outside directors to 47%



2020

- Appointment of an outside director as the chairman of the Risk Committee



2021

- Appointment of Group CSuO
- Voluntary establishment of the Sustainability Committee

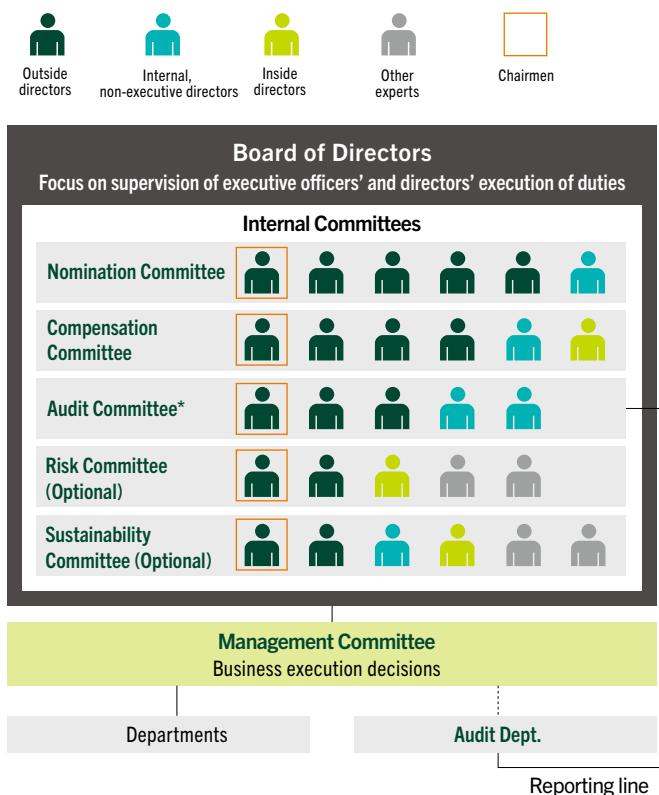
Sumitomo Mitsui Financial Group's Corporate Governance System

In addition to fulfilling our responsibilities to stakeholders, which we consider to be “Our Mission,” SMBC Group has set forth a Vision for our medium-to long-term goals and Five Values as the core values to be shared by all executives and employees, and will seek to make the Vision and Five Values known as guiding principles for the group by all its directors and employees. Also, 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 Three Committees structure. 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 employ the Company with Audit and Supervisory Committee system described in the Companies Act.

Through the implementation of effective corporate governance systems, we aim to prevent scandals and other forms of corporate misconduct while also achieving ongoing growth and medium-to long-term improvements in corporate value. 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.

Corporate Governance System



* The Audit Committee holds the right to consent regarding personal affairs of the Group CAE.

Corporate Governance

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.

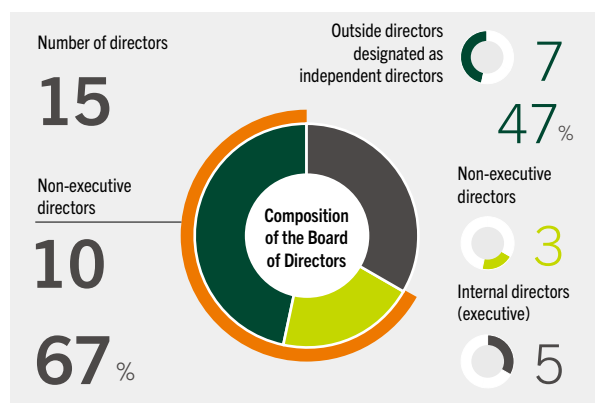
Furthermore, the Board of Directors is responsible for establishing an environment that supports appropriate risk taking by executive officers. It will develop a system for ensuring the appropriateness of SMBC Group’s business operations pursuant to the Companies Act and other relevant legislation in 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.

As of June 29, 2021, 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.



List of the Expertise of Outside Directors (Skills Matrix)

	Appointed	Expected knowledge and experience in particular				
		Corporate management	Finance	Global	Law	Financial accounting
Masayuki Matsumoto	2017	👤				
Arthur M. Mitchell	2015	👤	💰	🌐	⚖️	
Shozo Yamazaki	2017					📊
Masaharu Kohno	2015			🌐		
Yoshinobu Tsutsui	2017	👤	💰			
Katsuyoshi Shinbo	2017				⚖️	
Eriko Sakurai	2015	👤		🌐		

Note: The items listed in “Expected knowledge and experience in particular” are areas particularly expected of the relevant directors and do not represent all of the knowledge and experience possessed by the directors.

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 president of the Company, outside directors, and president of SMBC. 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 directors and executive officers of the Company as well as compensation amounts of individual directors and executive officers 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-reelection 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.

