

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

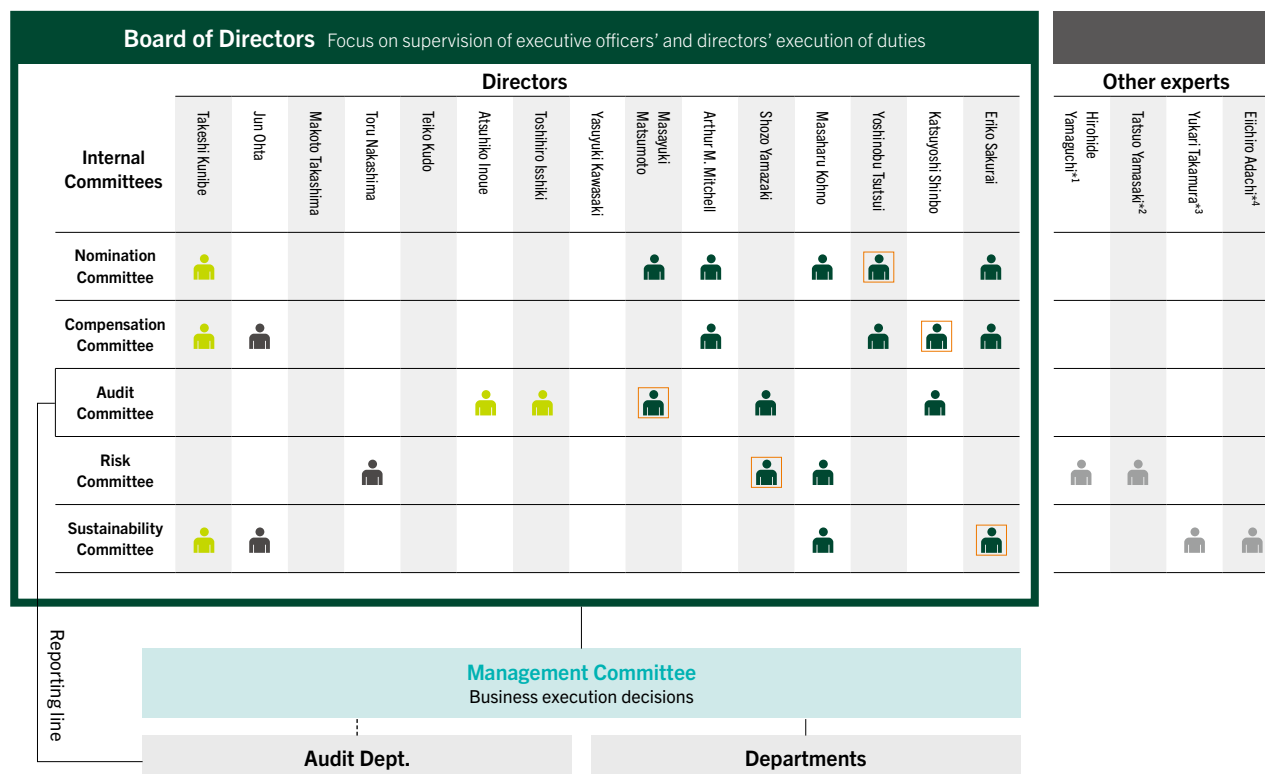
2002	<ul style="list-style-type: none"> Establishment of Sumitomo Mitsui Financial Group Voluntary establishment of Nominating Committee, Compensation Committee, and Risk Committee as internal committees of the Board of Directors
2005	<ul style="list-style-type: none"> Voluntary establishment of Audit Committee as internal committee of the Board of Directors
2006	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Appointment of an outside director as the chairman of the Risk Committee
2021	<ul style="list-style-type: none"> Appointment of Group CSuO Establishment of voluntary Sustainability Committee (Chaired by an outside director)

Sumitomo Mitsui Financial Group's Corporate Governance System

SMFG 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 to 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 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



*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
 *3 Professor at the University of Tokyo Institute for Future Initiatives
 *4 Senior Counselor of The Japan Research Institute, Limited.

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.

