

Compensation

Sumitomo Mitsui Banking Corporation (SMBC) and Its Group Companies

■ Compensation Framework of SMBC Group

1. Scope of Officers and Employees

The scope of officers, employees and others whose compensation is subject to disclosure under the revised Cabinet Office on Disclosure of Corporate Affairs, etc. and other ordinances are as described below.

(1) Scope of Officers

Officers subject to compensation disclosure are directors and corporate auditors of SMBC during the fiscal year under review.

(2) Scope of Employees and Others

Employees and others subject to compensation disclosure are employees of SMBC and officers and employees of its major consolidated subsidiaries who are highly compensated and have a material influence on the business management or the assets of SMBC and its major consolidated subsidiaries.

a) Scope of major consolidated subsidiaries

A major consolidated subsidiary is a consolidated subsidiary of SMBC with total assets accounting for more than 2% of the total consolidated assets of SMBC and has a material influence on the management of SMBC and its group companies. Specifically, they are SMBC Guarantee Co., Ltd. and overseas subsidiaries such as SMBC Bank International plc and Sumitomo Mitsui Banking Corporation (China) Limited.

b) Scope of highly compensated persons

A highly compensated person is an individual whose compensation paid by SMBC or its major subsidiaries is equal to or more than the base amount. The base amount of SMBC is set at ¥60 million which is based on the average amount of compensation paid to the officers of Sumitomo Mitsui Financial Group and SMBC (excluding officers appointed or retired during the fiscal year in question) over the last three fiscal years (hereinafter “executive compensation amount”) and is applied to all group companies. This is because many of the officers of Sumitomo Mitsui Financial Group also serve as officers of SMBC, and their executive compensation amount is determined according to their contribution to the group as a whole. With respect to lump-sum retirement payment for officers serving in Japan, the executive compensation amount for the fiscal year in question is “(his/her executive compensation amount – lump-sum retirement payment) + (lump-sum retirement payment/years of service)” and the executive compensation amount calculated using this formula is compared to the base amount.

c) Material influence on the business management or assets of SMBC and its major consolidated subsidiaries

A person has a material influence on the business management or assets of SMBC and its major consolidated subsidiaries if his/her regular transactions or regular matters managed by him/her have a substantial impact on the business management of SMBC and its group companies, or losses incurred through such actions have a significant impact on the financial situation of SMBC and its group companies. Specifically, persons having such influence are directors, corporate auditors and corporate officers of SMBC and its major consolidated subsidiaries, both domestic and overseas.

2. Names, Compositions, and Duties of the Main Bodies, Such as the Committee Responsible for Supervising Business Execution Concerning the Determination of Compensation, Its Payment and Other Related Matters

(1) Determination of compensation for officers

Compensation for SMBC’s Directors (excluding members of the Audit and Supervisory Committee) is determined within the limit approved at a shareholders’ meeting with the President, delegated by the Board of Directors, determining the amount of compensation for each individual, reflecting the assigned roles and responsibilities as well as achievements at SMBC, in light of the deliberations of the SMFG Compensation Committee.

The details of the above determination are reported to SMBC’s Audit and Supervisory Committee.

Individual compensation for Directors who are members of the Audit and Supervisory Committee is determined within the scope approved at a shareholders’ meeting, through discussion by Directors who are members of the Audit and Supervisory Committee.

(2) Determination of compensation for employees

Compensation for employees is stated in “Compensation” of Sumitomo Mitsui Financial Group (please refer to “2. Names, Compositions, and Duties of the Main Bodies, Such as the Committee Responsible for Supervising Business Execution Concerning the Determination of Compensation, Its Payment and Other Related Matters (2) For Employees and Others” on page 384).

■ Assessment of Design and Operation of Compensation Structure

Compensation Policy

Compensation Policies for Officers, Employees and Others

(1) For Officers

Sumitomo Mitsui Banking Corporation hereby establishes the Executive Compensation Policy (the “Policy”) in order to provide guiding principles for its Compensation Committee to determine individual remuneration for its directors and executive officers (the “Executives”).

The Policy’s aim is that executive compensation pursuant to it shall provide the appropriate incentives for the Executives to pursue our Group Mission while materializing our medium-/long-term vision.

<Basic Concept>

Executive compensation at SMBC shall be determined based on the following concept.

