

Round-Table Discussion with Outside Directors

# Meet Shareholders’ Expectations and Enhance SMBC Group’s Corporate Value Through Sustainable Growth

**Ito** One year has passed since the launch of the Medium-Term Management Plan “Plan for Fulfilled Growth.” Today, we will look back over the past year and hear opinions and thoughts from Ms. Sakurai, Chairperson of the Sustainability Committee, Mr. Lake, and Ms. Rogers, Outside Directors from FY2023, about SMBC Group’s governance and efforts to enhance corporate value and create social value.

**Lake** At the Board of Directors (“BoD”) meetings over the past year, I have shared various thoughts on “sustainable growth” and “increasing corporate value over the mid- to long-term.” From that perspective, I have raised matters including regarding SMBC Group’s corporate governance and risk management systems, which enable robust and proactive governance and promote a strong corporate culture. The BoD and internal committees engage in free, open, and constructive discussions, which allow for effective engagement. To make such discussions constructive, it is of course necessary for each director to pos-

sess certain skill sets, but it is also necessary for the operations side to demonstrate a firm commitment to leveraging these discussions and the BoD’s role. In that sense, the SMBC Group BoD and operations side are able to share information as they strive towards the ideal, allowing them to engage in real discussion on substance rather than just following formality. Overall, I believe the SMBC Group has established a high-level corporate governance system.

**Rogers** I am of the same opinion as Mr. Lake, as I believe that BoD members are leveraging their respective skill sets to actively exchange views. The make-up of the BoD changed following the June 2024 General Shareholders’ Meeting resulting in an increase in the ratio of both non-Japanese and female directors. While this has enhanced the diversity of the BoD, there is still room for improvement. The BoD engaged in various discussions regarding Create Social Value, DX, and the utilization of human resources in FY2023. However, from an overall perspective, I felt that the initiatives

aimed at growth were somewhat conservative. In order to achieve SMBC Group’s medium- to long-term vision of becoming “A Trusted Global Solution Provider,” we must achieve further growth with a greater sense of speed. The development and deployment of global human resources is an especially pressing matter to be discussed continuously. The promotion of DX is also an urgent issue. For example, Sumitomo Mitsui Banking Corporation launched Sustana in 2022. This service enables corporations to calculate the CO2

emissions of a corporation’s entire supply chain and manages the whole reduction process from planning to execution through cloud services. More than 1,900 corporations have adopted Sustana. I expect DX to play a major role in not only enhancing operational efficiency, but also in generating new revenue streams.

**Sakurai** Given SMBC Group’s need to pay careful attention to global trends, I feel that discussions at BoD meetings have deepened with Mr. Lake’s and Ms. Rogers’ extensive

knowledge of U.S. financial markets and other key global topics. There are many things to learn from Mr. Lake given his experience in running businesses both in the U.S. and Japan, in addition to his expertise in financial markets. Ms. Rogers, with her career experience at a U.S. financial institution, as well as experience in senior legal roles at global corporations and experience as an outside director at numerous Japanese firms, has provided valuable advice regarding equity holdings and other key issues facing

the Japanese corporate sector. I still clearly remember Ms. Rogers taking the lead in asking questions about the first agenda item raised at her first BoD meeting. I always feel great confidence in Ms. Rogers’ efforts to deepen our discussions.

**Ito** Ms. Rogers pointed out that our FY2023 business plan, released with the Medium-Term Management Plan, could be considered conservative by capital markets, which in turn could lead to the underperformance of SMFG’s share price. In addition, she



expressed the opinion that SMBC Group needed to expand investments in DX in order to enhance our corporate value. Finally, we set more challenging targets for our FY2024 business plan and increased our budget for IT investments by ¥100 billion from ¥650 billion to ¥750 billion based on the BoD’s advice including Ms. Rogers’.

As you can see, we have launched initiatives based on various opinions, including from Outside Directors. However, unresolved issues remain. For example, from the perspective of enhancing our corporate value, our PBR still remains below 1 (as of the end of June 2024).

