



# INTERIM FINANCIAL REPORT 2020

(April 1~September 30, 2020)



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# INTERIM BALANCE SHEET

(Millions of Yen)

	As of September 30, 2019	As of September 30, 2020	As of March 31, 2020
(Assets)			
Cash and due from banks	1,180,034	1,286,008	1,369,915
Call loans	227,517	181,390	171,745
Monetary claims bought	-	393	-
Securities	305,788	46,681	306,080
Loans and bills discounted	1,484,785	1,670,960	1,468,320
Foreign exchanges	13,960	32,156	14,861
Other assets	42,271	46,006	52,259
Tangible fixed assets	7,139	1,571	3,750
Intangible fixed assets	71,865	29,894	30,914
Prepaid pension cost	2,810	2,417	2,609
Deferred tax assets	-	4,075	4,614
Customers' liabilities for acceptances and guarantees	4,004	4	4
Reserve for possible loan losses	(1,700)	(3,153)	(1,690)
Total assets	3,338,476	3,298,407	3,423,384
(Liabilities)			
Deposits	2,786,893	3,033,696	2,892,071
Call money	856	-	343
Payables under securities lending transactions	261,093	-	258,633
Foreign exchanges	961	678	958
Due to trust accounts	65,185	76,782	75,465
Other liabilities	25,876	30,387	32,702
Income taxes payable	471	440	564
Lease obligations	2	13	1
Asset retirement obligations	2,705	2,685	2,680
Other	22,696	27,248	29,455
Reserve for employee bonuses	798	727	1,330
Reserve for executive bonuses	28	23	52
Reserve for retirement benefits	87	72	91
Reserve for reimbursement of deposits	661	783	786
Deferred tax liabilities	1,405	-	-
Acceptances and guarantees	4,004	4	4
Total liabilities	3,147,852	3,143,156	3,262,441
(Net assets)			
Capital stock	87,550	87,550	87,550
Capital surplus	130,553	85,553	130,553
Legal capital surplus	83,350	83,350	83,350
Other capital surplus	47,203	2,203	47,203
Retained earnings	(30,729)	(25,234)	(64,250)
Legal retained earnings	80	80	80
Other retained earnings	(30,809)	(25,314)	(64,330)
Retained earnings brought forward	(30,809)	(25,314)	(64,330)
Total Shareholders' equity	187,373	147,868	153,852
Net unrealized gains (losses) on other securities	1,105	1,205	776
Net deferred gains (losses) on hedges	2,144	6,176	6,313
Total valuation and translation adjustments	3,250	7,381	7,090
Total net assets	190,624	155,250	160,942
Total liabilities and total net assets	3,338,476	3,298,407	3,423,384

## INTERIM STATEMENT OF INCOME

(Millions of Yen)

	from April 1, 2019 to September 30, 2019	from April 1, 2020 to September 30, 2020	from April 1, 2019 to March 31, 2020
Ordinary income	31,447	21,821	61,063
Trust fees	1,181	1,353	2,591
Interest income	18,613	13,071	35,409
Interest on loans and discounts	13,623	9,687	26,632
Interest and dividends on securities	601	506	1,206
Fees and commissions	8,948	5,841	17,883
Other operating income	1,864	1,537	3,817
Other income	839	17	1,361
Ordinary expenses	30,393	27,983	60,025
Interest expenses	3,273	1,296	5,699
Interest on deposits	2,438	1,253	4,657
Fees and commissions payments	2,150	2,257	4,369
Other operating expenses	24	38	158
General and administrative expenses	24,682	22,453	49,296
Other expenses	261	1,937	501
Ordinary profit (loss)	1,054	(6,161)	1,037
Extraordinary gains	5	-	5
Extraordinary losses	1	2,017	43,112
Income (loss) before income taxes	1,058	(8,179)	(42,069)
Income taxes - current	(2,108)	(2,606)	(4,046)
Income taxes - deferred	2,421	410	(5,247)
Income taxes	312	(2,196)	(9,293)
Net income (loss)	745	(5,983)	(32,775)