- I. SMBC Group’s executive compensation aims at providing appropriate incentives toward the realization of our mission and our vision.
- II. SMBC Group’s executive compensation shall reflect the changing business environment and the short-, medium- and long-term performance of the group, and shall account for the contribution to shareholder value, customer satisfaction, and realization of sustainable society.
- III. Individual remuneration shall reflect the assigned roles and responsibilities as well as the performance of the respective Executive.
- IV. SMBC Group shall research and review market practices, including the use of third-party surveys, in order to provide its Executives with a competitive remuneration package.
- V. SMBC Group’s executive compensation shall discourage excessive risk-taking and foster a prudent risk culture expected of a financial institution.
- VI. Both external and internal regulations/guidelines on executive compensation shall be observed and respected.
- VII. SMBC Group shall establish appropriate governance and controls of the compensation process, and shall regularly review to update its executive compensation practices according to changing market practices and/or business environment.

<Compensation Programme>

- I. SMBC Group’s executive compensation programme (the “Programme”) shall have three components: base salary, cash bonus, and stock compensation. However, compensation for outside directors and Audit Committee members shall comprise base salary alone, in consideration of the nature of their role of management supervision.
- II. In order to hold the Executives accountable and provide them with appropriate incentives for the performance of SMBC Group, the Programme targets the variable compensation component of total remuneration at 40%, if paid at standard levels. Corresponding with performance and the business environment, the variable component could range from 0% to 150% of the standard levels, which shall be determined by corporate titles of the Executives.
- III. In order to enhance shareholding of the Executives and align their interests with shareholders of Sumitomo Mitsui Financial Group (“SMFG”), the parent, the Programme targets its stock-based compensation components of SMFG stocks at 25% of total remuneration, if paid at standard levels.
- IV. The above target levels shall be appropriately set in accordance with the roles, responsibilities, etc. of each Executive.
- V. Base salary shall be periodically paid in cash and shall be, in principle, determined by the corporate titles of each Executive, reflecting the roles, responsibilities, etc.
- VI. Annual incentives shall be determined each year based on the performance of previous fiscal year of SMBC Group and the business unit each Executive is accountable for, as well as on the performance of each Executive reviewed both from short-term and medium-/long-term perspectives. 70% of the determined amount shall be, in principle, paid as a cash bonus and the remaining 30% shall be paid under Stock Compensation Plan II (the “Plan II”).

Weight by each target index is as follows:

Target index		Weight
SMBC Banking profit*1	Annual growth/Target achievement	50%
SMBC Net income (Pre-Tax)*2	Annual growth/Target achievement	25%
SMFG Net income*3	Annual growth/Target achievement	25%

*1 Adding cooperated profit and loss recorded by SMBC Group companies, etc. in a managerial accounting basis to business profit at and Sumitomo Mitsui Banking Corporation.

*2 Income before income taxes at Sumitomo Mitsui Banking Corporation.

*3 The Group’s profit attributable to owners of parent.

- VII. Stock compensation plans consist of three types, which are, Stock Compensation Plan I (the “Plan I”), under which the remuneration of the Executives shall be determined based on SMBC Group’s medium-term performance, etc., Stock Compensation (the “Plan II”), determined based on SMBC Group’s single year performance, etc. and Stock Compensation Plan III (the “Plan III”), determined based on corporate titles, etc.
- a. Under the stock compensation plans, the Executives shall receive remuneration via shares of Sumitomo Mitsui Financial Group common stock. The transfer of such stock shall be restricted for appropriately defined periods.
- b. Remuneration under Plan I shall be determined based on SMBC Group’s performance against the Medium-term Management Plan, performance of SMFG shares, and the results of customer satisfaction surveys, etc. after the term of SMBC Group’s Medium-term Management Plan ends. 80% of the target index is determined based on Financial performance (Medium-term Management Plan target), and 20% is determined based on Share performance of SMFG.

Weight by each target index is as follows:

Target index *1, 2		Weight
Financial performance	ROCET1*3	20%
	Base expense*4	20%
	SMFG Gross profit*5	20%
	SMFG Net income	20%
Share performance	TSR (Total shareholder return)	20%

*1 (Qualitative evaluation) The Compensation Committee determines the score of maximum 10% plus or minus such figure taking into account comprehensively four items, which are “Customer satisfaction,” “ESG initiative,” “Employee engagement,” and “Efforts to develop new business areas.”

*2 (Knock-out provision) In case “CET1 ratio (Post-Basel III reforms basis, excludes net unrealized gains or losses on other securities)” 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.

*3 Post-Basel III reforms basis, excludes net unrealized gains or losses on other securities.