Composition of Internal Committees and Meeting Attendance (FY2020)

●: Chairman ●: Member

		Nomination Committee (1 inside director, 5 outside directors)		Compensation Committee (2 inside directors, 4 outside directors)		Audit Committee (2 inside directors, 3 outside directors)		Risk Committee (1 inside director, 2 outside directors, and 2 outside experts)	
Masayuki Matsumoto	Outside director	●	Attendance at 4/4 meetings			●	Attendance at 15/15 meetings		
Arthur M. Mitchell	Outside director	●	Attendance at 4/4 meetings	●	Attendance at 6/6 meetings				
Shozo Yamazaki	Outside director					●	Attendance at 15/15 meetings	●	Attendance at 4/4 meetings
Masaharu Kohno	Outside director	●	Attendance at 4/4 meetings					●	Attendance at 4/4 meetings
Yoshinobu Tsutsui	Outside director	●	Attendance at 4/4 meetings	●	Attendance at 6/6 meetings				
Katsuyoshi Shinbo	Outside director			●	Attendance at 6/6 meetings	●	Attendance at 15/15 meetings		
Eriko Sakurai	Outside director	●	Attendance at 4/4 meetings	●	Attendance at 6/6 meetings				
Takeshi Kunibe	Chairman of the Board	●	Attendance at 4/4 meetings	●	Attendance at 6/6 meetings				
Jun Ohta	Director President			●	Attendance at 6/6 meetings				
Toru Nakashima	Director Senior managing corporate executive officer							●	Attendance at 4/4 meetings
Atsuhiko Inoue	Director					●	Attendance at 15/15 meetings		
Toru Mikami	Director					●	Attendance at 15/15 meetings		
Hirohide Yamaguchi ^{*1}	Outside expert							●	Attendance at 4/4 meetings
Tatsuo Yamasaki ^{*2}	Outside expert							●	Attendance at 4/4 meetings

*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

Corporate Governance

Sustainability Committee

The Sustainability Committee was established to deliberate with and advise the Board of Directors on the progress of sustainability initiatives, domestic and overseas sustainability trends, and other matters related to sustainability. This committee is comprised of two internal directors, two outside directors, and two internal and external experts. In addition, the chairman of the Sustainability Committee is an outside director.

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 are necessary to supervise management while also providing the opportunities needed to fulfill their roles.

Initiatives to support directors in FY2020 included those indicated to the right.

- 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
- Informal exchanges of opinion with internal officers by area of responsibility
- 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 U.S.–China conflict and cybersecurity
- Distribution of PCs to outside directors for use in timely and effective provision of information such as details on the proceedings of internal meetings

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 Major Business Partner	<ul style="list-style-type: none"> • 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. • 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.
2 Specialist	<ul style="list-style-type: none"> • 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. • 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.
3 Donations	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 Major Shareholder	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 Close Relative	A close relative of any person (excluding non-material personnel) who falls under any of the following: <ol style="list-style-type: none"> (1) A person who falls under any of 1 through 4 above; or (2) A director, corporate auditor, executive officer, or other person engaged in the execution of business of the Company or a subsidiary thereof.



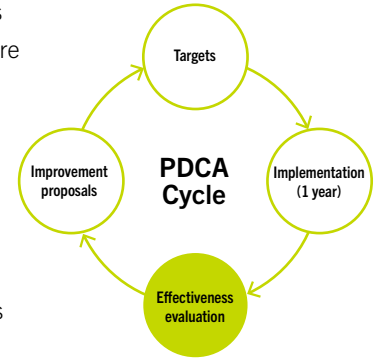
Please see Reference 6 of the "SMFG Corporate Governance Guideline" for more information.

https://www.smfg.co.jp/english/aboutus/pdf/cg_guideline_e.pdf

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 FY2020, the evaluation focused on the three 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 2021, 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 Results of Evaluation of the Board of Directors' Effectiveness

1. Role of the Board of Directors

- Steps are taken to invigorate discussions based on 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.” In FY2020, the Board of Directors took part in discussions that carefully incorporated the input of outside directors on inorganic growth strategies and on important themes defined out of consideration for operating environment changes to be seen during and after the COVID-19 pandemic.
- 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 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.
- It is important for the Board of Directors to fulfill its role based on mutual understanding among inside and outside directors facilitated through discussions about sustainability and other matters prioritized by society and investors.

2. Proceedings of the Board of Directors and Support Systems for Outside 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 at the appropriate level. Amid the COVID-19 pandemic, web conference tools were utilized, among other measures, for facilitating the continuation of brisk discussions.