# INTERIM STATEMENT OF CHANGES IN NET ASSETS

From April 1, 2019 to September 30, 2019

(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	87,550	83,350	47,203	130,553	80	(31,554)	(31,474)	186,628
Changes in the fiscal year								
Net income (Loss)						745	745	745
Net changes in items other than shareholders' equity in the fiscal year								
Net changes in the fiscal year	-	-	-	-	-	745	745	745
Balance at the end of the fiscal year	87,550	83,350	47,203	130,553	80	(30,809)	(30,729)	187,373

(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	274	(1,058)	(783)	185,844
Changes in the fiscal year				
Net income (Loss)				745
Net changes in items other than shareholders' equity in the fiscal year	831	3,203	4,034	4,034
Net changes in the fiscal year	831	3,203	4,034	4,779
Balance at the end of the fiscal year	1,105	2,144	3,250	190,624

From April 1, 2020 to September 30, 2020

(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	87,550	83,350	47,203	130,553	80	(64,330)	(64,250)	153,852
Changes in the fiscal year								
Net income (Loss)						(5,983)	(5,983)	(5,983)
Transfer from capital surplus to retained earnings			(45,000)	(45,000)		45,000	45,000	-
Net changes in items other than shareholders' equity in the fiscal year								
Net changes in the fiscal year	-	-	(45,000)	(45,000)	-	39,016	39,016	(5,983)
Balance at the end of the fiscal year	87,550	83,350	2,203	85,553	80	(25,314)	(25,234)	147,868

(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	776	6,313	7,090	160,942
Changes in the fiscal year				
Net income (Loss)				(5,983)
Transfer from capital surplus to retained earnings				-
Net changes in items other than shareholders' equity in the fiscal year	428	(136)	291	291
Net changes in the fiscal year	428	(136)	291	(5,692)
Balance at the end of the fiscal year	1,205	6,176	7,381	155,250

From April 1, 2019 to March 31, 2020

(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	87,550	83,350	47,203	130,553	80	(31,554)	(31,474)	186,628
Changes in the fiscal year								
Net income (Loss)						(32,775)	(32,775)	(32,775)
Net changes in items other than shareholders' equity in the fiscal year								
Net changes in the fiscal year	-	-	-	-	-	(32,775)	(32,775)	(32,775)
Balance at the end of the fiscal year	87,550	83,350	47,203	130,553	80	(64,330)	(64,250)	153,852

(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	274	(1,058)	(783)	185,844
Changes in the fiscal year				
Net income (Loss)				(32,775)
Net changes in items other than shareholders' equity in the fiscal year	502	7,372	7,874	7,874
Net changes in the fiscal year	502	7,372	7,874	(24,901)
Balance at the end of the fiscal year	776	6,313	7,090	160,942



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 have no market price 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.

The fair value of Derivatives is calculated based on net assets or liabilities after offsetting financial assets and financial liabilities with respect to specific market risk or specific credit risk.

### 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:	6 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 to 10 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. 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.

### 5. 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 the other claims, a reserve is provided based primarily on the expected amount of loss during one year or three years from the reported date. The expected amount of loss is calculated by computing the rate of loss based on the average loan-loss ratio or average bankruptcy ratio derived from the actual

loan-loss amount or actual bankruptcies for the one year or three years, and adding other necessary factors (e.g. expected economic conditions).

In addition, in light of the latest economic situation and risk factors, for potential losses for specific portfolios that are based on the future prospects with high probability, but cannot be reflected in actual loan losses in the past and in any individual borrower's classification, a reserve is provided in the amount deemed necessary based on an overall assessment.

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 Internal Audit Department audits the assessment results.

For collateralized or guaranteed claims on bankrupt borrowers and effectively bankrupt borrowers, the amount exceeding the estimated value of collateral and guarantees is deemed to be uncollectible and written off against the total outstanding amount of the claims. The amounts of write-off for the years ended September 30, 2020 were 364 million yen, respectively.

(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 fiscal year.

Unrecognized net actuarial gain (loss): Amortized on a straight-line basis over a certain period (mainly 11 years) within the employees' average remaining service period commencing from the following fiscal year in which unrecognized net actuarial gain (loss) occurred.

(5) 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.

## 6. 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. SMBC trust applies special accounting treatment to interest rate swaps for a part of assets.

## **7. Consumption taxes**

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

## **8. Application of consolidated tax payment system**

SMBC Trust applies consolidated tax payment system with Sumitomo Mitsui Financial Group, Inc. for the parent company for tax consolidation.

