



F I N A N C I A L R E P O R T 2017

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■ BALANCE SHEET

(Millions of Yen)

	as of March 31, 2016	as of March 31, 2017
Assets		
Cash and due from banks	1,357,536	1,435,076
Cash	8,232	7,830
Due from banks	1,349,304	1,427,246
Call loans	545,923	281,879
Securities	264,128	281,762
Japanese government bonds	260,734	260,570
Japanese corporate bonds	-	10,243
Other	3,393	10,948
Loans and bills discounted	266,214	610,097
Loans on bills	6,881	8,489
Loans on deeds	215,139	540,604
Overdrafts	44,193	61,003
Other assets	22,902	20,012
Prepaid expenses	573	653
Accrued income	2,950	4,026
Derivatives	14,590	7,262
Cash collateral paid for financial instruments	96	3,471
Other	4,691	4,598
Tangible fixed assets	4,128	4,722
Buildings	2,641	2,492
Lease assets	12	9
Construction in progress	372	1,311
Other tangible fixed assets	1,102	908
Intangible fixed assets	57,499	66,530
Software	2,287	2,689
Software in progress	4,996	16,190
Goodwill	14,174	13,450
Other intangible fixed assets	36,040	34,199
Prepaid pension cost	79	-
Deferred tax assets	-	12,097
Reserve for possible loan losses	△ 1,145	△ 1,337
Total assets	2,517,267	2,710,842

(Millions of Yen)

	as of March 31, 2016	as of March 31, 2017
Liabilities		
Deposits	2,373,585	2,467,806
Current deposits	18,177	76,849
Ordinary deposits	1,246,338	1,279,706
Time deposits	105,442	119,634
Other deposits	1,003,627	991,615
Call money	239	-
Due to trust account	23,222	20,961
Other liabilities	32,689	27,947
Domestic exchange settlement accounts, credit	248	190
Income taxes payable	254	6,842
Accrued expenses	5,841	4,552
Unearned revenue	7	3
Derivatives	7,744	10,297
Cash collateral received for financial instruments	15,614	-
Lease obligations	13	10
Asset retirement obligations	1,117	1,261
Other	1,847	4,789
Reserve for employee bonuses	660	1,180
Reserve for executive bonuses	38	48
Reserve for retirement benefits	1,369	391
Reserve for executive retirement benefits	9	9
Reserve for reimbursement of deposits	282	484
Deferred tax liabilities	6,405	-
Total liabilities	2,438,503	2,518,829
Net assets		
Capital stock	27,550	87,550
Capital surplus	68,350	128,350
Legal capital surplus	23,350	83,350
Other capital surplus	45,000	45,000
Retained earnings	△ 17,667	△ 21,808
Legal retained earnings	80	80
Other retained earnings	△ 17,747	△ 21,888
Retained earnings brought forward	△ 17,747	△ 21,888
Total shareholders' equity	78,232	194,091
Net unrealized gains (losses) on other securities	16	231
Net deferred gains (losses) on hedges	514	△ 2,310
Total valuation and translation adjustments	530	△ 2,079
Total net assets	78,763	192,012
Total liabilities and net assets	2,517,267	2,710,842

■ STATEMENT OF INCOME

(Millions of Yen)

	from April 1, 2015 to March 31, 2016	from April 1, 2016 to March 31, 2017
Ordinary income	20,590	39,954
Trust Fees	998	1,586
Interest Income	7,480	17,634
Interest on loans and discounts	1,332	6,422
Interest and dividends on securities	35	361
Interest on call loans	1,533	3,196
Interest on deposits with banks	4,042	6,939
Interest on interest rate swaps	458	556
Other interest income	78	156
Fees and commissions	9,290	15,249
Fees and commissions for remittance	185	412
Other fees and commissions	9,104	14,837
Other operating income	2,429	5,158
Gains on foreign exchange transactions	2,418	5,155
Other	10	2
Other income	391	325
Other	391	325
Ordinary expenses	30,138	55,823
Interest expenses	2,666	2,266
Interest on deposits	2,600	2,187
Interest on call money	61	24
Interest on borrowed money	0	0
Other interest expenses	3	55
Fees and commissions payments	1,156	2,329
Fees and commissions for remittance	75	150
Other fees and commissions	1,081	2,179
Other operating expenses	175	159
Derivative cost	96	-
Other	78	159
General and administrative expenses	25,596	50,499
Other expenses	542	569
Provision for reserve for possible loan losses	263	191
Other	279	377
Ordinary profit (loss)	△ 9,547	△ 15,869
Extraordinary gains	-	-
Extraordinary losses	1,472	420
Losses on disposal of fixed assets	56	20
Losses on impairment of fixed assets	6	400
Other Extraordinary Losses	1,408	-
Income (loss) before income taxes	△ 11,019	△ 16,289
Income taxes-current	20	5,408
Income taxes-deferred	△ 147	△ 17,557
Income taxes	△ 127	△ 12,148
Net income (loss)	△ 10,892	△ 4,141