**Lake** To meet the expectations of various stakeholders, including investors, it is important to achieve a PBR of at least 1. This, however, is just a starting point as capital markets have higher expectations. To meet such expectations, in

addition to improving ROE, the SMBC Group must communicate with its stakeholders and leverage such discussions to further stimulate BoD deliberation. I also recognize that investors are concerned with how SMBC Group will address its equity holdings to further increase corporate value. Elimination of equity holdings has long been an issue for Japanese companies, but Japan’s capital markets are on the brink of major change, boosted by the widespread adoption of the Corporate Governance Code – jointly developed by the Financial Services Agency and Tokyo Stock Exchange – as well as by major non-life insurance companies announcing plans to reach “zero” equity holdings. SMBC Group has publicly announced its plan to reduce its equity holdings, but in light of these changes, should seriously consider accelerating its plan. When reducing equity holdings, the SMBC Group should not simply

reduce the shareholdings as a formality, but should carefully assess the rationale for each sale, while keeping development of the SMBC Group and Japan capital markets in mind. In addition, it is also important to consider how to use the capital gained from the sales. Considering Corporate Governance Code requirements, it is necessary to continue to have these discussions at the BoD.

**Rogers** In terms of SMBC Group’s plan to reduce its equity holdings, I personally feel that the pace of execution is too slow. SMBC Group was able to reduce its equity holdings at a pace that exceeded the plan in FY2023, which I acknowledge as progress. However, I believe that the pace of the plan’s execution needs to be accelerated further. As Mr. Lake stated, Japan’s capital markets are undergoing change, and external pressure, including from investors, is expected to increase even more. Also, in regard to reducing its equity holdings, SMBC Group must pay close attention to capital allocation in addition to governance. The importance of capital allocation will continue to increase in the future as it is critical to secure the necessary resources to realize SMBC Group’s various growth strategies. Of course, while this is an issue that cannot be resolved by SMBC Group alone, I want to continue discussions at BoD meetings on this as it is a key issue.



**Charles D. Lake II**  
Outside Director



**Fumihiko Ito**  
Group CFO & CSO  
Director Senior Managing Executive Officer

**Ito** In the Medium-Term Management Plan, SMBC Group has established Create Social Value as a basic policy as we strive to contribute to “Fulfilled Growth.” This is a major difference from past Medium-Term Management Plans. Could you share with us your thoughts on this matter?

**Sakurai** The Medium-Term Management Plan is off to a strong start with record profits declared for FY2023, and I believe that SMBC Group managed to exceed expectations in terms of Create Social Value. SMBC Group is focusing on financial education, supporting corporate clients, and other related activities to create social value. As Chairperson of the Sustainability Committee, I have repeatedly stated at BoD meetings that we must create a framework in which all SMBC Group employees can independently take part in such efforts through “universal participation.” Looking over

the first year of the Plan, Sumitomo Mitsui Banking Corporation’s retail branches and Group companies held a variety of workshops and study sessions, in which employees engaged in discussions about how they could connect “Create Social Value” to enhancing SMBC Group’s strengths. This is only one example of SMBC Group’s many efforts. SMBC Group is off to a good start in developing employees’ awareness.

**Rogers** Mr. Paul Polman, an SMBC Group Global Advisor, and other well-known experts took part in various meetings including the one Ms. Sakurai mentioned. I believe that the participants were able to successfully leverage their knowledge of sustainability to make valuable contributions. By continuing to hold such sessions, I believe that SMBC Group’s overall competency level concerning sustainability will be enhanced. The Sustainability Committee recognizes initiatives

aimed at addressing climate change as one of its key themes, and we continue discussions on this matter. Many corporations are now advocating carbon neutrality and proactively carrying out related initiatives. However, this is not a matter which can be achieved in one simple step. This has led to increased attention and demand for Transition Finance. Transition Finance is a new form of financing that supports corporations’ long-term reduction strategies of greenhouse gas (GHG) emissions to achieve carbon neutrality. Furthermore, from the standpoint of realizing SMBC Group’s medium- to long-term growth, it will become increasingly important to provide financial solutions that support corporations’ efforts to address climate change and strive for carbon neutrality.

**Lake** As you both mentioned, creating social value is essential for achieving medium- to long-term corporate growth. However, since we are approaching this as a business rather than a charity, it is important that we also pursue economic value and, to ensure effectiveness, we need to further strengthen management’s foundation and capacity. As a member of the Risk Committee, I have shared various thoughts about how management systems, including a risk management system, can be enhanced to balance social and economic value. This concept, however, is nothing new and if you

look back over SMBC Group’s history, you can see that both Mitsui and Sumitomo created social value for generations through their respective businesses. Financial institutions play a significant role in addressing social issues and I believe this will remain unchanged into the future. I look forward to SMBC Group continuing to create social value into the future by building on the corporate culture it has cultivated over its long history.