## **Change in Accounting Policies**

### **Application of Accounting Standard for Fair Value Measurement**

As Accounting Standard for Fair Value Measurement (The Accounting Standards Board of Japan (ASBJ) Statement No. 30 on 4th July 2019) has become available, the Bank applies this accounting standard at the beginning of the fiscal year, and the Bank will continue to apply accounting guidelines established by Accounting Standard for Fair Value Measurement and others in the future pursuant to transitional measure established on Article 19 of Accounting Standard for Fair Value Measurement and Article 44 and Paragraph 2 of Accounting Standard for Financial Instrument (ASBJ Statement No. 10 on 4th July 2019).

There are no significant impact for the financial statements.

## **Additional Information**

### **Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System**

Of the items subject to the transfer to the Group Tax Sharing System created by the Act Partially Amending the Income Tax Act (Act No. 8, 2020) and the items under the non-consolidated tax payment system being reviewed for the application of the Group Tax Sharing System, SMBC Trust applies the pre-amendment law former tax definition for the calculations of the amount of deferred tax assets and deferred tax liabilities. SMBC Trust, therefore, did not follow Paragraph 44 of the Implementation Guideline on Tax Effect Accounting (ASBJ Guidance No. 28 of February 16, 2020) by applying Paragraph 3 of on corrected items by single tax system for the Transition from the Consolidated Taxation System to the Group Tax Sharing System defined on Law for Partial amendment of the income tax law, etc. (Law No.8, 2020), which is instead of revised tax definition for Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 para. 44 issued on February 16, 2020) based on treatment of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ Practical Solutions Issues Task Force No.39 para.3, issued on March 31, 2020).

## Notes

### (Notes to balance sheet)

1. Bankrupt loans were nil and non-accrual loans at September 30, 2020 were 2,660 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 September 30, 2020 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 September 30, 2020 were 0 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 September 30, 2020 were 2,661 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 352,031 million yen at September 30, 2020.
6. Assets offered for collateral are as follows;  
Loans, Securities and Cash and due from banks pledged as collateral for the settlement of foreign exchange transactions were 9,664million yen, 222million yen and 10million yen respectively at September 30, 2020.  
Other assets include cash collateral paid for financial instruments of 11,352 million yen and security deposits of 2,905 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 127,550 million yen at September 30, 2020. The outstanding of 121,012 million yen is for remaining contract term of such commitments 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 3,211 million yen.

**(Notes to statement of income)**

- 1,827 million yen is included to Other expenses as provision of reserve for possible loan losses.
- Losses on impairment of fixed assets are realized as Extraordinary losses for following assets with the difference between recoverable value and book value at the end of September 2020.

(Millions of yen)

place	usage	Items	Realized loss amount
Metropolitan area	Shared asset	Building and other fixed assets	2,011

SMBC Trust applies to each branch 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.

The values of buildings for branches have been reduced until recoverable value and realized an extraordinary loss with respect to the reduction amount when SMBC trust is not able to recover the investment amount (including the decision of branch relocation) at the end of September 2020.

The recoverable value is derived from the utility value

**(Notes to 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	3,418	—	—	3,418	
Non-voting stock	900	—	—	900	
Total	4,318	—	—	4,318	

**(Notes to financial instruments)**

Disclosures Regarding the Fair Value of Financial Instruments and Other Items by Level within the Fair Value Hierarchy

According to observability and significance of inputs used by calculating fair values, fair values for these financial instruments are classified into the following three-level hierarchy.

Level 1 - Unadjusted quoted prices for identical instruments in active markets.

Level 2 - Observable inputs other than Level 1 prices that are either directly or indirectly observable for the financial instrument.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instruments.

If multiple inputs which have a significant impact on market value calculation are used, a financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Moreover, Investments in Partnership and others are out of scope from the disclosure of the fair value measurement due to being applied to transitional measure of Article 27 of Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No.31 on 4th July 2019). (ref. Note3).

( 1 ) Financial assets and liabilities which fair values are equal to consolidated balance sheet amounts are as follows.

(Millions of yen)

	balance sheet amount			
	Level 1	Level 2	Level 3	Total
Securities				
Other securities	5,001	40,354	-	45,355
Total assets	5,001	40,354	-	45,355
Derivatives transactions (*1) (*2)				
Related to Interest Rates	-	8,910	-	8,910
Related to Currencies	-	(106)	0 (*3)	(106)
Total	-	8,803	0	8,803

(\*1) 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 ( ).