■ STATEMENT OF CHANGES IN NET ASSETS

from April 1, 2015 to March 31, 2016

(Millions of Yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings	
Balance at the beginning of the fiscal year	27,550	23,350	-	23,350	80	△ 6,854	△ 6,774	44,125
Changes in the fiscal year								
Issuance of new shares	-	-	45,000	45,000				45,000
Net income (loss)						△ 10,892	△ 10,892	△ 10,892
Net changes in items other than shareholders' equity in the fiscal year								
Net changes in the fiscal year	-	-	45,000	45,000	-	△ 10,892	△ 10,892	34,107
Balance at the end of the fiscal year	27,550	23,350	45,000	68,350	80	△ 17,747	△ 17,667	78,232

(Millions of Yen)

	Valuation and translation adjustments			Total net assets
	Net unrealized gains (losses) on other securities	Net deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance at the beginning of the fiscal year	-	-	-	44,125
Changes in the fiscal year				
Issuance of new shares				45,000
Net income (loss)				△ 10,892
Net changes in items other than shareholders' equity in the fiscal year	16	514	530	530
Net changes in the fiscal year	16	514	530	34,637
Balance at the end of the fiscal year	16	514	530	78,763

from April 1, 2016 to March 31, 2017

(Millions of Yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings	
Balance at the beginning of the fiscal year	27,550	23,350	45,000	68,350	80	△ 17,747	△ 17,667	78,232
Changes in the fiscal year								
Issuance of new shares	60,000	60,000	-	60,000				120,000
Net income (loss)						△ 4,141	△ 4,141	△ 4,141
Net changes in items other than shareholders' equity in the fiscal year								
Net changes in the fiscal year	60,000	60,000	-	60,000	-	△ 4,141	△ 4,141	115,858
Balance at the end of the fiscal year	87,550	83,350	45,000	128,350	80	△ 21,888	△ 21,808	194,091

(Millions of Yen)

	Valuation and translation adjustments			Total net assets
	Net unrealized gains (losses) on other securities	Net deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance at the beginning of the fiscal year	16	514	530	78,763
Changes in the fiscal year				
Issuance of new shares				120,000
Net income (loss)				△ 4,141
Net changes in items other than shareholders' equity in the fiscal year	214	△ 2,824	△ 2,609	△ 2,609
Net changes in the fiscal year	214	△ 2,824	△ 2,609	113,249
Balance at the end of the fiscal year	231	△ 2,310	△ 2,079	192,012

The amounts described herein are rounded down to the nearest million yen.

Significant accounting policies

1. Measurement standard and method of securities

Debt securities classified as held-to-maturity are carried at amortized cost (based on the straight-line method) using the moving-average method. Other securities with readily determinable fair value are carried at prevailing market price at the balance sheet date (cost of securities sold is calculated using the moving-average method). However, securities which are extremely difficult to determine fair value are carried at cost using the moving-average method.

Net unrealized gains (losses) on other securities, net of income taxes, are included in “Net assets”.

2. Measurement standard and method of derivatives transactions

Derivatives transactions are carried at fair value.

3. Depreciation of fixed assets

(1) Tangible fixed assets (excluding lease assets)

Tangible fixed assets are depreciated using the straight-line method. The estimated useful lives of major items are as follows:

Buildings: 5 to 20 years

Others: 3 to 20 years

(2) Intangible fixed assets

Intangible fixed assets are depreciated using the straight-line method. Capitalized software for internal use is depreciated over its estimated useful life (5 years).

(3) Lease assets

Lease assets with respect to non-transfer ownership finance leases, which are recorded in “Tangible fixed assets,” are depreciated using the straight-line method, assuming that the lease terms are their useful lives and residual values are zero.