**Ito** In a medium- to long-term timeframe, it is possible to increase economic value through the creation of social value, and more and more people are accepting this mindset. However, if we only think about matters based on a short-term perspective, we cannot deny that certain conflicts do arise between social and economic value.

Ms. Sakurai mentioned the need for everyone to participate, in other words “universal participation,” and therein lies the difficulty of addressing Create Social Value as the top priority. As such, I have repeatedly called out at various opportunities for the entire SMBC Group to think about whether our solutions and products are really contributing to the resolution of social issues, and whether they were having a positive impact on our stakeholders as a key factor in our decision-making process. When I visited our front office departments and talked with young employees, I noticed that the



mindsets of “I want to help customers” and “I want to provide services that contribute to the resolution of social issues” are becoming stronger. Although many hurdles remain in regard to realizing “universal participation,” we will continue our efforts while receiving advice and guidance from Outside Directors.

While we cannot disclose quantitative data regarding Create Social Value right now, we are currently deciding how to disclose the impact of our efforts to create social value. We are still trying to come to a conclusion, but as a first step we will pick some sample cases in which SMBC Group’s efforts are having a positive impact on Create Social Value and disclose quantitative data regarding those cases.

Finally, I would like to ask Outside Directors to share what they expect to be key issues going forward.

**Sakurai** When we launched the Sustainability Committee in 2021, addressing climate change was one of particular topics of focus. So we invited Ms. Yukari Takamura and Mr. Eiichiro Adachi, both leading Japanese experts on climate change, to become outside experts of SMBC Group, while Outside Directors including myself worked to deepen our knowledge of the matter. The Committee has provided the executive side with various advice, for example recommending the hiring of an individual with hands-on experience in the energy sector to collect the appropriate data and correctly analyze it. The executive side is also proactively adopting this advice. We also conduct sessions where Outside Directors and SMBC Group’s corporate clients meet and discuss climate change. The Sustainability Committee will engage in the various sustainability-related issues we face, while overseeing the executive side and providing advice,

by acquiring sustainability-related knowledge as an Outside Director through such efforts. I will place special focus on climate change, since it is a topic on which we must take immediate action.

**Lake** As I mentioned earlier, I also serve as a Risk Committee member, where I have focused on providing views on global geopolitical risks and U.S. current events. In the current business environment, companies find themselves in an ultra VUCA era (volatile, uncertain, complex, and ambiguous), which is difficult to predict, even for experts. In such an environment, companies must establish risk management systems that enable the robust and proactive governance, which I mentioned earlier, and respond flexibly and rationally, based on substance rather than just form. For this to happen, it is important to place risk management at the center of management strategy and work even harder to achieve a higher level of free, open, and constructive discussions. Drawing on my past experience, I want to help further strengthen SMBC Group’s governance framework. Shingen Takeda, a famous lord from Japan’s medieval period, left behind the famous saying: “The people are the castles, people are the stone walls, and people are the moats.” I believe the same applies to management. SMBC Group will place human capital at the center of its management infrastructure

and strive to realize a workplace and team where employees can continue to challenge themselves and feel a strong sense of fulfilment.

Furthermore, we have put in motion the creation of systems – as a central management theme – that enable our human capital to demonstrate their capabilities to foster a corporate culture befitting of a global company, and we are making every effort to incorporate best practices from a global perspective. For example, the Nomination Committee is taking a sophisticated approach to succession planning. As competition for talent intensifies, I, as an Outside Director, will provide a fresh perspective on best practices, including as it relates to human capital, and support SMBC Group’s growth over the medium- to long-term.

**Rogers** In response to the market manipulation case at SMBC Nikko Securities in 2022, SMBC Group is engaging in Group-wide efforts on

the implementation of preventative measures. SMBC Group carried out a variety of initiatives, for example holding town hall meetings for the purpose of engaging employees in developing a compliance culture, while pursuing the development of its enhanced compliance framework. However, the key factor is not the implementation of short-term solutions. Rather, it is how to embed a robust compliance culture on both a group and global basis over the long-term, and we have just reached the starting point. This also ties in with “Integrity,” one of SMBC Group’s Five Values, and the BoD should engage in more in-depth discussions regarding that. I firmly believe that it is one of the key responsibilities of an Outside Director to provide frank opinions during such discussions, and I will continue to offer my honest views regarding a variety of matters.

