

# Compensation

Sumitomo Mitsui Financial Group

## ■ Compensation Framework of Sumitomo Mitsui Financial Group 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 executive officers of Sumitomo Mitsui Financial Group during the fiscal year under review (excluding outside directors).

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

Employees and others subject to compensation disclosure are employees of Sumitomo Mitsui Financial Group 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 Sumitomo Mitsui Financial Group and its major consolidated subsidiaries.

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

A major consolidated subsidiary is a consolidated subsidiary of Sumitomo Mitsui Financial Group with total assets accounting for more than 2% of the total consolidated assets of Sumitomo Mitsui Financial Group and has a material influence on the management of Sumitomo Mitsui Financial Group and its group companies. Specifically, they are Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities Inc., 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 Sumitomo Mitsui Financial Group or its major subsidiaries is equal to or more than the base amount. The base amount of Sumitomo Mitsui Financial Group is set at ¥60 million which is based on the average amount of compensation paid to the officers of Sumitomo Mitsui Financial Group 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 Sumitomo Mitsui Financial Group 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 for officers serving in Japan, 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 Sumitomo Mitsui Financial Group and its major consolidated subsidiaries

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

## 2. Names, Compositions, and Duties of the Main Bodies, Such as the Committee Responsible for Supervising Business Execution Concerning the Determination of Compensation, Its Payment and Other Related Matters

### (1) Establishment and Maintenance of the Compensation Committee

Sumitomo Mitsui Financial Group, 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 Sumitomo Mitsui Financial Group’s directors and corporate executive officers.” The Compensation Committee is a body independent from the influence of business units, chaired by an outside director, with the majority of its members being also outside directors, and tasked to determine and deliberate matters related to executive compensation of Sumitomo Mitsui Financial Group and its group companies. In addition, Sumitomo Mitsui Financial Group Compensation Committee reviews and discusses executive compensation programmes/practices of group companies of Sumitomo Mitsui Financial Group and the individual remuneration for Sumitomo Mitsui Financial Group’s other executive officers. Furthermore, group companies of Sumitomo Mitsui Financial Group respect the details of the deliberations at the Compensation Committee of Sumitomo Mitsui Financial Group 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 Sumitomo Mitsui Financial Group 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 Sumitomo Mitsui Financial Group 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 Sumitomo Mitsui Financial Group 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, 2017 to March 31, 2018)
Compensation Committee (Sumitomo Mitsui Financial Group)*Including those held before the transition to a company with a Nomination Committee ..	4
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 Policies for Officers, Employees and Others

#### (1) For Officers

Sumitomo Mitsui Financial Group 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 Sumitomo Mitsui Financial Group shall determine their executive compensations in accordance with this Policy.

#### <Core Principles>

- I. Sumitomo Mitsui Financial Group’s executive compensation aims at providing appropriate incentives toward the realization of our mission and our vision.
- II. Sumitomo Mitsui Financial Group’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. Sumitomo Mitsui Financial Group 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. Sumitomo Mitsui Financial Group’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. Sumitomo Mitsui Financial Group 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. Sumitomo Mitsui Financial Group’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 I (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 Sumitomo Mitsui Financial Group’s medium-term performance, etc., Stock Compensation Plan II (the “Plan II”), determined based on Sumitomo Mitsui Financial Group’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 Sumitomo Mitsui Financial Group common stock. The transfer of such stock shall be restricted for appropriately defined periods.
  - b. Remuneration under Plan I shall be determined based on Sumitomo Mitsui Financial Group’s performance against the Medium-term Management Plan, performance of Sumitomo Mitsui Financial Group shares, and the results of customer satisfaction surveys, etc.
  - c. Remunerations under Plan II shall be determined based on the annual performance of Sumitomo Mitsui Financial Group, 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>

Sumitomo Mitsui Financial Group, 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 Sumitomo Mitsui Financial Group’s directors and corporate executive officers.

In addition to the above, Sumitomo Mitsui Financial Group Compensation Committee shall review and discuss the below:

- Executive compensation programmes/practices of group companies of Sumitomo Mitsui Financial Group.
- The individual remuneration for Sumitomo Mitsui Financial Group’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, Sumitomo Mitsui Financial Group 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. Sumitomo Mitsui Financial Group and SMBC

In determining the compensation for the officers of Sumitomo Mitsui Financial Group, 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 Sumitomo Mitsui Financial Group shares, and the results of customer satisfaction surveys, etc. Sumitomo Mitsui Financial Group and SMBC allot restricted stocks via the Plans to Executives to effectively defer part of executive compensation.