4. Treatment of deferred assets

Stock issuance cost is recognized as expense in full when payments are made.

5. Conversion rule for foreign currency assets and liabilities into Japanese Yen

Foreign currency assets and liabilities are converted into Japanese yen by the prevailing Foreign Exchange rate as of balance sheet date.

6. Basis for recording reserves

(1) Reserve for possible loan losses

The reserve for possible loan losses is provided as detailed below in accordance with the internal standards for write-offs and provisions. For claims on borrowers that have entered into bankruptcy, special liquidation proceedings or similar legal proceedings or borrowers that are regarded as substantially in the same situation, a reserve is provided based on the amount of claims, net of the expected amount of recoveries from collateral and guarantees. For claims on borrowers that are not currently bankrupt but are perceived to be highly likely to fall into bankruptcy, a reserve is provided at the amount deemed necessary based on an overall solvency assessment of the borrowers, net of the expected amount of recoveries from collateral and guarantees.

For other claims, a reserve is provided based on the historical loan-loss ratio calculated using the historical loss experience over a certain period of time in the past and other factors.

The primary credit assessment departments, such as sales departments, assess all claims in accordance with the Standards for Self-Assessment of Asset Quality. The Credit Department, independent from these departments, reviews the assessment results, and the Asset Audit Department audits the assessment results.

(2) Reserve for employee bonuses

The reserve for employee bonuses is provided for payments of bonuses to employees, and recorded at the estimated amount of bonuses which are attributable to the current period.

(3) Reserve for executive bonuses

The reserve for executive bonuses is provided for payments of bonuses to directors, and recorded at the estimated amount of executive bonuses which are attributable to the current period.

(4) Reserve for retirement benefits

The reserve for retirement benefits is provided for payments of retirement benefits to employees, and recorded at the necessary amount estimated based on the projected benefit obligation and plan assets of pension funds at the end of the current period. In calculating the projected benefit obligation, the benefit formula basis is used to attribute the expected benefit attributable to the respective periods.

Unrecognized net actuarial gain (loss): Amortized on a straight-line basis over a certain period (primarily 7 years) not longer than the employees' average remaining service period commencing from the following fiscal year in which unrecognized net actuarial gain (loss) occurred.

(5) Reserve for executive retirement benefits

The reserve for executive retirement benefits is provided for payments of retirement benefits to directors, and recorded at the amount deemed accrued at the end of the current period based on the amount of estimated retirement benefits.

(6) Reserve for reimbursement of deposits

The reserve for reimbursement of dormant deposits which were derecognized from liabilities is provided for the possible losses on the future claims of refunds, and recorded at the amount deemed necessary based on possible losses estimated according to the future claims of refunds.

7. Hedge accounting method

Interest rate risk hedge

As for the hedge accounting method applied to interest rate risk arising from financial assets and liabilities, SMBC Trust Bank Ltd. (SMBC Trust) applies deferred hedge accounting stipulated in “Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Statement No. 24). In this hedging, hedged items are identified through grouping on a basis of interest rate indices and certain repricing periods, and interest rate swaps are designated as a hedging instrument. With respect to the assessment of hedge effectiveness, hedge is deemed to be highly effective since it is designated in a way that the critical terms applied to the hedged items and the hedging instruments are mostly identical. The hedge effectiveness testing, therefore, relies on this result. With respect to the hedge for specific item, it has also been evaluated as effective.

8. Method and period of Amortization of goodwill, etc.

Goodwill and intangible fixed assets identified as a result of business acquisition are amortized on a straight-line basis over 20 years.

9. Consumption taxes

National and local consumption taxes are accounted for using the tax-excluded method.

Additional information

1. Apply to “Implementation Guidance on Recoverability of Deferred Tax Assets”

SMBC Trust applies the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016) from the current period.

2. Apply to consolidated tax payment system

SMBC Trust is approved by national tax chief governor to apply consolidated tax payment system with Sumitomo Mitsui Financial Group for parent company for tax consolidation effective from 2017, hence, from this year, SMBC Trust adopts the accounting method subject to consolidated tax payment system based on “Treatment with regard to tax effect accounting to apply consolidated tax payment system (No.1)” and “(No.2)”.

By this change, income tax-current has been increased 5,370 million yen and income tax payable has been increased by the same amount. And deferred tax asset has been increased 18,362 million yen, deferred hedge profit loss has been decreased 778 million yen and the adjustment for corporate tax has been decreased 17,583 million yen.

