

# Compensation

Sumitomo Mitsui Financial Group (SMFG)

## ■ Compensation Framework of SMFG and Its Group Companies

### 1. Scope of Officers, Employees and Others

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 of SMFG during the fiscal year under review (excluding outside directors and corporate auditors).

#### (2) Scope of Employees and Others

Employees and others subject to compensation disclosure are employees of SMFG 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 SMFG and its major consolidated subsidiaries.

##### a) Scope of major consolidated subsidiaries

A major consolidated subsidiary is a consolidated subsidiary of SMFG with total assets accounting for more than 2% of the total consolidated assets of SMFG and has a material influence on the management of SMFG and its group companies. Specifically, they are Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities Inc., Kansai Urban Banking Corporation, Sumitomo Mitsui Finance and Leasing Company, SMBC Guarantee Co., Ltd., Limited 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 SMFG or its major subsidiaries is equal to or more than the base amount. The base amount of SMFG 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 SMFG and its major consolidated subsidiaries

A person has a material influence on the business management or assets of SMFG 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 SMFG and its group companies, or losses incurred through such actions have a significant impact on the financial situation of SMFG and its group companies. Specifically, persons having such influence are directors, corporate auditors and corporate officers of SMFG and its major consolidated subsidiaries, both domestic and overseas.

### 2. Determination of Compensation

#### (1) For Officers

SMFG, as a Company with a Nomination Committee, has established a Compensation Committee to resolve the “policy to determine individual remuneration for directors and executive officers,” “executive compensation programme and relevant regulations,” and “individual remuneration for SMFG’s directors and corporate executive officers.” In addition, SMFG Compensation Committee reviews and discusses executive compensation programmes/practices of group companies of SMFG and the individual remuneration for SMFG’s other executive officers. Furthermore, group companies of SMFG respect the details of the deliberations at the Compensation Committee of SMFG and determine the compensation for directors and corporate auditors within the maximum total amount of compensation approved at an ordinary general meeting of shareholders.

#### (2) For Employees and Others

The amount and type of compensation paid to the employees of SMFG 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 SMFG 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 business units. The compensation policies of major consolidated subsidiaries are regularly reported to the HR department of SMFG 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, 2016 to March 31, 2017)
Compensation Committee (SMFG) .....	3
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

SMFG hereby establishes the Executive Compensation Policy (the "Policy") in order to provide guiding principles for its Compensation Committee to determine individual remuneration for its directors and executive officers (the "Executives").

The Policy's aim is that executive compensation pursuant to it shall provide the appropriate incentives for the Executives to pursue our Mission and our medium-/long-term vision of becoming "a global financial group that, by earning the highest trust of our customers, leads the growth of Japan and the Asian region".

Group companies of SMFG shall determine their executive compensations in accordance with this Policy.

#### <Core Principles>

- I. SMFG's executive compensation aims at providing appropriate incentives toward the realization of our mission and our vision.
- II. SMFG's executive compensation shall reflect the changing business environment and the short-, medium- and long-term performance of the group, and shall account for the contribution to shareholder value and customer satisfaction.
- III. Individual remuneration shall reflect the assigned roles and responsibilities as well as the performance of the respective Executive.
- IV. SMFG shall research and review market practices, including the use of third-party surveys, in order to provide its Executives with a competitive remuneration package.
- V. SMFG's executive compensation shall discourage excessive risk-taking and foster a prudent risk culture expected of a financial institution.
- VI. Both external and internal regulations/guidelines on executive compensation shall be observed and respected.
- VII. SMFG shall establish appropriate governance and controls of the compensation process, and shall regularly review to update its executive compensation practices according to changing market practices and/or business environment.

#### <Compensation Programme>

- I. SMFG's executive compensation programme (the "Programme") shall have three components: base salary, cash bonus, and stock compensation.
- II. In order to hold the Executives accountable and provide them with appropriate incentives for the performance of the group, the Programme targets the variable compensation component of total remuneration at 40%, if paid at standard levels. Corresponding with performance and the business environment, the variable component could range from 0% to 150% of the standard levels, which shall be determined by corporate titles of the Executives.
- III. In order to enhance shareholding of the Executives and align their interests with shareholders, the Programme targets its stock-based compensation components at 25% of total remuneration, if paid at standard levels.
- IV. The above target levels shall be appropriately set in accordance with the roles, responsibilities, etc. of each Executive.
- V. Base salary shall be paid in cash and shall be, in principle, determined by the corporate titles of each Executive, reflecting the roles, responsibilities, etc.
- VI. Annual incentives shall be determined based on the annual performance of the group, the group company and the business unit each Executive is accountable for, as well as on the performance of the respective Executive reviewed both from short-term and medium-/long-term perspectives. 70% of the determined amount shall be paid as a cash bonus and the remaining 30% shall be paid under Stock Compensation Plan II (annual performance share plan).
- VII. Stock compensation plans consist of Stock Compensation Plan I (the "Plan I"), under which the remuneration of the Executives shall be determined based on SMFG's medium-term performance, etc., Stock Compensation Plan II (the "Plan II"), determined based on SMFG's annual performance, etc. and Stock Compensation Plan III (the "Plan III"), determined based on corporate titles, etc.
  - a. Under the stock compensation plans, the Executives shall receive remuneration via shares of SMFG common stock. The transfer of such stock shall be restricted for appropriately defined periods.
  - b. Remuneration under Plan I shall be determined based on SMFG's performance against the Medium-term Management Plan, performance of SMFG shares, and the results of customer satisfaction surveys, etc.
  - c. Remunerations under Plan II shall be determined based on the annual performance of SMFG, the group company, and the business unit each Executive is accountable for, as well as on the performance of each Executive reviewed both from a short-term and medium-/long-term perspectives. Remuneration paid by restricted shares, they shall effectively act as deferred compensation.
  - d. Remuneration under Plan III shall be determined based on corporate titles, roles, and responsibilities, etc.
- VIII. In the event of material amendments to the financial statements or material reputational damages caused by the Executives, remunerations under the Plans could be reduced or fully forfeit.
- IX. Notwithstanding the above, executive compensation for the Executives domiciled outside Japan shall be individually designed and determined not only in accordance with this Policy, but also with consideration to local regulations, guidelines, and other local market practices, whilst ensuring the compensation should not incentivize for excessive risk-taking.

