

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 SMBC (excluding outside directors and corporate auditors).

(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 Nikko Securities Inc., Kansai Urban Banking Corporation, The Minato Bank Ltd. and overseas subsidiaries such as Sumitomo Mitsui Banking Corporation Europe Limited 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 SMFG 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 SMFG 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, 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. Determination of Compensation

(1) For Officers

The compensation committee of SMFG, a majority of which is comprised of outside directors, deliberates on the compensation structure and the amount and type of compensation paid to directors and corporate officers of SMFG and SMBC, independent from the influence of corporate, consumer and other business units of SMBC. The committee deliberates on the amount and type of compensation paid to directors and corporate officers within the maximum total amount of compensation approved at an ordinary general meeting of shareholders. The amount and type of compensation paid to corporate auditors is determined through discussions among the corporate auditors, within the maximum total amount of compensation approved at an ordinary general meeting of shareholders, in accordance with the provisions of Article 387(2) of the Companies Act.

(2) For Employees and Others

The amount and type of compensation paid to the employees of SMBC and SMBC and the officers and employees of major consolidated subsidiaries are determined and paid according to the compensation policies established by the boards of directors of SMBC and its major consolidated subsidiaries. Compensation systems based on the compensation policies are designed and documented by the HR departments of respective companies, independent from the influence of corporate, consumer and other business units. The compensation policies of major consolidated subsidiaries are regularly reported to the HR department of SMBC for review. The amount and type of compensation for overseas officers and employees is determined and paid under the compensation system established by the relevant office or subsidiary in accordance with local laws, regulations and employment practices.

(3) Total Amount of Compensation Paid to Compensation Committee Members and Number of Compensation Committee Meetings Held

	Number of Meetings Held (April 1, 2012 to March 31, 2013)
Compensation Committee (SMFG)	1
Compensation Committee (SMBC Nikko Securities Inc.)	1

Note: The total amount of compensation is not provided because the portion of the compensation paid to a committee member for services rendered as a committee member cannot be calculated as the amount of compensation paid is based on the committee member's position in the company.

■ Assessment of Design and Operation of Compensation Structure

Compensation Policy

(1) For Officers

SMBC has designed its compensation system for officers based on the basic policy of SMFG – become a globally competitive financial services group with the highest trust of its clients and other stakeholders by enhancing its corporate value over the medium to long term. Specifically, the compensation paid to officers consists of:

- base salary;
- bonuses; and
- stock options

The base salary is determined based on job responsibilities, business performance and other factors, and bonuses are determined based on the consolidated business results of SMFG. Stock options are granted to officers (excluding outside directors and corporate auditors) according to their positions, subject to an exercise period, to foster the creation of long-term corporate value.

The amount and type of compensation for each fiscal year, which is set within the maximum total amount of compensation approved at an ordinary general meeting of shareholders, are examined by a third party for appropriateness; deliberated by the compensation committee of SMFG, chaired by an outside director; and submitted to the board of directors for approval. In addition, the amount and type of compensation to corporate auditors are determined through discussions among the corporate auditors, including outside corporate auditors, within the maximum total amount of compensation approved at an ordinary general meeting of shareholders.

(2) For Employees and Others

SMBC and its major consolidated subsidiaries pay compensation to domestic employees and others consisting of:

- base salary;
- bonuses and other benefits

In order to link the business philosophy and strategy of the company to the roles and responsibilities of the employees and others, SMBC and its major consolidated subsidiaries determine the amount and type of compensation taking into account their job responsibilities, business performance and other factors. In addition, the HR departments of respective companies determine the amount and type of compensation based on the overall company situation, including the business environment, business trends, and past payments of compensation. The compensation policies for overseas employees and others have been established based on the domestic compensation policies and taking into account local laws, regulations, employment practices and other relevant factors.

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

1. SMBC

SMBC determines the amount and type of compensation paid to officers within the maximum total amount of compensation approved at an ordinary general meeting of shareholders. SMBC also sets a budget for paying compensation to employees taking into account the group's financial situation and other factors. Performance-based compensation accounts for a relatively small percentage of total compensation, and SMBC has not adopted a compensation structure that could affect the risk management of the group. In addition, expenses for employee retention are recorded for certain employees.

2. Major Consolidated Subsidiaries

The amount and type of compensation for officers and employees of a major subsidiary are determined by comprehensively taking into account the assessment of the subsidiary's medium- and long-term earnings, and in the case of an overseas subsidiary, local laws, regulations and employment practices, and a compensation structure that could affect the risk management of the group has not been adopted. In addition, expenses for employee retention are recorded for employees of certain major consolidated subsidiaries.

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

1. Total Amount of Compensation Paid to Officers, Employees and Others (SMBC consolidated, April 1, 2012 to March 31, 2013)

	Number of officers/employees and others	Millions of yen								
		Amount of compensation								
		Total	Amount of fixed compensation			Amount of variable compensation			Retirement allowance	Other benefits
			Total	Base salary	Stock options	Other benefits	Total	Bonuses		
Officers (excluding outside directors and corporate auditors).....	19	1,474	1,194	1,036	152	5	272	272	7	—
Employees and others.....	63	5,359	2,001	1,959	31	9	3,270	3,270	—	87

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

2. The total amount of fixed compensation includes ¥183 million in deferred compensation accrued during the fiscal year (officers: ¥152 million; employees and others: ¥31 million).

3. The total amount of variable compensation includes ¥174 million in deferred compensation accrued during the fiscal year (officers: ¥1 million; employees and others: ¥174 million).

4. Stock options are classified as fixed compensation because the number of stock options granted depends on the individual's position.

5. The exercise period of stock option is shown in the table below.

Under the stock option agreement, the exercise of stock options is deferred until the retirement date, regardless of the exercise period:

	Exercise Period
1st series of stock acquisition rights of SMFG.....	August 13, 2010 to August 12, 2040
2nd series of stock acquisition rights of SMFG	August 16, 2011 to August 15, 2041
3rd series of stock acquisition rights of SMFG	August 15, 2012 to August 14, 2042

6. Payment of the following compensation has been deferred:

	Millions of yen	
	March 31, 2013	Payment during the fiscal year
1st series of stock acquisition rights of SMFG.....	65	—
2nd series of stock acquisition rights of SMFG	103	—

2. Total Amount of Compensation Paid to Officers, Employees and Others (SMBC non-consolidated, April 1, 2012 to March 31, 2013)

	Number of officers/employees and others	Millions of yen								
		Amount of compensation								
		Total	Amount of fixed compensation			Amount of variable compensation			Retirement allowance	Other benefits
			Total	Base salary	Stock options	Other benefits	Total	Bonuses		
Officers (excluding outside directors and corporate auditors).....	19	1,474	1,194	1,036	152	5	272	272	7	—
Employees and others.....	22	1,999	806	771	31	3	1,126	1,126	—	66

Notes: 1. The total amount of fixed compensation includes ¥183 million in deferred compensation accrued during the fiscal year (officers: ¥152 million; employees and others: ¥31 million).

2. The total amount of variable compensation includes ¥174 million in deferred compensation accrued during the fiscal year (officers: ¥1 million; employees and others: ¥174 million).

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5. Payment of the following compensation has been deferred:

	Millions of yen	
	March 31, 2013	Payment during the fiscal year
1st series of stock acquisition rights of SMFG.....	65	—
2nd series of stock acquisition rights of SMFG	103	—

■ Other Information Regarding Compensation Structures of SMFG and its Group Companies

Not applicable