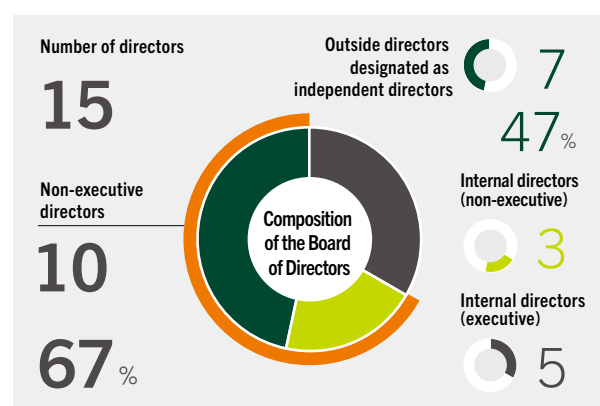
Furthermore, the Board of Directors is responsible for establishing an environment that supports appropriate risk taking by executive officers. It will develop a system for ensuring the appropriateness of SMBC Group’s business operations pursuant to the Companies Act and other relevant legislation in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

As of June 29, 2022, the Board of Directors was comprised of 15 directors, which the Company believes to be the appropriate number of directors for the Board to perform its functions most efficiently and effectively. 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, serves 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.



Examples of matters discussed by the Board of Directors

• Sustainability Initiatives (Establishment of the Sustainability Committee etc.)	• IT Infrastructure / Cybersecurity / Providing stable payment infrastructure
• COVID-19 prevention measures	• Capital policy
• Digital transformation initiatives	• Handling of strategic shareholdings
• Inorganic strategy	• Corporate governance structure
• Human resources policies	• Geopolitical risks (Russia, Ukraine, etc.)
• Progress of the Medium-Term Management Plan and business plans	

Processes for selecting and dismissing directors and executive officers

We expect our directors and executive officers to embody the values expressed in our management philosophy at a high level, to possess a wealth of practical experience and high levels of ability and insight, and to contribute to the further development of SMBC Group. In selecting directors, the Nominating Committee spends ample time deliberating whether a candidate can meet these expectations. Where it is difficult for a director or executive officer to perform their duties effectively, the Group will consider their dismissal.



For details, please see References 4 and 5 in the “SMFG Corporate Governance Guidelines.”

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

Succession planning for top management

One of the matters discussed by the Nominating Committee that directly relates to our Mission and management strategy is succession plans for the Company president (Group CEO) and the presidents of the core subsidiaries SMBC and SMBC Nikko Securities. To train and develop our future top management, we take our time systematically forming a candidate pool through tough work assignments and third-party assessment and coaching. From within this large pool of candidates, the best candidates with the qualities required to lead a global financial group, such as broad vision and communication abilities, are selected for top management.

Top management selection process



Skills Matrix of Directors

	Appointed	Corporate management	Finance	Global	Legal and risk management	Law/Financial accounting	IT/DX	Sustainability
Takeshi Kunibe	2007							
Jun Ohta	2014							
Makoto Takashima	2017							
Toru Nakashima	2019							
Teiko Kudo	2021							
Atsuhiko Inoue	2019							
Toshihiro Isshiki	2021							
Yasuyuki Kawasaki	2021							
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 “Skills Matrix of Directors” are areas particularly expected of the relevant directors and do not represent all of the knowledge and experience possessed by the directors.

Corporate Governance

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 continually endeavor to 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 FY2021 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 meetings between outside directors and relevant departments on topics including “Digital Transformation” and “International regulations relating to sustainability”
- 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 the Banking Act (Regulations on Scope of Business), governance, and cybersecurity
- Timely and effective provision of information such as details on the proceedings of internal meetings to outside directors
- External director-only 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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

