

The SMFG Corporate Governance System

Further enhancement of corporate governance is a high-priority management issue at SMFG and all Group companies.

SMFG employs the corporate governance system of the Japanese Commercial Code, in which the statutory auditors oversee the execution of business by the directors. At SMFG, we have five corporate auditors, of whom three are outside auditors. The auditors monitor the execution of business operations of SMFG and its subsidiaries by attending important management-level meetings, notably those of the Board of Directors, where business matters are reported on by the directors and executive officers. They also peruse documents relating to important decisions, and are reported to by staff members of the internal audit departments, representatives of subsidiaries of SMFG, and independent auditors (certified public accountants).

The Chairman of SMFG serves as the Chairman of the Board of Directors of SMFG. This is to separate the role of the president of SMFG, whose responsibility is to exercise overall supervision of the execution of business activities of SMFG and other Group companies from the role of supervising management. We also have outside directors to improve the effectiveness of the Board, as well as four committees—the Auditing Committee, the Risk Management Committee, the Compensation Committee, and the Nominating Committee—to improve its oversight function. Outside directors are appointed to all these committees to facilitate the implementation of corporate governance from a suitably objective perspective. As the need for objectivity is particularly acute in the case of the Auditing Committee and the Compensation Committee, the chairmanship of these committees is assigned to outside directors. To ensure that the execution of the Group's business operations is in conformity with the law, the outside directors are chosen from among the ranks of specialists such as certified public accountants and lawyers.

The committees are delegated by the Board the responsibility for considering the issues listed below, and report to the Board.

• Auditing Committee

Significant issues relating to Groupwide internal auditing

• Risk Management Committee

Significant issues relating to Groupwide risk management and compliance

• Compensation Committee

Remuneration of Board members and executive officers of SMFG and SMBC

1. Issues related to remuneration, salaries, and incentive program
2. 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, under the

direct supervision of the Board of Directors and chaired by the president of SMFG, 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, in accordance with the basic policy determined by the Board of Directors, after considering the committee's recommendations.

In addition to the above, SMFG also has 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. With regard to the three Group companies Sumitomo Mitsui Card Company, Limited, SMBC Leasing Company, Limited, and the Japan Research Institute, Limited, the director in charge of each subsidiary serves as a part-time director of these companies to strengthen the supervision of SMFG over their operations.

The SMBC Corporate Governance System

To ensure sound and transparent management, SMBC separates the two functions of management: decision-making at the operational level, and supervision of the management of the bank from a longer-term perspective. For this purpose, the bank employs a system in which executive officers are responsible for operational duties, while the supervisory function is exercised principally by the Board of Directors.

The chairman of the bank serves as the chairman of the Board of Directors, and to clearly separate his functions from those of the president of the bank, whose responsibility is to exercise overall supervision of the bank's activities, the chairman does not simultaneously serve as an executive officer; instead, he is primarily responsible for supervising management in their execution of operational duties. Following the practice at SMFG, outside directors—two in this case—are appointed to the Board of Directors of SMBC, with the aim of introducing an objective viewpoint so as to strengthen the supervision of corporate governance.

Executive officers are selected by the Board to manage each of SMBC's businesses. As of June 30, 2005, there were 68 executive officers, including the president, 10 of whom concurrently serve as directors. The Management Committee, under the direct supervision of the Board of Directors, 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 in light of the policies laid down by the Board of Directors, 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.