

The SMBCE Remuneration Policy applies to all locally hired employees of Sumitomo Mitsui Banking Corporation Europe Limited (“SMBCE” or “the Bank”). Except for certain aspects of variable pay for Material Risk Takers and other employees as defined below, it does not apply to employees of Sumitomo Mitsui Banking Corporation (“SMBC”) seconded from SMBC, whose remuneration is governed by rules established by SMBC in Japan.

The Policy for SMBCE forms a significant part of the Policy for SMBC in Europe, Middle East and Africa (“EMEA” or “EMEA Region”) and the calculation of the bonus fund is based on the results of SMBC in EMEA.

This policy is owned by the Head of PD-HR Group, who will review the policy annually or more frequently if necessary. The Remuneration and Human Resources Committee (“RemCo”) has the authority to make significant revisions to the policy. Minor revisions may be made by PD-HR Group and approved by the CEO, with ratification by the RemCo.

### **Risk Appetite**

SMBCE is a wholly owned subsidiary of SMBC and the emphasis is on long term sustainable growth. The Bank seeks long term sustainable growth and seeks to avoid significant volatility from year to year.

Management believes that the overall business model of the Bank is conservative, cautious and prudent. Its principles of shared purpose are reflected in the significant collaborative effort from many departments that is involved in transacting business. No piece of business is the sole result of the actions of any one individual and no one individual can on his or her own initiative transact business that might place the Bank at risk. The Board has a framework for setting, managing and monitoring risk appetite, with the aim of optimising the return to, and protecting the interests of, stakeholders (including shareholders, customers and employees).

The Bank is committed to ensuring that it has suitable processes in place to ensure that employees fully understand the risks which relate to their activities, and risk considerations are at the heart of Management’s overall planning processes.

SMBCE’s Risk Appetite and risk tolerances are clearly defined to ensure the appropriate utilisation of its capital as well as for funding and liquidity. Risk Appetite is approved annually by the Board. The structure has four levels being qualitative preferences, quantitative tolerances, various risk limits and control measures.

Preference 12 incorporates the Bank’s risk appetite towards to remuneration:-

“The Bank will ensure appropriate staffing arrangements (including remuneration, competence and resourcing) which enables sustainable growth and reinforces the overall risk culture.”

### **Remuneration Policy Objectives**

SMBCE’s remuneration policy is an expression of the Bank’s overall philosophy, aims and objectives.

It is the Bank’s intention that:

- 1) Remuneration policy will support the Bank’s long term aims. It will seek to encourage and support long term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness;
- 2) Decisions about remuneration policy will be reviewed, considered and approved/ratified by the Remuneration Committee.
- 3) Employees are remunerated by means of the following elements - basic salary, allowances, benefits and variable pay - that may be relevant to their location and function;
- 4) The amount of fixed remuneration, including where appropriate salary, allowances or benefits, should be sufficient for an acceptable standard of living in any given location without a dependency on variable pay; and
- 5) Employees have the opportunity to share in the success of the Bank in years of good performance and also accept responsibility for poor performance and/or losses in other years.

### **Governance**

SMBCE has established a Remuneration and Human Resources Committee further details on the constitution of which is set out in section 15 on page . Non-Executive Directors do not receive any form of variable pay.

The RemCo has the discretion to adjust the bonus pool and individual payments at any stage of the process, from the calculation of the fund itself to the final distribution.

HR Group consults Risk Management Department (“RMD”) and PD-LCD regularly on an informal basis concerning remuneration policy and formally once a year about concerns to be addressed about department, group and/or individual remuneration, particularly variable pay. The Business Performance Rating (“BPR”) of each Department includes an independent assessment on both financial and non-financial, and qualitative and quantitative by RMD and PD-LCD of their contribution to and engagement

with the Bank's risk management and compliance activities respectively. The Personal Performance Rating ("PPR") of each individual includes an assessment of their compliance, risk management and overall behaviour.

#### Material Risk Takers

Material Risk Takers for SMBCE have been identified in line with the quantitative and qualitative criteria as set out by the European Banking Authority. Material Risk Takers have been identified by reason of their role, their seniority, their authority to expose the institution to material credit, market or other identified risks, or the level of their compensation.

The Bank is satisfied that it has identified all employees who have significant risk-taking or approval authority or who can place the Bank at risk in respect of their delegated authority.

Employees, including Material Risk Takers, understand that their bonus is based on the Risk Adjusted performance of the EMEA region as a whole and that individual financial performance will not have any direct influence on their individual bonus. They also know that credit cost, liquidity cost and conduct will directly affect the calculation of the bonus fund and that there is therefore a clear incentive to develop prudent sustainable business.

#### Discretionary Bonus Scheme

All employees are eligible to participate in the annual performance related bonus scheme with Company, Department and personal performance all assessed to form a view on recommended variable pay outcomes.