Internal Committees

	Main role	Number of meetings in FY2021 (average attendance)	Activities in FY2021
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 presidents of the Company, SMBC, and SMBC Nikko Securities.	6 meetings (100%)	<ul style="list-style-type: none"> Deliberated on the appointment of suitable directors and executive officers to support the management foundations of the Company and its subsidiaries, as well as succession plans for top management. Defined a new skills matrix based on a redefinition of the skills of our directors (the knowledge and experience we specifically expect).
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.	6 meetings (97%)	<ul style="list-style-type: none"> Through a series of Compensation Committee meetings and informal sessions, reviewed the evaluation method for annual performance-linked incentive and decided to incorporate a quantitative ESG evaluation for executive bonuses starting from FY2022. Discussed revisions to the executive compensation system for major subsidiaries from the perspective of further enhancing the competitiveness of SMBC Group.
Audit Committee	The Audit Committee is responsible for auditing the execution of duties by executive officers and directors of the Company, preparing audit reports, and determining 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 appointed by this Committee are to perform audits of the operations and assets of the Company and its subsidiaries.	15 meetings (100%)	<ul style="list-style-type: none"> In accordance with the audit policy and audit plan, audited the execution of duties by directors and executive officers by attending key meetings, interviewing with directors and executive officers, receiving reports from internal departments and visiting offices in Japan. Provided summaries of the results of its deliberations to the Board of Directors, and issued recommendations and opinions to executive officers, etc. where necessary.
Risk Committee	Chaired by an outside director, 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.	4 meetings (100%)	<ul style="list-style-type: none"> Discussed potential scenarios and their impact on the Group in response to events including the escalation of the Russia-Ukraine conflict, the COVID-19 pandemic and rising interest rates in the US, deliberated on initiatives to address climate change risk and model risks. Discussed risk appetite based on Top Risks and stress tests for the development of business plans.
Sustainability Committee	The Sustainability Committee is responsible for deliberating on the progress of sustainability initiatives, including climate change initiatives, domestic and overseas sustainability trends, and other important matters related to sustainability. It regularly reports to, and advises, the Board or Directors.	2 meetings (100%)	<ul style="list-style-type: none"> In light of our commitment to net zero emissions by 2050, discussed the need to join the "Net-Zero Banking Alliance" and participate in global rule-making. Shared recognition of the importance of careful engagement with customers to reduce greenhouse gas emissions and deliberated on the development of an internal framework to achieve this.

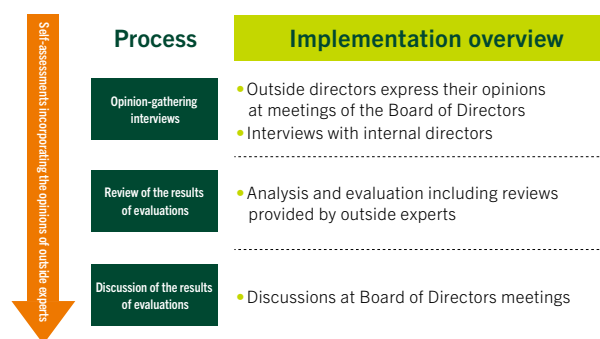
Corporate Governance

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 FY2021, 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 2022, 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

In FY2021, based on the actions that have been taken to respond to the findings of the FY2020 Effectiveness Evaluation, the Board of Directors assessed the Group to be sufficiently effective, or more effective than before, as a result of efforts to increase the sophistication and effectiveness of deliberations at Board of Directors meetings. Based on the results of the latest Effectiveness Evaluation, together with the diverse opinions of the directors and the recommendations of external experts gathered through a series of processes, we are working to further improve effectiveness by promoting mutual understanding between outside directors and internal officers and employees, and by discussing and resolving fundamental issues to enhance our corporate value.

	FY2021 Evaluation	FY2022 Priority Issues
Role of the Board of Directors	<ul style="list-style-type: none"> • Steps are taken to invigorate discussions by drawing 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 deliberations of various Board of Directors internal committees formed an effective foundation for substantive discussions held by the Board on various topics, including sustainability, which is now widely demanded by both society and investors. • 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. 	<p>The Board of Directors will go further in fulfilling its role through mutual understanding between outside directors and internal executives and employees, achieved through expanding discussions of the “Next Medium-Term Management Plan,” which addresses the future of SMBC Group, as well as close supervision as the holding company of SMBC Nikko Securities in light of the arrest and indictment of its former executives and employees on the suspicion of violating the Financial Instruments and Exchange Act, as well as the company’s corporate indictment.</p>
Proceedings of the Board of Directors and Support Systems for Outside Directors	<ul style="list-style-type: none"> • 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. • Appropriate agenda management by the chairperson has facilitated 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 accounting auditors, etc. Steps were taken to contribute to livelier discussions at meetings of the Board of Directors, including meetings for the exchange of opinions between outside directors and internal executives, as well as meetings exclusively for outside directors, in order to promote mutual understanding and deeper understanding of operations. 	<p>Going forward, as an initiative to further use outside directors’ knowledge and to encourage open discussion, information will be provided, and meetings arranged, to deepen understanding of the main Group companies’ operations.</p>
Composition of the Board of Directors	<ul style="list-style-type: none"> • As of March 31, 2022, 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. 	<p>The Nominating Committee shall continue to examine and review the ideal composition of the Board of Directors in light of its role.</p>