*4 Sales expenses excluding “revenue linked cost,” “prior investment cost” and others

*5 The Group’s consolidated gross profit

- c. Remunerations under Plan II shall be determined based on the performance of the previous fiscal year of SMBC Group and the business unit each Executive is accountable for, as well as on the performance of each Executive reviewed both from a short-term and medium-/long-term perspectives. Remuneration paid by restricted shares shall effectively act as deferred compensation.
- d. Remuneration under Plan III shall be determined based on corporate titles, roles, and responsibilities, etc.
- VIII. In the event of material amendments to the financial statements or material reputational damages caused by the Executives, remunerations under the Plans could be reduced or fully forfeited.
- IX. Notwithstanding the aforementioned “Compensation Programme,” executive compensation for the Executives locally appointed at overseas entities and those domiciled outside Japan shall be individually designed, not only in accordance with the basic concept above, but also with consideration to local regulations, tax regime, guidelines, and other local market practices, whilst ensuring the compensation should not incentivize for excessive risk-taking.

<Governance and Control of the Compensation Processes>

- I. This Policy is determined at SMBC’s Board of Directors in light of the “Executive Compensation Policy” determined by SMFG Compensation Committee.
- II. Compensation for SMBC’s Directors (excluding members of the Audit and Supervisory Committee) is determined within the limit approved at a shareholders’ meeting with the President, delegated by the Board of Directors, determining the amount of compensation for each individual, reflecting the assigned roles and responsibilities as well as achievements at SMBC, in light of the deliberations of the SMFG Compensation Committee.
- III. The details of the determination in II above are reported to SMBC Audit and Supervisory Committee.
- IV. The specific amount, payment period, and method of compensation for SMBC’s executive officers is determined by the President, reflecting the assigned roles and responsibilities as well as achievements at SMBC.
- V. Individual compensation for Directors who are members of the Audit and Supervisory Committee is determined within the limit approved at a shareholders’ meeting, through discussion by Directors who are members of the Audit and Supervisory Committee.

■ Consistency between Compensation Structure and Risk Management and Link between Compensation and Performance

Consistency between compensation structure and risk management and link between compensation and performance is stated in “Compensation” of Sumitomo Mitsui Financial Group (please refer to “Consistency between Compensation Structure and Risk Management and Link between Compensation and Performance” on page 386).

■ Type, Total Amount Paid, and Payment Method of Compensation for Officers, Employees and Others of SMBC and Its Group Companies

1. Compensation Allocated in the Applicable Fiscal Year (SMBC consolidated)

(Headcount, millions of yen)

Item No.			(a)	(b)
			Officers	Employees and others
1	Fixed compensation	Number of applicable officers, employees and others	14	237
2		Total fixed compensation (3+5+7)	880	10,065
3		of which: cash compensation	809	9,307
4		of which in 3: deferred amount	—	—
5		of which: amount of stock compensation or stock-linked compensation	49	344
6		of which in 5: deferred amount	49	344
7		of which: other compensation	21	412
8		of which in 7: deferred amount	—	—
9	Variable compensation	Number of applicable officers, employees and others	11	236
10		Total variable compensation (11+13+15)	480	8,949
11		of which: cash compensation	241	7,548
12		of which in 11: deferred amount	—	1,282
13		of which: amount of stock compensation or stock-linked compensation	239	1,400
14		of which in 13: deferred amount	239	941
15		of which: amount of other compensation	—	—
16	of which in 15: deferred amount	—	—	
17	Retirement allowance	Number of applicable officers, employees and others	—	175
18		Amount of retirement allowance	—	744
19		of which: deferred amount	—	1
20	Other compensation	Number of applicable officers, employees and others	—	89
21		Amount of other compensation	—	108
22		of which: deferred amount	—	—
23	Total compensation, etc. (2+10+18+21)		1,360	19,868

Notes: 1. Compensation amount includes those amounts of major consolidated subsidiaries.

2. Stock Compensation Plan III is classified as fixed compensation because the amount allotted depends on the individual's position. Other stock compensation involves an amount of issuance prone to performance-linked fluctuations, and is thus classified as variable compensation.