Notes

(Notes to the balance sheet)

1. Bankrupt loans and non-accrual loans at March 31, 2017 were nil and 949 million yen, respectively.

“Bankrupt loans” are loans, after write-off, to legally bankrupt borrowers to which the events defined in Article 96-1-3 (a) to (d) or 96-1-4 of “Order for Enforcement of the Corporation Tax Act” (Cabinet Order No. 97 of 1965) have occurred and on which accrued interest income is not recognized as there is substantial doubt about the ultimate collectability of either principal or interest because they are past due for a considerable period of time or for other reasons.

“Non-accrual loans” are loans on which accrued interest income is not recognized, excluding “Bankrupt loans” and loans on which interest payments are deferred in order to support the borrowers’ recovery from financial difficulties.

2. Past due loans (3 months or more) at March 31, 2017 were nil.

“Past due loans (3 months or more)” are loans on which the principal or interest payment is past due for 3 months or more, excluding “Bankrupt loans” and “Non-accrual loans.”

3. Restructured loans at March 31, 2017 were 7 million yen.

“Restructured loans” are loans on which terms and conditions have been amended in favor of the borrowers (*e.g.* reduction of the original interest rate, deferral of interest payments, extension of principal repayments or debt forgiveness) in order to support the borrowers’ recovery from financial difficulties, excluding “Bankrupt loans,” “Non-accrual loans” and “Past due loans (3 months or more).”

4. The total amount of bankrupt loans, non-accrual loans, past due loans (3 months or more) and restructured loans at March 31, 2017 were 957 million yen.

The amounts of loans presented in Notes 1 to 4 above are the amounts before deduction of reserve for possible loan losses.

5. The amount of principal in loan participation accounted for as loans to the original borrowers based on “Accounting Treatment and Presentation of Loan Participation (JICPA Accounting Practice Committee Statement No. 3)” recorded on the balance sheet were 263,296 million yen at March 31, 2017.
6. Securities and Cash and due from banks pledged as collateral for the settlement of foreign exchange transactions were 260,570 million yen and 10 million yen respectively at March 31, 2017. Other in Other assets includes security deposits of 3,063 million yen.
7. Commitment line contracts on overdrafts and loans are agreements to lend to customers when requested to extend a loan, up to a prescribed amount, as long as there is no violation of any condition established in the contracts. The amount of unused commitments related to these agreements was 68,002 million yen at March 31, 2017. The remaining contract term of all of such commitments is within one year.

Since many of these commitments are expected to expire without being drawn down, the total amount

of unused commitments does not necessarily affect future cash flow requirements. Many of these commitments include clauses under which SMBC Trust can reject an application from customers or reduce the contract amounts in the event that economic conditions change, SMBC Trust needs to secure claims, or other probable events occur. In addition, SMBC Trust may request its customers to pledge collateral such as premises and securities at the time of the contracts as necessary, and take necessary measures such as monitoring customers' financial positions, revising contracts when such need arises and securing claims after the contracts are entered into.

8. Accumulated depreciation on tangible fixed assets was 966 million yen.
9. Total amount of monetary claim against affiliates 590,385 million yen
10. Total amount of monetary liabilities from affiliates 55,950 million yen
11. SMBC Trust is restricted to pay dividend from retained earnings due to article 18 of the Banking Act.

(Notes to statement of income)

1. Earnings from the transaction with affiliates

Total earnings from investment transactions 8,535 million yen

Total earnings from fee and commission 340 million yen

Expenses from the transaction with affiliates

Total expenses from funding transactions 38 million yen

Total expenses from fee and commission 956 million yen

Total expense from other transactions 515 million yen

2. In this fiscal year, losses on impairment of fixed assets are realized as extraordinary losses for following assets with the difference between recoverable value and book value.

place	usage	Items	Realized loss amount
Tokyo	branch	Building and other fixed assets	129 million yen
	Shared asset	Building and other fixed assets	271 million yen

SMBC Trust applies to each branch (basement who shares common assets physically) as minimum unit for grouping which is controlled and monitored profitability continuously. Buildings where corporate sector, operation and system segments are located are treated, in general, as shared asset of the company. Unemployed capitals are grouped by objects.

This fiscal year, the values of buildings for branches and shared assets have been reduced until recoverable value and realized an extraordinary loss with respect to the reduction amount.

The recoverable value is derived from the utility value.