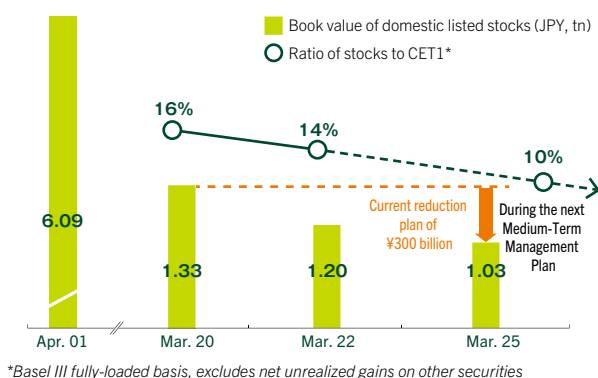
Strategic Shareholdings

Policy Regarding Strategic Shareholdings

- (1) As part of our proactive handling of standards of conduct and international regulations required of global financial institutions, we do not, in principle, possess any strategic shareholdings except where it is deemed reasonable to do so in order to maintain the financial soundness of the Group.
- (2) Cases where there is recognized rationale for strategic holdings are those where, from a medium- to long-term perspective, there is verified profitability based on a proper understanding of the risks and costs of the holding, and the returns from that holding, and where it is judged that the holding will increase the Group's corporate value, taking into consideration the overall aims of the holding, including maintaining and strengthening business relationships, capital and business alliances and rehabilitation support.
- (3) The rationale for strategic shareholdings is reviewed periodically. Holdings that are deemed to be rational are retained, while those judged to lack rationale will be sold with consideration for various factors such as the impact on the market and the issuer's financial strategy.

Planned Reductions in Strategic Shareholdings

We are continuously working to reduce the risk of stock price volatility from the perspective of ensuring a financial base that can fulfill its function as a financial intermediary even amidst environmental stresses that may cause dramatic declines in stock prices. The plan is to reduce the book value of strategic shareholdings by ¥300 billion over the five-year period, from March 2020 to March 2025. We have already reduced ¥122 billion by March 2022.



Indictment of Former Executives and Employees of SMBC Nikko Securities, and of the Company Itself

Former executives and employees of SMBC Nikko Securities have been arrested and indicted on suspicion of having violating Article 159 Paragraph 3 of the Financial Instruments and Exchange Act (illegal stabilization transactions), and SMBC Nikko Securities has also been indicted. We take very seriously that, despite our position as a securities company, we have caused a situation that has undermined market confidence.

The investigation report received from the investigation committee established by SMBC Nikko Securities evaluates the legal and compliance problems on trading on our account of the target shares related to the block offers handled, as inappropriate and unfair practices or actions that required careful consideration and response from the

perspectives of (1) fair price information, (2) restrictions on the use of non-publicly known information that may affect investment decisions, and (3) prohibition of conflicts of interest by securities companies. Based on the results of this investigation, we are providing SMBC Nikko Securities with support in developing and implementing measures to prevent reoccurrence of such incidents, and will conduct serious examination of the issues regarding management control of SMBC Nikko Securities.

For details, please see the SMBC Nikko Securities press release.
https://www.smbcnikko.co.jp/en/news/2022/pdf/220624_01e.pdf

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.