2. Special Compensation, Etc.

(Headcount, millions of yen)

	(a)	(b)	(c)	(d)	(e)	(f)
	Bonus guarantee		One-off recruitment payment		Additional retirement allowance	
	Headcount	Total amount	Headcount	Total amount	Headcount	Total amount
Officers	—	—	—	—	—	—
Employees and others	14	716	1	1	—	—

1. Compensation Allocated in the Applicable Fiscal Year (SMBC non-consolidated)

(Headcount, millions of yen)

Item No.			(a)	(b)
			Officers	Employees and others
1	Fixed compensation	Number of applicable officers, employees and others	14	237
2		Total fixed compensation (3+5+7)	880	10,065
3		of which: cash compensation	809	9,307
4		of which in 3: deferred amount	—	—
5		of which: amount of stock compensation or stock-linked compensation	49	344
6		of which in 5: deferred amount	49	344
7		of which: other compensation	21	412
8		of which in 7: deferred amount	—	—
9	Variable compensation	Number of applicable officers, employees and others	11	236
10		Total variable compensation (11+13+15)	480	8,949
11		of which: cash compensation	241	7,548
12		of which in 11: deferred amount	—	1,282
13		of which: amount of stock compensation or stock-linked compensation	239	1,400
14		of which in 13: deferred amount	239	941
15		of which: amount of other compensation	—	—
16	of which in 15: deferred amount	—	—	
17	Retirement allowance	Number of applicable officers, employees and others	—	175
18		Amount of retirement allowance	—	744
19		of which: deferred amount	—	1
20	Other compensation	Number of applicable officers, employees and others	—	89
21		Amount of other compensation	—	108
22		of which: deferred amount	—	—
23	Total compensation, etc. (2+10+18+21)		1,360	19,868

Notes: 1. Compensation amount includes those amounts of major consolidated subsidiaries.

2. Stock Compensation Plan III is classified as fixed compensation because the amount allotted depends on the individual's position. Other stock compensation involves an amount of issuance prone to performance-linked fluctuations, and is thus classified as variable compensation.

2. Special Compensation, Etc.

(Headcount, millions of yen)

	(a)	(b)	(c)	(d)	(e)	(f)
	Bonus guarantee		One-off recruitment payment		Additional retirement allowance	
	Headcount	Total amount	Headcount	Total amount	Headcount	Total amount
Officers	—	—	—	—	—	—
Employees and others	14	716	1	1	—	—

Other Information Regarding Compensation Structures of Sumitomo Mitsui Financial Group and its Group Companies

Amount of Deferred Compensation, Etc. (SMBC consolidated)

Deferred compensation, etc.

(Millions of yen)

		(a)	(b)	(c)	(d)	(e)
		Balance of deferred compensation, etc.	Of the amount in (a), balance of deferred compensation, etc. subjected to adjustment or prone to fluctuations	With respect to post allocation compensation, amount of fluctuation after adjustment not linked to fluctuations of criteria in the applicable fiscal year	With respect to post allocation compensation, amount of fluctuation after adjustment linked to fluctuations of criteria in the applicable fiscal year	Amount of deferred compensation, etc. paid in the applicable fiscal year
Officers	Amount of cash compensation	—	—	—	—	—
	Amount of stock compensation or stock-linked compensation	906	566	—	—	509
	Amount of other compensation	—	—	—	—	—
Employees and others	Amount of cash compensation	1,698	363	38	—	1,064
	Amount of stock compensation or stock-linked compensation	2,734	2,290	—	—	1,005
	Amount of other compensation	—	—	—	—	—
Total amount		5,339	3,221	38	—	2,578

Note: "Amount of deferred compensation, etc. paid in the applicable fiscal year" includes the reversal of deferred compensation due to removal of the restriction on transfer for Plan I in the fiscal year under review.

Amount of Deferred Compensation, Etc. (SMBC non-consolidated)

Deferred compensation, etc.

(Millions of yen)

		(a)	(b)	(c)	(d)	(e)
		Balance of deferred compensation, etc.	Of the amount in (a), balance of deferred compensation, etc. subjected to adjustment or prone to fluctuations	With respect to post allocation compensation, amount of fluctuation after adjustment not linked to fluctuations of criteria in the applicable fiscal year	With respect to post allocation compensation, amount of fluctuation after adjustment linked to fluctuations of criteria in the applicable fiscal year	Amount of deferred compensation, etc. paid in the applicable fiscal year
Officers	Amount of cash compensation	—	—	—	—	—
	Amount of stock compensation or stock-linked compensation	906	566	—	—	509
	Amount of other compensation	—	—	—	—	—
Employees and others	Amount of cash compensation	1,698	363	38	—	1,064
	Amount of stock compensation or stock-linked compensation	2,734	2,290	—	—	1,005
	Amount of other compensation	—	—	—	—	—
Total amount		5,339	3,221	38	—	2,578

Note: "Amount of deferred compensation, etc. paid in the applicable fiscal year" includes the reversal of deferred compensation due to removal of the restriction on transfer for Plan I in the fiscal year under review.