(\*2) The net amount of derivative transaction applied to hedge accounting method on the interim balance sheet is 8,910 million yen.

(\*3) SMBC Trust has derivative transactions classified as level 3, however, the net amount is 0 yen as they are covered with other financial institutions.

( 2 ) Financial assets and liabilities which fair values are not equal to consolidated balance sheet amounts are as follows

Call Loans, Foreign exchanges, Call money, and Due from trust accounts are omitted because these instruments are settled in a short period and then their fair values would approximate their carrying values.

(Millions of yen)

	Fair value				balance sheet amount	Net unrealized gains (losses)
	Level 1	Level 2	Level 3	Total		
Cash and due from banks (*)	1,142,341	144,582	-	1,286,924	1,285,992	932
Monetary Claims Bought (*)	-	-	392	392	392	-
Loans and bills discounted	-	-	-	-	1,670,960	
Reserve for possible loan losses (*)	-	-	-	-	(3,117)	
	-	-	1,667,084	1,667,084	1,667,842	(757)
Total assets	1,142,341	144,582	1,667,477	2,954,402	2,954,227	175
Deposits	-	3,033,932	-	3,033,932	3,033,696	235
Total liabilities	-	3,033,932	-	3,033,932	3,033,696	235

(\*)Fair value amount are made after deducting general reserve for possible loan losses and specific reserve for possible loan losses. The reserve against cash and due from banks and monetary claims bought are deducted directly from the balance sheet amount due to insignificance.

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(Note 1) Calculation Methods and Inputs for the Fair Value of Financial Instruments are as follows:

## **Assets**

### **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.

Cash and due from BOJ are classified into Level 1 of the fair value hierarchy, other due from banks are classified into Level 2 of the fair value hierarchy.

With respect to some due from banks embedded with derivatives, when it shall designate the entire hybrid contract as fair value, the fair value is calculated based on the amount of fair value measured and provided by financial institutions to which such deposits are made. These are classified into Level 2 of the fair value hierarchy.

### **Monetary Claims Bought**

Monetary Claims Bought are valued and classified according to the same methods described in “Loans and Bills Discounted” and are classified into Level 3 of the fair value hierarchy.

## **Securities**

For securities, the value calculated based on prevailing market prices as at the balance sheet date is used as their fair value. Government bonds are classified into Level 1 of the fair value hierarchy, other securities are classified into Level 2 of the fair value hierarchy.

With respect to the securities unavailable market price, the fair value is calculated based on the present value of estimated future cash flow to discount by the non-risk rate associated with credit risk etc. These are classified into Level 2 of the fair value hierarchy.

### **Loans and bills discounted**

For loans and bills discounted based on the floating rate, the carrying amount is used as fair value as it is considered to approximate their fair value. For loans and bills discounted based on the fixed rate, the present value is used as the fair value, discounted by the rate applied for such new loans and bills discounted. 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. As to the loan hedged by interest rate swap for special accounting, it is treated as a unit with the interest rate swap and the fair value is calculated according to the fair value calculation method of loans. All of Loans and Bills Discounted are classified into Level 3 of the fair value hierarchy since significant inputs for the assets are unobservable.

## **Liabilities**

### **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, when it shall designate the entire hybrid contract as fair value, 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. All of Deposits Discounted are classified into Level 2 of the fair value hierarchy since significant inputs for the assets are unobservable.



## Derivative 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.

Further, the fair value for derivative instruments such as Swap and others is reflected on the price adjustment based on credit risk of counter parties. Where unobservable inputs are not adopted or their impact is not significant on the fair value for Derivative instruments, such derivative instruments are classified into Level 2 of the fair value hierarchy. Derivatives that are evaluated using valuation techniques with significant unobservable inputs are classified into Level 3 of the fair value hierarchy

(Note 2) The Fair value of Level 3 for financial instruments recorded at fair value on the balance sheet is as follows:

### (1) Quantitative Information of Significant Unobservable Inputs about Level 3 Fair Value Measurements

	Valuation Method	Significant Unobservable Inputs	Range
Derivative Transactions			
Currency derivatives	Option pricing model	Correlation factor of interest rate FX volatility	96.5% — 99.0% 9.8% — 23.4%

### (2) Balance movement from the beginning to the end of the current period, and valuation gain/loss recognized in current period

Not described as net balance of assets and liabilities by the derivative transactions are zero.