Executive 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, progress of initiatives towards the realization of sustainability, performance of the executive	• Cash : 70% • Restricted stock : 30%																	
Bonus (Stock Compensation Plan II)	<table border="1"> <thead> <tr> <th colspan="2">Target Index*3</th> <th>Weight</th> <th>ESG Evaluation</th> <th>Weight</th> </tr> </thead> <tbody> <tr> <td>SMBC Banking profit*4</td> <td>Annual growth / Target achievement</td> <td>50%</td> <td rowspan="2">Progress of internal KPIs*5</td> <td rowspan="2">±10%</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*6</td> <td>Annual growth / Target achievement</td> <td>25%</td> <td>Performances of external ESG ratings</td> <td></td> </tr> </tbody> </table>		Target Index*3		Weight	ESG Evaluation	Weight	SMBC Banking profit*4	Annual growth / Target achievement	50%	Progress of internal KPIs*5	±10%	SMBC Net income (pre-tax)	Annual growth / Target achievement	25%	SMFG Net income*6	Annual growth / Target achievement	25%	Performances of external ESG ratings
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Stock Compensation Plan I	Compensation determined based on SMFG’s medium-term performance, etc. (0%–150%)*7 Standard levels × SMFG’s medium-term performance, etc.	• Restricted stock																	
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Stock Compensation Plan III	(Promotion reward plan)	• Restricted stock																	

*1 Capped at a maximum of 100% of total base salary
 *2 Compensation amounts for each fiscal year determined by the Compensation Committee
 *3 Where circumstances are recognized as not being fully reflected in the performance indicators, compensation may be adjusted within a range of ±5% upon deliberation by the Compensation Committee to ensure appropriate compensation for the operating environment
 *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 Performances of annual progress of internal KPIs in the “SMBC Group GREEN×GLOBE 2030”
 *6 The Company’s consolidated profit attributable to owners of parent
 *7 The Compensation Committee shall determine the compensation amount following the completion of the Medium-Term Management Plan
 *8 The Compensation Committee calculates target achievement by comparative evaluation of the TSR during the Medium-Term Management Plan period.

■ Foster a prudent risk culture expected of a financial institution
 Applicable to malus and claw-back provisions

■ Executive Compensation Structure

In principle, executive compensation consists of base salary, bonuses and stock compensation. The performance-linked portion, which fluctuate with the business environment and performance, accounts for approximately 40% of total compensation.

Annual Performance-Linked Incentive

Both the Bonus (Cash) and Stock-Compensation Plan II are paid as annual performance-linked incentive. Three performance indicators are used: “SMFG Net Income” which is management’s end performance, and “SMBC Banking profit” and “SMBC Net Income (pre-tax),” which indicate the profitability of SMFG’s major subsidiaries. These create a strong link between performance and executive compensation, ensuring that compensation functions as an appropriate incentive for performance.

FY2021 Results: Bonus (Cash) & Stock Compensation Plan II				
Target Index		Weight	Performance	Performance evaluation coefficient
SMBC Banking profit	Annual growth / Target achievement	50%	52%	113%
SMBC Net income (pre-tax)	Annual growth / Target achievement	25%	32%	
SMFG Net income	Annual growth / Target achievement	25%	29%	

Medium-Term Performance-Linked Compensation

Stock Compensation I is paid as medium-term performance-linked compensation. In order to improve accountability incentives for our medium- and long-term performance and to increase shareholder value, medium-term performance-linked compensation is calculated based on the target indices of ROCET1 and base expenses together with qualitative evaluations including “customer satisfaction” and “initiatives in new business fields.”

Compensation programs and levels are determined by the Compensation Committee based on third-party surveys of manager compensation, economic and social trends, and the operating environment.

■ ESG Evaluation

We are incorporating the “ESG evaluation” indicator to executive compensation with the aim of further increasing our executives’ commitment to contributing to the realization of a sustainable society and achieving “SMBC Group GREEN×GLOBE 2030.” We have been including “ESG initiatives” into the qualitative evaluations for medium-term performance-linked compensation in order to reflect the degree to which long-term sustainability-related targets, including those for climate change, are being achieved. In addition to this, from FY2022, the Compensation Committee will judge performances of annual progress of internal KPIs in the “SMBC Group GREEN×GLOBE 2030”, such as the reduction of greenhouse gas emissions, and performances of external ESG ratings. These performances will be reflected in annual performance-linked incentive by a maximum of 10%, plus or minus.

■ Ensuring Robust Business Operations

We have also introduced provisions for malus (forfeiture) of restricted stock and the claw-back of vested stock allocated under the Stock Compensation Plans in the event of incidents occurring such as material revisions to financial statements or material damage to the reputation of the Group. We are working to restrain excessive risk-taking and foster a prudent risk culture expected of a financial institution.