#### <Governance and Control of the Compensation Processes>

SMFG, as a Company with a Nomination Committee, has established a Compensation Committee to resolve the following:

- The Policy, executive compensation programme and relevant regulations.
- Individual remunerations for SMFG's directors and corporate executive officers.

In addition to the above, SMFG Compensation Committee shall review and discuss the below:

- Executive compensation programmes/practices of group companies of SMFG.
- The individual remuneration for SMFG's other executive officers.

#### (2) For Employees and Others

In order to link the business philosophy and strategy of the company to the roles and responsibilities of employees and others, SMFG and its major consolidated subsidiaries determine the domestic compensation taking into account their job responsibilities, business performance and other factors.

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

### 1. SMFG and SMBC

In determining the compensation for the officers of SMFG, the details of individual compensation for directors and executive officers are determined by the mandatory Compensation Committee, where the majority of the committee members are the outside directors. The compensation for the officers of SMBC are determined within the scope approved at a shareholders' meeting.

In order to hold the Executives accountable and provide them with appropriate incentives for the performance of the group, the Programme targets the variable compensation component of total remuneration at 40%, if paid at standard levels. The Programme shall have three components: base salary, cash bonus, and stock compensation. Cash bonus shall be determined based on the annual performance of the group, as well as on the performance of the respective Executive reviewed both from short-term and medium-/long-term perspectives. Stock compensation is determined based on the progress of the Medium-term Management plan, performance of SMFG shares, and the results of customer satisfaction surveys, etc. SMFG and SMBC allot restricted stocks via the Plans to Executives to effectively defer part of executive compensation.

In addition, SMFG and SMBC introduced the malus (forfeiture) of restricted stock and the claw-back of vested stock allocated to the Executives under the Plans in order to restrain excessive risk-taking and foster a prudent risk culture expected of a financial institution. Provisions on malus and clawbacks are included in the Allotment Agreement and they shall be exercised in the event of material amendments to the financial statements or material reputational damage caused by the Executives after thorough review at the Compensation Committee.

In addition, in determining the compensation for employees, their job responsibilities and business performance are taken into account. For variable compensation, in order to avoid an excessive result-oriented approach, it is determined after comprehensive evaluation based on not only short-term performance results but also qualitative evaluation. Compensation is individually designed with consideration to local regulations, guidelines, and other market practices, whilst ensuring the compensation should not incentivize for excessive risk-taking.

## 2. Other Major Consolidated Subsidiaries

The compensation for officers and employees of other major subsidiaries of SMFG are determined by comprehensively taking into account the assessment of the subsidiaries' 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 SMFG and Its Group Companies

Total Amount of Compensation Paid to Officers, Employees and Others (April 1, 2016 to March 31, 2017)

	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).....	13	1,029	832	735	93	4	176	176	17	2
Employees and others.....	92	7,613	3,982	3,697	281	3	3,318	3,318	—	312

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

2. The total amount of fixed compensation includes ¥374 million in deferred compensation accrued during the fiscal year (officers: ¥93 million; employees and others: ¥281 million).

3. The total amount of variable compensation includes ¥659 million in deferred compensation accrued during the fiscal year (officers: ¥- million; employees and others: ¥659 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:

Company name	Stock option rights 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
4th series of stock acquisition rights of SMFG .....	August 14, 2013 to August 13, 2043
5th series of stock acquisition rights of SMFG .....	August 15, 2014 to August 14, 2044
6th series of stock acquisition rights of SMFG .....	August 18, 2015 to August 17, 2045
7th series of stock acquisition rights of SMFG .....	August 15, 2016 to August 14, 2046

6. Payment of the following compensation, including the above, has been deferred:

Type of compensation, etc.	Millions of yen	
	March 31, 2017	Payment during the fiscal year
1st series of stock acquisition rights of SMFG.....	62	—
2nd series of stock acquisition rights of SMFG .....	132	—
3rd series of stock acquisition rights of SMFG .....	141	—
4th series of stock acquisition rights of SMFG .....	140	—
5th series of stock acquisition rights of SMFG .....	178	—
6th series of stock acquisition rights of SMFG .....	192	—

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

Not applicable