### (3) Explanation of Market Value Evaluation Process

The Fair Value Calculation and Supervisory Division of our bank have established policies and procedures for calculating fair value, and Fair Value Measurement Department calculates fair value in compliance with these guidelines and procedures. Assessment Department, which is independent from Fair Value Measurement Department, examines the appropriateness of the fair value evaluation model and input used to calculate the fair value, and the appropriateness of the classification of the fair value level.

As for fair value measurement, the Bank used observable data as much as possible. In addition, when using the market value obtained from a third party, the bank compares fair value with the result of our recalculation using the input used for market value evaluation to verify the validity of the price.

### (4) Explanation of fair value influence against the fluctuation of significant input unobservable

#### Volatility

Volatility is the indicator that the market price or inputs is expected to move after certain period. Volatility is estimated based on the actual value in the past or provided information from third party or other analysis methods, and mainly used to estimate fair value of derivatives referring to implied volatility of interest rate or foreign exchange rate. Generally, significant raise (descent) of volatility causes significant raise (descent) of fair value.

#### Correlation coefficient

Correlation coefficient is the indicator of relation among parameters such as interest rate and so on. These correlation coefficients are estimated based on the actual value in the past, and mainly used to estimate fair value of complex derivatives. Generally, significant upward or downward fluctuation of correlation coefficient causes significant raise or descent of fair value based on the terms of financial instrument contracts.



(Note 3) The following table lists Balance sheet amount of Partners` subscription certificate, etc. with no market prices as of September 30, 2020: and those amounts are not included in the balance sheet amount of “Securities” in “(1) Financial assets and liabilities which fair values are equal to consolidated balance sheet amounts” of “Disclosures Regarding the Fair Value of Financial Instruments and Other Items by Level within the Fair Value Hierarchy”.

(Millions of yen)

Classification	Balance sheet amount
Partners` subscription certificate, etc.	1,326

(Notes to securities)

Other securities (as of September 30, 2020)

(Millions of yen)

	Type	balance sheet amount	acquisition cost or depreciable cost	Net unrealized gains (losses)
The carrying amount is beyond the acquisition cost or depreciable cost	Bonds	15,157	15,001	156
	Government bond	5,001	5,001	0
	Corporate bond	10,156	10,000	156
	Others	25,491	23,908	1,583
	Foreign bonds	25,491	23,908	1,583
	Subtotal	40,649	38,909	1,740
The carrying amount is below the acquisition cost or depreciable cost	Bonds	3,977	3,978	(1)
	Government bond	-	-	-
	Corporate bond	3,977	3,978	(1)
	Others	728	730	(1)
	Foreign bonds	728	730	(1)
	Subtotal	4,706	4,708	(2)
Total		45,355	43,618	1,737

(Note) Other securities with no market prices

(Millions of yen)

Classification	Balance sheet amount
Others	1,326
Total	1,326

Those amounts are not included in the above “Other securities”.

(Notes to deferred tax assets and liabilities)

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

Deferred tax assets

Loss brought forward from the previous term (Note 1)	4,570 million yen
Fair value earnings from consolidated tax payment	5,358
Other	4,539
Subtotal	14,468
Valuation allowance for tax loss brought forward	(4,570)
Valuation allowance for total future tax consequence of temporally differences	(1,742)
Valuation allowance subtotal	(6,313)
Total deferred tax assets	8,155
Deferred tax liabilities	
Net deferred gain (losses) on hedges	(2,733)
Other	(1,345)
Total deferred tax liabilities	(4,079)
Net deferred tax assets	4,075 million yen

(Note 1) Loss brought forward from the previous term and its deferred tax assets by term

as of September 30, 2020

(Millions of yen)

	Within 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years	Total
Loss brought forward from the previous term (*1)	-	-				4,570	4,570
Valuation allowance	-	-	-	-		(4,570)	(4,570)
Deferred tax assets	-					-	-

(\*1) Tax loss carried forward is multiplied by the legally effective tax rate.