#### Risk adjustment

The calculation of the bonus fund is a percentage of SMBC EMEA Net Income after Risk Adjustment ("NIARA"). Net Income is adjusted for credit cost of non-impaired assets, liquidity cost, an adjustment for the prudent valuation of fair valued positions, and then by the Risk Adjustments. These risk adjustments focus on a Value at Risk ("VaR") approach for all risk types reflecting potential loss scenarios to a 90% confidence level for credit, liquidity, market and operational risk. These adjustments link to the most important risks identified through the risk register and ICAAP process. Each Department is also assessed against three core considerations, each of equal weighting, that Management believes are essential for the sustainable growth of the EMEA Region. These are Financial Performance, Non-Financial Performance and Management and Compliance. This qualitative review considers the Bank's risk appetite, its operational needs and other significant factors such as risk, control or compliance events, together with any other factors that Management may consider significant including conduct. These assessments will provide a Business Performance Rating ("BPR") that dictates the pool available to that Department.

In addition, all support functions are requested to input onto the assessment of all back office and front office departments. This assessment happens on an annual basis and encompasses a wide ranging review of activities with the information provided included as part of the annual assessment of the BPR for each Department.

Individuals' performance is also assessed, with each given a Personal Performance Rating ("PPR") based on the following factors with the following weightings in FY16:

1	Objectives (professional and personal)	20% of overall assessment
2	Quality of Work	20% of overall assessment
3	Compliance	20% of overall assessment
4	Risk & Challenge	20% of overall assessment
5	Behaviours & conduct	20% of overall assessment

These weightings may change from year to year, subject to the approval of the RemCo.

#### Leverage

The Bank believes that fixed pay should be sufficient for any individual to maintain an acceptable standard of living, without reliance on variable pay. The Bank also believes that variable pay should continue to be a relatively modest aspect of total remuneration. The Bank seeks an appropriate balance of fixed and variable remuneration. Management is satisfied that its leverage ratios are appropriate for its business.

SMBCE operates a cap on the maximum variable pay award of 200% of fixed pay following the approval of SMBC, the sole shareholder of SMBCE.

#### Deferral Policy

The Bank believes in principle that those employees who have a material impact on its risk profile in EMEA should have variable pay that is subject to deferral and performance adjustment. The Bank also believes that its risk profile is conservative and the Bank's ratio of variable to fixed pay is low. The Bank may therefore defer bonus for Material Risk Takers and other Staff where fixed and /or variable remuneration exceed certain thresholds.

The Bank's deferral policy provides for between 20% and 60% of bonus to be deferred for 2 to 7 years for Material Risk Takers and senior staff at Deputy General Manager level and above, depending on the particular remuneration of the individual. The policy allows for deferral in cash and non-cash, depending on the particular remuneration of the individual.

For identified Material Risk Takers, 50% of each tranche of variable remuneration will be awarded in instruments other than cash. To this end, SMBCE has established a Phantom Share Scheme. Benefits under the scheme are linked to the change of the share price of SMFG between grant date and release date.

### Performance Adjustment - Malus and Clawback

It is the Bank's policy that any deferred bonus is subject to performance adjustment. Performance adjustment seeks to take account of matters that were not apparent at the time of the original bonus award and may result in the loss of bonus. In particular, adjustments may take place where there is reasonable evidence of employee misbehaviour or material error, where there is material downturn in the financial circumstances of the Bank or where there is a material failure of risk management in the Bank.

Decisions on performance adjustment will be considered and decided by Management, the RemCo and the Board, as necessary.

The RemCo and the Board have the authority to withhold payment of any bonus in the event of significant organisational stress or incident, including but not limited to the following circumstances:

- (a) there is reasonable evidence of employee misbehaviour or material error; or
- (b) there is reasonable evidence that the employee participated in or was responsible for conduct which resulted in significant losses to the Bank; or
- (c) there is reasonable evidence that the employee failed to meet appropriate standards of fitness and propriety; or
- (d) the firm or the relevant business unit suffers a material failure of risk management; or
- (e) the firm or the relevant business unit suffers a material downturn in its financial performance

The RemCo and the Board have the authority to reclaim payments of any bonus for Material Risk Takers, during a period which may be up to seven years after the award date in the event that the Participant is involved in or responsible for any of the circumstances detailed in a) - d) above.

For PRA Senior Managers, this period may be extended to at least ten years should the Bank or a regulator have commenced an enquiry into potential material failures.

### FY16 Aggregate Remuneration in respect of Material Risk Takers split into fixed and variable remuneration

All of SMBCE works in a single business area - international commercial banking, and hence no disaggregation is required.

	USD'000	Remuneration amount	Senior management	Other material risk takers
1	Fixed remuneration	Number of employees	14	35
2		Total fixed remuneration	5,093	12,448
3	Variable remuneration	Number of employees	10	35
4		Total variable remuneration	1,817	6,067
5	Total remuneration (2 + 4)		6,910	18,515