(Notes to the statement of changes in net assets)

Type and the number of shares issued

(Shares in thousands)

Type of shares	Number of shares				Note
	At the beginning of the period	Increase	Decrease	At the end of the period	
Common stock	1,018	2,400	—	3,418	(Note)
Non-voting stock	900	—	—	900	
Total	1,918	2,400	—	4,318	

(Note) Increase in the number of shares issued with respect to common stock (i.e. 2,400 thousand shares) is attributable to the issuance of new shares through the third-party allotment on June 30, 2016.

(Notes to financial product)

1. Status of financial instruments

(1) Policies on financial instruments

SMBC Trust engages in the financial services such as deposit taking and lending services, general trust services, and real estate brokerage. Its banking services primarily include deposit taking, lending, domestic exchange services and foreign exchange service, and its trust services include money trust, pension trust, investment trust, trust of money other than money trust, trust of securities, and other trust services including comprehensive trust. SMBC Trust also undertakes real estate brokerage, real estate consulting, real estate appraisal, real estate asset management, as registered financial institution business, financial instruments brokerage, offering of trust funds beneficiary rights and handling of private placement, management of securities.

SMBC Trust holds financial assets such as deposits with banks, loans, and bonds, and raises funds through deposits, etc. Furthermore, it carries out derivatives transactions for purposes of responding to customers' hedging needs, and also for purpose of controlling market risk related to deposit and lending operations.

(2) Nature of financial instruments and associated risk

① Financial assets

The main financial assets held by SMBC Trust include deposits with foreign and domestic financial institutions, call loans, loans and securities. These assets expose SMBC Trust to credit risk, market risk and liquidity risk. Credit risk is the possibility of a reduction or loss in the value of assets due to factors such as deterioration in the financial conditions of deposit-taking institutions, issuers or borrowers. Market risk is the possibility of incurring losses arising from fluctuations in interest rates and exchange rates, etc. Liquidity risk is the possibility of arising from difficulty in executing transactions in necessary quantities at appropriate prices due to liquidity reduce than normal. As stated in "(3) Risk Management System for Financial Instruments" below, we control and manage these risks appropriately.

② Financial liabilities

Financial liabilities of SMBC Trust are primarily deposits. Deposits mainly comprise of deposits of domestic individuals and domestic companies. Alike financial assets, financial liabilities also expose SMBC Trust to not only market risk but also funding liquidity risk which is the risk of SMBC Trust not being able to raise funds due to market turmoil, deterioration in its creditworthiness or other factors. As stated in "(3) Risk Management System for Financial Instruments" below, we control and manage these risks appropriately.

③ Derivative transactions

Derivatives transactions carried out by SMBC Trust include interest rate swaps, foreign currency swaps, foreign currency options and structured deposits, structured bonds embedded with derivatives. Structured deposits are designed to hedge for avoiding direct effects of fluctuations in

interest rates and exchange rates in the market by (cover) transactions such as deposits and bonds with other financial institutions embedded with derivatives. Furthermore, SMBC Trust applies hedge accounting in which interest rate risk associated with deposits with banks and loans are designated as a hedged item and interest rate swap transactions as a hedging instrument. The hedge effectiveness of these transactions is assessed on a periodic basis.

Major risks related to derivative transactions are credit risks, market liquidity risks, etc. As stated in "(3) Risk Management System for Financial Instruments" below, SMBC Trust controls and manages these risks appropriately.

(3) Risk management for financial products

SMBC Trust established "comprehensive risk management basic guideline" to cover risk management basic matters, and, have organized operational system for risk monitoring based on it. The board of directors manages to run and monitor comprehensive risk control organization by executive committee, and the executive committee organizes the Risk management committee as committee to manage the comprehensive risk control. Furthermore, there is the Risk management committee for the purpose of discussion and decision of material issues related to credit risk, and also there is ALM committee to decide the direction with respect to assets and liabilities control.

① Credit risk management

SMBC Trust defines credit risk as "bank's risk to decrease or lose the value of Asset (including off balance sheet asset) due to the credit event (matter of credit) of borrower's worse financial situation etc.", and, in accordance with the credit policy and related various control guidelines, organizes to control credit portfolios of loans to make effort to control appropriate level of credit risks.