Stock Compensation Plan I involves removal of the restriction on transfer, after the expiry of Sumitomo Mitsui Financial Group's Medium-term Management Plan. In the event that the finalized amount of compensation falls short of the initially allocated amount, Sumitomo Mitsui Financial Group will retrieve all or part of the allotted shares at nil cost in the case the final amount falls below the initial amount.

Stock Compensation Plan II involves step-by-step removal of the restriction on transfer, one third in each year over the three years following the payment.

Stock Compensation Plan III involves removal of the restriction on transfer, either 30 years after payment or at the time of retirement from the position of officer.

In addition, Sumitomo Mitsui Financial Group 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 Sumitomo Mitsui Financial Group 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. While terms of employment presented at the time of recruitment may include the minimum amount of compensation within a reasonable scope under local practice, the compensation structure is designed to avoid an excessive result-oriented approach. 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 Sumitomo Mitsui Financial Group and Its Group Companies

Compensation, etc. allocated to the applicable fiscal year

(Headcount, millions of yen)

Item No.			(a)	(b)
			Officers	Employees and others
1	Fixed compensation	Number of applicable officers, employees and others	16	146
2		Total fixed compensation (3+5+7)	910	6,285
3		of which: cash compensation	860	5,576
4		of which in 3: deferred amount	—	—
5		of which: amount of stock compensation or stock-linked compensation	46	338
6		of which in 5: deferred amount	46	338
7		of which: other compensation	3	370
8		of which in 7: deferred amount	—	—
9	Variable compensation	Number of applicable officers, employees and others	12	143
10		Total variable compensation (11+13+15)	501	5,114
11		of which: cash compensation	276	4,340
12		of which in 11: deferred amount	—	613
13		of which: amount of stock compensation or stock-linked compensation	225	773
14		of which in 13: deferred amount	225	621
15		of which: amount of other compensation	—	—
16	of which in 15: deferred amount	—	—	
17	Retirement allowance	Number of applicable officers, employees and others	3	71
18		Amount of retirement allowance	9	338
19		of which: deferred amount	—	—
20	Other compensation	Number of applicable officers, employees and others	—	13
21		Amount of other compensation	—	284
22		of which: deferred amount	—	64
23	Total compensation, etc. (2+10+18+21)		1,421	12,023

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

2. Stock options and Stock Compensation Plan III are classified as fixed compensation because the number of stock options granted depends on the individual's position. Other stock compensation involves an amount of issuance prone to performance-linked fluctuations, and is thus classified as variable compensation.

Special compensation, etc.

(Headcount, millions of yen)

	(a)	(b)	(c)	(d)	(e)	(f)
	Bonus guarantee		One-off recruitment payment		Additional retirement allowance	
	Headcount	Total amount	Headcount	Total amount	Headcount	Total amount
Officers	—	—	—	—	—	—
Employees and others	2	63	—	—	1	38

### ■ Other Information Regarding Compensation Structures of Sumitomo Mitsui Financial Group and its Group Companies

Deferred compensation, etc.

(Millions of yen)

		(a)	(b)	(c)	(d)	(e)
		Balance of deferred compensation, etc.	Of the amount in (a), balance of deferred compensation, etc. subjected to adjustment or prone to fluctuations	With respect to post allocation compensation, amount of fluctuation after adjustment not linked to fluctuations of criteria in the applicable fiscal year	With respect to post allocation compensation, amount of fluctuation after adjustment linked to fluctuations of criteria in the applicable fiscal year	Amount of deferred compensation, etc. paid in the applicable fiscal year
Officers	Amount of cash compensation	—	—	—	—	—
	Amount of stock compensation or stock-linked compensation	725	249	—	—	135
	Amount of other compensation	—	—	—	—	—
Employees and others	Amount of cash compensation	1,138	252	—	—	484
	Amount of stock compensation or stock-linked compensation	1,856	1,062	—	—	317
	Amount of other compensation	—	—	—	—	—
Total amount		3,720	1,563	—	—	937