

Corporate Governance

The SMFG Corporate Governance System

We have appointed outside directors to the Board of Directors to improve its effectiveness, and have reinforced the Board's oversight functions by setting up three subcommittees: the Risk Management Committee, the Compensation Committee, and the Nominating Committee. Two outside directors, one a certified public accountant and the other a lawyer, have been appointed to each committee. In particular, an outside director has been appointed as the Chairman of the Compensation Committee. This system allows the supervision of our operations to be conducted from a suitably objective perspective.

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

• Risk Management Committee

Groupwide Risk Management and Compliance

1. Issues related to the basic policies and the system of risk management

This includes policies and processes relating to corporate-wide risk management, credit risk management, market risk management, liquidity risk management, processing risk management, and systems risk management.

2. Other issues with a potential material impact on operations

• Compensation Committee

Remuneration of Board Members and Executive Officers of SMFG and SMBC

1. Issues related to remuneration, salaries, and incentive program
2. Issues related to the stock option program
3. Other remuneration issues

• Nominating Committee

Appointment of Directors of SMFG and SMBC

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

SMFG has created the Management Committee, chaired by the president of SMFG, to act as the top decision-making body on business administration and management supervision of the entire Group. The committee, composed of directors chosen by the president, considers important matters relating to the execution of business, and the president has the authority to make the final decision after considering the committee's recommendations.

In addition to the above, SMFG has also set up a Group Strategy Committee to serve as a forum for the top management staff of all Group companies to exchange opinions and information on their respective business plans.

The SMBC Corporate Governance System

SMBC's Board of Directors has two functions: setting policy for important management issues and overseeing the execution of business activities. At SMBC, we place particular emphasis on the latter function. We employ an executive officer system that separates decision-making at the operational level from the Board's oversight functions. In particular, the Chairman of the Board does not assume direct responsibility for operational duties and is primarily charged with their oversight.

Executive officers are selected by the Board to manage each of SMBC's businesses. As of June 30, 2003, there were 66 executive officers, including the president, 12 of whom are concurrently appointed as directors.

The Management Committee is the highest decision-making body at the operational level. The president chairs the committee and selects its members from the executive officers. The committee members consider important management issues, and the president has the authority to make the final decision after considering the committee's recommendations.

The president designates certain members of the Management Committee as Authorized Management Committee Members in charge of particular Head Office departments, as well as supervisory officers, who are responsible for overseeing the operations of each business unit. All of these designated individuals are charged with implementing the directives of the Management Committee within the businesses they oversee.

SMBC has also set up the Advisory Board, which serves as a consultative body to its chairman and president. Consisting of top management members from major companies as well as management consultants, the Advisory Board provides advice across the whole spectrum of management issues.