(a) Organization of credit risk control

In SMBC Trust, Investment and Loan planning dept. is the organization to control credit portfolios, planning of policy for operation and making efforts to establish highly effective credit risk control, and organized to report the credit risk control status to executive committee and credit risk committee periodically. Credit dept. takes role of assessment of specific credit items and the Internal audit department audits the accuracy of borrows' credit ratings and assessment results of borrowers, the appropriateness of credit risk controls etc.

(b) Method of credit risk control

SMBC Trust, for the purpose of controlling specific credit items or overall credit portfolio adequately, comprehends and controls credit risks quantitatively to execute the quantification of credit risks as well as evaluating credit risk of borrowers or credit related transactions appropriately by internal credit ratings. And, in addition to credit assessment and the control of specific credit items by monitoring of borrowers, following adequate credit risk controls are performed for the purpose of soundness and profitability of credit portfolios for maintenance and improvement of mid term.

- Adequate control within the capital

SMBC Trust sets maximum limit of credit exposure against capital for maximum frame of internal control of credit risk, and set maximum number of risk capital by sections, and organize to monitor the status periodically for the purpose to maintain credit risks within the allowable range against capital.

- Control not to concentrate credit risk

As the concentration of credit risk is possible to damage significantly of banking capital when it becomes revealed, for the purpose of avoiding concentration of credit risk to specific counterparty, SMBC Trust maintains certain credit outstanding limitation to each borrower, and organize to monitor them after the loan execution periodically.

- Reduction and restriction of problematic loans occurrence

With regard of problematic loans, SMBC Trust clarifies the guideline and the action plan through periodic review by credit risk committee, then, makes effort to take speedy action to protect from the degradation and to support normalization of them and execution of loan collection and enrichment of collaterals etc.

② Control of market risk and liquidity risk

SMBC Trust defines market risk as “the risk of loss by financial product market value fluctuation due to interest rate, foreign exchange rate and stock price movement”, and control by loss amount limitation from the position due to such fluctuation. defines liquidity risk as “the risk of difficulties of funding money for transaction cash settlement or being en SMBC Trust forced to make funding with unreasonably higher rate than usual due to the situation of investment and funding tenor mismatch or unexpected large fund withdrawal”, and SMBC Trust controls it by defining gap of funding and investment. SMBC Trust allows market risk and liquidity risk within the range of necessity for the execution of company business plan, however, has a basic guideline to set and maintain limitation of market risk and liquidity risk allowance.

(a) Organization of market risk and liquidity risk

SMBC Trust, risk management dept., independent from market transaction execution, monitors market risk and liquidity risk, and also report to the board of directors and executive committee etc. periodically.

(b) Control method of market risk and liquidity risk

- Control of market risk

SMBC Trust controls quantitatively to set up with position limit and loss limit guideline for market risk monitoring and also with funding gap limit for liquidity risk. It is organized, for the purpose of controlling market risk within the allowable range against capital, to set up maximum usage of market risk capital for internal control and allocate it with the maximum usage to each section or department who needs to utilize it to be monitored periodically.

- Quantitative information with respect to market risk

In SMBC Trust, main financial, products affected by interest rate fluctuation as a material risk parameter, are placements, loans, securities, deposits and interest rate swaps among

financial derivatives. In SMBC Trust, as a quantitative indicator for interest rate risk control, interest rate revenue or loss impact is utilized assuming from 1 basis point (1bp) interest rate fluctuation. For the purpose of estimation of such impact against PL, the scope of assets and liabilities separated by each interest rate tenors, are analyzed to apply certain interest rate fluctuation by tenors under the assumption that all risk parameter is constant other than interest rate.

The affected amount of current whole portfolio under the above mentioned assumption is 18 million yen. This affected amount is based on the case where risk parameters are constant except for interest rate, and not considered the correlation between interest rate and other risk parameters. And, there is possibility of having impact beyond estimation when interest rate is fluctuated more than 1 basis point (1bp).

- Control of liquidity risk

In SMBC Trust, liquidity risk is controlled in the framework of “control of funding gap range”, “establishment of contingency plan” etc.

Funding gap is required amount of funding occurred from the mismatch between investment period and funding period, hence, the purpose is to avoid overreliance of short term funding, Risk Management Department monitors it as the control function for liquidity risk, and report the status to executive committee and ALM committee periodically. Also, the action plan for emergency, assuming huge deposit amount is withdrawn, is also arranged as a contingency plan, due to deterioration of market condition, lower credibility of financial institutions, system trouble, reputation risk and other internal and external reasons. Other than the above mentioned control by monitoring, for complimentary method, SMBC Trust bank has funding limit from Sumitomo Mitsui Banking Corporation, Ltd as a parent company.

