

Outside Director Interview



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Director

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Q What do you see as your role as an outside director?

I joined Japanese National Railways in 1967. After this organization was broken up and privatized, I worked in general affairs and human resources divisions at Central Japan Railway Company. Over the period from 2004 to 2010, I served as president of this company. I resigned from the position of representative director and vice chairman of this company in 2011 to become chairman of Japan Broadcasting Corporation, a position I filled until 2014.

Given this background, I was a bit surprised when SMBC asked me to become an outside director in 2015. The financial sector was a whole new world for me, I was doubtful of my ability to utilize my experience and insight in this new world.

However, SMBC reassured me that, in the midst of the substantial changes that were being seen in the structures of financial businesses, I would be able to contribute with opinions that are not bound by industry conventions. This company also stated that they were in need of a third-party perspective grounded in experience from managing highly public enterprises. I was thus convinced to accept this position. For this reason, I see the most important part of my role as an outside director to be offering opinions from a third-party perspective at meetings of the Board of Directors and other venues.

Having actually taken part in the management of a financial business, I now know that there are some big similarities with

the businesses I have engaged in previously. One similarity is the need for operations to be anchored on credibility. Another is the quantity and complexity of the regulations that must be complied with. The railroad and broadcasting businesses I was involved in previously had close ties to regulatory authorities. In this respect, I believe that there is room for me to utilize my experience and insight at SMBC Group.

In 2017, I became an outside director at Sumitomo Mitsui Financial Group, the holding company. While my position may be a little different, my role remains the same. Following the Company's transformation into a Company with Three Committees, I became chairman of the Audit Committee and a member of the Nomination Committee. As I mentioned, I have a long history in general affairs and human resources departments, and I have been deeply involved in risk management over the years. Calling upon this experience, I hope to contribute to the reinforcement of corporate governance structures through the activities of these committees.

Q From your perspective as an outside director, what do you see as the strengths and weaknesses of SMBC Group?

I see SMBC Group's ability to respond to change with swift action as one of its strengths. For example, I thought it would require a substantial amount of time for the group-wide

business units, which were introduced in 2017, to take hold within the Group. This was because the injection of cross-company functions would mean that people would need to change how they worked and would thus create a lot of friction. Contrary to my expectation, however, what I hear at meetings and other junctures suggests that the business units are well aware of the duties assigned to them through the introduction of the group-wide system and that the benefits of this system are already appearing. While there may be some small issues here and there, the overall speed at which this system has become entrenched at the Group is exceeding my expectations.

Another example of swift action by the Group came during the period of the previous Medium-Term Management Plan. After the initially unexpected slowdown in the Asian economy and negative interest rate policy instituted by the Bank of Japan created a difficult operating environment, the Group changed its focus, in the middle of the plan no less, from topline growth to bottom-line profits. Rather than stubbornly adhering to the existing plan, SMBC Group was able to make flexible changes to the plan, even implementing bold revisions to its measures.

The Group's risk management systems are also exceptional functionally. However, there can be no greater factor supporting the various strengths of SMBC Group than the quality of its people.

As for weaknesses, one cannot deny that the Group's operations in certain fields are smaller in terms of scale and earnings than those of other companies. Turning this around, you could also say that the Group has room to grow in these fields. Given the talented human resources and organizational might of SMBC Group, I feel confident in the Group's ability to turn this situation into an opportunity for growth.

Q What will SMBC Group need to do in order to continue growing in the future?

Becoming the global financial group described in SMBC Group's medium- to long-term vision will be absolutely essential to future growth. As described in the medium-term management plan, it will be important for the Group to set its sights on fields in growing markets that have the potential to lead to the creation of highly profitable businesses. At the same time, it will be crucial for the Group to maintain a conservative viewpoint by effectively practicing risk management and other precautions. As the Group aggressively develops businesses in which it can utilize its accumulated track record and expertise, it will also be important to carefully evaluate those businesses

in which these strengths are not viable and make decisions regarding its involvement in these businesses accordingly.

It is easy to become preoccupied with the aggressive aspect of growth strategies. For this reason, an important duty of outside directors is to turn attention to the conservative aspects of operations. I have no doubt that, so long as SMBC Group keeps itself well grounded as it moves forward, it is certain to reach its goal of becoming a global financial group.

Q Lastly, what do you see as most important to improving the effectiveness of the Board of Directors?

I think it is most important to ensure that effective discussions take place at meetings of the Board of Directors. For example, in the past, the Board of Directors has been engaged in ongoing discussion of capital measures. It is crucial for capital measures to be prefaced on the Company's sustainability and ability to grow. This sustainability and growth is also of great importance to shareholders and all other stakeholders. With this in mind, we moved forward with discussions of these measures.

Specifically, we looked at matters such as the vision for SMBC Group's future and the investment that would need to be conducted to realize this vision. Each of these matters was evaluated to set priorities. In establishing the overarching direction for capital measures, the Board meetings functioned as a forum for exchanging various opinions. It was because we went through this process of discussion that, in the end, we were able to set dividend policies and define a position for share buybacks that everyone could agree with.

During the course of discussions, I and the other outside directors brought attention to various matters. The Group CFO kindly explained the circumstances surrounding those matters. Furthermore, we were provided with a sufficient amount of information prior to Board meetings, ensuring that discussions at meetings were fruitful.

Another benefit of outside directors is their ability to voice frank opinions based on their own experience without being limited by the circumstances within the Group that led to a given situation. Such openness can spark new discussion or inspire us to reevaluate previously made decisions, thereby leading to more active discussion at Board meetings. This factor also contributes to the meaningfulness of having outside directors.

Personally, I plan to continue to voice opinions and offer suggestions while valuing outside perspectives and remaining mindful of all stakeholders. I hope to contribute to increased effectiveness for the Board of Directors through this approach.