(Per share data)

Net assets per share	35,954.31yen
Net loss per share	1,385.77yen

## Disclosure Items Based on Pillar III of Basel III

Disclosure items based on the “items separately stipulated by the Commissioner of the Japanese Financial Services Agency concerning capital adequacy pursuant to Article 19-2, Paragraph 1, item 5, Subsection 2, of the Ordinance for Enforcement of the Banking Act” (Notification No.7 issued by the Japanese Financial Services Agency in 2014).

The non-consolidated capital adequacy ratio is calculated using the method stipulated in “standards for the bank to examine the adequacy of its capital based on assets held by it pursuant to Article 14-2 of the Banking Act” (Notification No.19 issued by the Japanese Financial Services Agency in 2006).

In addition to the method stipulated in the Notification No. 19 to calculate the non-consolidated capital adequacy ratio (referred to as “Domestic Standard” in the Notification), SMBC Trust has adopted the Standardized approach for calculating credit risk-weighted assets and the Basic Indicator approach for calculating operational risk.

### Composition of Capital Disclosure

(Millions of Yen)		
Items	As of September 30, 2019	As of September 30, 2020
<b>Core Capital Basic Components (1)</b>		
Directly issued qualifying common share or mandatory convertible preference share plus related capital surplus and retained earnings	187,373	147,868
of which : capital and capital surplus	218,103	173,103
of which : retained earnings	(30,729)	(25,234)
of which : treasury stock (-)	—	—
of which : cash dividends to be paid (-)	—	—
of which : other than the above	—	—
Stock acquisition rights to common shares or mandatory convertible preference shares	—	—
Total of general reserve for possible loan losses and eligible provisions included in Core Capital Basic Components	1,182	2,931
of which : general reserve for possible loan losses	1,182	2,931
of which : eligible provisions	—	—
Qualifying non-cumulative perpetual preferred stock subject to phase-out arrangements included in Core Capital Basic Components	—	—
Eligible capital instruments subject to phase-out arrangements included in Core Capital Basic Components	—	—
Capital instruments issued by public agency under capital enhancement action included in Core Capital Basic Components	—	—
45% equivalent of the difference between the revaluated amount of the land and the book value immediately prior to revaluation included in Core Capital Basic Components	—	—
Amount of Core Capital Basic Components (A)	188,556	150,800
<b>Core Capital Adjustments (2)</b>		
Total intangible assets (excluding those relating to mortgage servicing rights)	54,410	20,740
of which : goodwill (including those equivalent)	11,641	—
of which : other intangible assets other than goodwill and mortgage servicing rights (net of related tax liability)	42,768	20,740
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	—	—

(Millions of Yen)

Items	As of September 30, 2019	As of September 30, 2020
Shortfall of eligible provisions to expected losses	—	—
Gain on sale on securitization transactions	—	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
Prepaid pension cost	1,949	1,677
Investments in own shares (excluding those reported in the Net assets section)	—	—
Reciprocal cross-holdings in common equity	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above the 10% threshold)	—	—
Amount exceeding the 10% threshold on specified items	12,953	5,137
of which : significant investments in the common stock of financials	—	—
of which : mortgage servicing rights	—	—
of which : deferred tax assets arising from temporary differences (net of related tax liability)	12,953	5,137
Amount exceeding the 15% threshold on specified items	—	—
of which : significant investments in the common stock of financials	—	—
of which : mortgage servicing rights	—	—
of which : deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Amount of Core Capital Adjustments (B)	69,312	27,555
<b>Capital</b>		
Capital amount ( (A) - (B) ) (C)	119,243	123,244
<b>Risk weighted assets (3)</b>		
Credit risk weighted assets	863,889	828,821
of which : total of items in risk weighted assets subject to transitional arrangements	—	—
of which : investments in the capital of banking, financial and insurance entities	—	—
of which : other than the above	—	—
Total amount of Market Risk equivalent divided by 8%	—	—
Total amount of Operational Risk equivalent divided by 8%	86,373	89,396
Credit risk weighted assets adjustments	—	—
Operational risk weighted assets adjustments	—	—
Total amount of Risk weighted assets (D)	950,262	918,218
<b>Capital Adequacy Ratio</b>		
Total Capital Adequacy Ratio ( (C) / (D) )	12.54%	13.42%





SMBC TRUST BANK