(4) Supplementary explanation with respect to financial product evaluation by market price

The evaluation of financial product contains the revaluation amount based on the market price, and also reasonably calculated amount when the market price is not available. Because the certain condition is applied for the calculation of the revaluation amount, the value might be different when it is calculated based on the different preconditions.

2. Fair value of financial instruments

The balance sheet amount, fair value and net unrealized gains (losses) of financial instruments as of March 31, 2017 are as follows:

(Millions of yen)

	balance sheet amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	1,435,076	1,438,169	3,092
(2) Call loans	281,879	281,879	-
(3) Securities			
Bonds classified as held-to-maturity	260,570	262,340	1,769
Other securities	21,191	21,191	-
(4) Loans and bills discounted	610,097		
Reserve for possible loan losses (*1)	(1,336)		
	608,760	608,737	(23)
Total assets	2,607,480	2,612,318	4,838
(1) Deposits	2,467,806	2,467,593	(213)
(2) Due to trust account	20,961	20,961	
Total liabilities	2,488,768	2,488,555	(213)
Derivatives transactions (*2)			
Hedge accounting not applied	53	53	-
Hedge accounting applied	(3,088)	(3,088)	-
Total	(3,035)	(3,035)	-

(*1) The amounts do not include general reserve for possible loan losses and specific reserve for possible loan losses.

(*2) The amounts collectively represent the derivative transactions which are recorded in “Other assets” and “Other liabilities.” Receivables and payables arising from derivatives transactions are presented on a net basis, and net payable is shown as ().

(Note 1) Fair value calculation methodology for financial instruments

Assets

(1) Cash and due from banks

For cash and due from banks with no maturity, the carrying amount is used as fair value as it is considered to approximate their fair value. For due from banks with maturity, the present value discounted by market rates based on maturity is calculated to determine fair value. With respect to some due from banks embedded with derivatives, the fair value is calculated based on the amount of fair value measured and provided by financial institutions to which such deposits are made.

(2) Call loans

For call loans, the carrying amount is used as fair value as their transaction period is short and their carrying amount is considered to approximate their fair value.

(3) Securities

For securities, the value calculated based on prevailing market prices as at the balance sheet date is used as their fair value. With respect to the securities unavailable market price, the value is calculated based on the market interest rate etc. With respect to private equities with no market price, the value is calculated to discount future cash flow estimated amount by the adjusted risk free interest rate.

(4) Loans and bills discounted

Because Loans and bills discounted are reflected market interest in a short period, fair values are considered with only the influence of interest fluctuation as long as borrowers' credibility does not change significantly after the execution.

With respect to loans and bills discounted, for those with no specified due dates, their carrying amount is used as fair value as it is considered to approximate their fair value given the factors such as expected repayment periods and terms of interest rates. With respect to housing loans, the fair value is calculated individually by discounting the aggregated amount of principal and interest by applying a rate assumed to be used when a new similar loan is extended. For claims on bankrupt borrowers, effectively bankrupt borrowers and potentially bankrupt borrowers, expected losses on such claims are calculated based on either the expected recoverable amount from disposal of collateral or guarantees. Since the balance sheet amounts of these claims minus the reserve for possible loan losses approximate are their fair value, such amounts are considered to be their fair value.

Liabilities

(1) Deposits

For demand deposits, given characteristics of this type of transaction, the amount of payment (i.e. the carrying amount) demanded on the balance sheet date is deemed as the fair value. With respect to time deposits, the present value discounted by market rates, etc. based on the maturity is calculated to determine fair value. For some deposits which are structured deposits embedded with derivatives, their fair value is calculated based on the amount of fair value measured and provided by financial institutions which are the counterparty to the covered transaction of the structured deposit.

(2) Due to trust account

For due to trust account, the amount of payment (i.e. the carrying amount) demanded on the balance sheet date is deemed as their fair value.

Derivatives transactions

Derivatives transactions are comprised of interest rate derivatives (interest rate swaps) and currency derivatives (forward foreign exchange, foreign exchange swaps, and currency options) and their fair value is based on the value calculated using the discounted present value and option valuation models, etc.