- The Board of Directors continues to make flexible management decisions amid the changing operating environment. Members of the Board of Directors are provided with the information necessary for exercising their oversight function in a timely and appropriate 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. Steps were taken to contribute to livelier discussions at meetings of the Board of Directors, including the arrangement of small discussion forums for fostering mutual understanding between outside directors and internal officers.
- It is desirable for the Company to resume the arrangement of meetings comprised of only outside directors, which were canceled in FY2020 in light of the COVID-19 pandemic, to better utilize the insight of outside directors and contribute to more frank discussions.

3. Composition of the Board of Directors

- As of March 31, 2021, the Board of Directors consisted of 15 directors, seven of whom 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.

Corporate Governance

Compensation Program

To facilitate the fulfillment of Our Mission and the realization of Our Vision, SMBC Group’s medium- to long-term vision, we developed a compensation program for Directors, Corporate Executive Officers and Executive Officers (the “Executives”) and introduced Stock Compensation Plans as a part of Executives compensation programs, for the purpose of:

- 1 Providing appropriately functioning 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.

Executives Compensation System

■ Cash compensation ■ Stock compensation ■ Variable compensation

Compensation Components	Payment Standards (Range of Variation) and Target Indices	Payment Method																
Base salary	Fixed compensation	• Cash																
Bonus (cash)	Compensation determined based on SMFG’s annual performance (0%–150%)*2 Standard levels × annual performance of SMFG and SMBC as well as on the performance of the executive	• Cash : 70% • Restricted stock : 30%																
Bonus (Stock Compensation Plan II)	<table border="1"> <thead> <tr> <th></th> <th>Target Index</th> <th>Weight</th> </tr> </thead> <tbody> <tr> <td>SMBC Banking profit*4</td> <td>Annual growth / Target achievement</td> <td>50%</td> </tr> <tr> <td>SMBC Net income (pre-tax)</td> <td>Annual growth / Target achievement</td> <td>25%</td> </tr> <tr> <td>SMFG Net income*5</td> <td>Annual growth / Target achievement</td> <td>25%</td> </tr> </tbody> </table>			Target Index	Weight	SMBC Banking profit*4	Annual growth / Target achievement	50%	SMBC Net income (pre-tax)	Annual growth / Target achievement	25%	SMFG Net income*5	Annual growth / Target achievement	25%				
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Stock Compensation Plan I	Compensation determined based on SMFG’s medium-term performance, etc. (0%–150%)*3 Standard levels × SMFG’s medium-term performance, etc.	• Restricted stock																
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In the case that the CET1 ratio falls below a designated level at the end of each fiscal year, Stock Compensation Plan I for the respective fiscal year becomes null and void (knock-out provision).																		
Stock Compensation Plan III	(Promotion reward plan)	• Restricted stock																



- Providing more appropriate incentives for executives
- Further aligning the interests of executives with those of shareholders

■ Foster a prudent risk culture expected of a financial institution

Applicable to malus and claw-back provisions

*1 Variable compensation capped at a maximum of 100% of total base salary

*2 Compensation amounts for each fiscal year determined by the Compensation Committee

*3 Compensation amounts determined by the Compensation Committee at the conclusion of the Medium-Term Management Plan

*4 Adding collaboration incentives between each company in the Group and Sumitomo Mitsui Banking Corporation to the banking profit of Sumitomo Mitsui Banking Corporation

*5 The Company’s consolidated profit attributable to owners of parent

The Company's executive compensation program is comprised of three components: base salary, cash bonuses, and stock compensation. Annual performance-linked compensation is determined using profit attributable to owners of parent, the indicator of management's end performance. Medium-term performance-linked compensation is calculated based on the target indices of ROCET1 and base expenses as well as qualitative evaluations predicated on customer satisfaction and ESG initiatives, in order to hold executives accountable and provide incentive for improving medium- to long-term performance and shareholder value and contributing to the realization of a sustainable society.

Compensation programs and levels are determined by the Compensation Committee, which is comprised of a majority of outside directors, based on third-party surveys of manager compensation, economic and social trends, and the operating environment.

We have also introduced provisions for malus (forfeiture) of restricted stock and the claw-back of vested stock allocated to the Executives under the Stock Compensation Plans. These provisions may be applied based on the judgment of the Compensation Committee regardless of the amount of time that has passed since share allocation in order to restrain excessive risk-taking and foster a prudent risk culture expected of a financial institution.

Executive Management Systems

■ Management Committee

The Management Committee is set up under the Board of Directors 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

The Company employs group-wide business units and the CxO system. The group-wide business unit structure entailed the creation of the Retail Business Unit, the Wholesale Business Unit, the Global 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 10 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 by executive officers of the Company, with the one exception being the Group CSuO. 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.