(Note 2) Expected redemption amount from monetary assets and securities with maturity date after balance sheet date

(Millions of yen)

	Within 1 yr	More than 1 yr Less than 3yr	More than 3yr Less than 5yr	More than 5yr Less than 10yr	More than 10yr
Due from banks	1,213,477	188,289	2,764	21,577	1,136
Call loans	281,879	-	-	-	-
Securities	-	-	265,000	10,520	5,338
Bonds classified as held-to-maturity	-	-	260,000	-	-
Other securities	-	-	5,000	10,520	5,338
Loans and bills discounted (*)	27,668	111,220	273,739	58,976	76,693
Total	1,523,039	299,522	541,504	91,074	83,168

(*) Among loans and bills discounts, 949 million yen for financial claims to the bankrupt borrower or effectively bankrupt borrower and 60,850 million yen with no maturity date specified are not included.

(Note 3) Deposits scheduled payment amount after balance sheet date

(Millions of yen)

	Within 1 yr	More than 1 yr Less than 3yr	More than 3yr Less than 5yr	More than 5yr Less than 10yr	More than 10yr
Deposits (*)	2,419,318	10,839	4,344	27,098	6,206
Total	2,419,318	10,839	4,344	27,098	6,206

(*) Among deposits, demand deposits are included in “within 1yr”.

(Notes to securities)

1. Bonds classified as held-to-maturity (as of March 31, 2017)

(Millions of yen)

	Type	balance sheet amount	Fair value	Net unrealized gains (losses)
Bonds with unrealized gains	Japanese government bonds	260,570	262,340	1,769
	Subtotal	260,570	262,340	1,769
Bonds with unrealized losses	Japanese government bonds	-	-	-
	Subtotal	-	-	-
Total		260,570	262,340	1,769

2. Other securities (as of March 31, 2017)

(Millions of yen)

	Type	balance sheet amount	Acquisition cost	Net unrealized gains (losses)
Other securities with unrealized gains	Bonds	10,243	10,000	243
	Corporate bond	10,243	10,000	243
	Others	7,084	6,904	179
	Foreign bonds	7,084	6,904	179
	Subtotal	17,327	16,904	422
Other securities with unrealized losses	Bonds	-	-	-
	Corporate bond	-	-	-
	Others	3,864	3,954	(89)
	Foreign bonds	3,864	3,954	(89)
	Subtotal	3,864	3,954	(89)
Total		21,191	20,858	333

(Notes to deferred tax assets and liabilities)

Significant components of deferred tax assets and liabilities are as follows:

Deferred tax assets

Fair value earnings from consolidated	17,525 million yen
tax payment	
Asset adjustment account	7,493
Fair value	945
hedge profit loss	
Other	2,959
Subtotal	28,924
Valuation allowance	(6,048)
Total deferred tax assets	22,875
Deferred tax liabilities	
Intangible fixed assets	10,760
Other	301
Total deferred tax liabilities	10,777
Net deferred tax liabilities	12,097

(Per share data)

Net assets per share	44,467.92 yen
Net loss per share	1,111.34 yen

(Transactions with affiliates)

Parent company and major shareholder companies

type	Name of the company	Possession ratio voting right (%)	Relationship of affiliates	transaction	Transaction amount (million yen)	account	Balance (million yen)
Parent company	Sumitomo Mitsui Banking Corporation	(possessed) Direct 100%	Loans Acceptance of share Directors secondment	Due from banks	293,615	Due from banks	303,767
				Interest receivable from due	4,814	Interest earned not collected	1,043
				Call loans	376,575	Call loans	281,879
				Interest receivable from call loans	3,164	Interest earned not collected	39
				Deposits	9,742	Deposits	51,750
				Interest payable for deposits	4	Reserve for Interest	4
				Call money	4,144	Call money	-
				Interest payable for call money	36	Reserve for Interest	-
				Acceptance of share	120,000		
				Purchase of financial claims	247,614		
Subsidiaries of Parent company	SMBC Aviation Capital Limited	Not applicable	Loans	Loans	11,115	Loans	46,399
				Interest receivable from Loan	414	Interest earned not collected	185

Note 1. Transaction amount shows the average balance during the period for Due from Banks, Call Loans, Deposits, Call Money and Loans. Condition of transactions are reasonably decided by market interest rate, etc.

Note 2. The acceptance of share is attributable to the issuance of new shares through the third-party allotment fully accepted with 50,000 yen per a share.

