
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number: 001-34919

Kabushiki Kaisha Mitsui Sumitomo Financial Group

(Exact name of Registrant as specified in its charter)

SUMITOMO MITSUI FINANCIAL GROUP, INC.

(Translation of registrant's name into English)

Japan

1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

(Jurisdiction of incorporation or organization)

(Address of principal executive offices)

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of Each Class

Trading Symbol(s)

Name of Each Exchange on which registered

American Depositary Shares

SMFG

The New York Stock Exchange

Common stock, without par value*

* Not for trading, but only in connection with the listing of the American Depositary Shares, each American Depositary Share representing 1/5 of one share of the registrant's common stock.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At March 31, 2021, the following shares of capital stock were outstanding: 1,374,040,061 shares of common stock (including 3,612,302 shares of common stock held by the registrant and its consolidated subsidiaries and equity-method associates as treasury stock).

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐ Emerging Growth Company ☐If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act. ☐[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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CERTAIN DEFINED TERMS, CONVENTIONS AND PRESENTATION OF FINANCIAL INFORMATION

As used in this annual report, unless the context otherwise requires, “we,” “us,” “our,” the “Company,” “SMFG” and similar terms refer to Sumitomo Mitsui Financial Group, Inc. as well as to its subsidiaries, as the context requires. “SMBC” refers to Sumitomo Mitsui Banking Corporation, which is one of our commercial banking subsidiaries, or to Sumitomo Mitsui Banking Corporation and its subsidiaries taken as a whole, depending on the context. References to the “SMBC Group” are to us and our subsidiaries and affiliates taken as a whole.

In this annual report, all of our financial information is presented on a consolidated basis, unless we state otherwise. As used in this annual report, “IFRS” means International Financial Reporting Standards as issued by the International Accounting Standards Boards (“IASB”) and “Japanese GAAP” means accounting principles generally accepted in Japan. Our consolidated financial information in this annual report has been prepared in accordance with IFRS, except for the risk-weighted capital ratios, the segment results of operation and some other specifically identified information, which are prepared in accordance with Japanese banking regulations or Japanese GAAP. Unless otherwise stated or the context otherwise requires, all financial information contained in this annual report is expressed in Japanese yen.

Our fiscal year ends on March 31.

Unless otherwise specified or required by the context: references to “days” are to calendar days; references to “years” are to calendar years and to “fiscal years” are to our fiscal years ending on March 31; references to “\$,” “dollars” and “U.S. dollars” are to United States dollars; references to “euros” and “€” are to the currency of those member states of the European Union which are participating in the European Economic and Monetary Union pursuant to the Treaty on European Union; references to “£” and “British pounds sterling” are to the currency of the United Kingdom; and references to “yen” and “¥” are to Japanese yen. Unless otherwise specified, when converting currencies into yen we use our median exchange rates for buying and selling spot dollars, or other currencies, by telegraphic transfer against yen as determined at the end of the relevant fiscal period.

Unless otherwise indicated, in this annual report, where information is presented in millions, billions or trillions of yen or thousands, millions or billions of dollars, amounts of less than one thousand, one million, one billion or one trillion, as the case may be, have been rounded. Accordingly, the total of figures presented in columns or otherwise may not equal the total of the individual items. Except for capital ratios, which have been truncated, percentage data, unless we state otherwise have been subjected to rounding adjustments for the convenience of the reader.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the U.S. Securities Exchange Act of 1934, as amended (“Securities Exchange Act of 1934”). When included in this annual report, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “probability,” “risk,” “project,” “should,” “seek,” “target,” “will” and similar expressions, among others, identify forward-looking statements. You can also identify forward-looking statements in the discussions of strategy, plans or intentions. Such statements, which include, but are not limited to, statements contained in “Item 3. Key Information—Risk Factors,” “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk,” reflect our current views with respect to future events and are inherently subject to risks, uncertainties and assumptions, including the risk factors described in this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described here as anticipated, believed, estimated, expected or intended.

The U.S. Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking information to encourage companies to provide prospective information about themselves. We rely on this safe harbor in making these forward-looking statements.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward-looking statements as a result of various factors, and the differences may be material. Potential risks and uncertainties include, without limitation, the following:

- the lasting effects of the 2019 novel coronavirus disease (COVID-19) pandemic and collateral events;
- deterioration of Japanese and global economic conditions and financial markets;
- declines in the value of our securities portfolio;
- changes in the level or volatility of market rates or prices;
- constraints on our operations due to capital adequacy requirements;
- problems of other financial institutions;
- adverse regulatory developments or changes in government policies;
- incurrence of significant credit-related costs;
- a significant downgrade of our credit ratings;
- exposure to new risks as we expand the scope of our business;
- our ability to successfully implement our business strategy through our subsidiaries, affiliates and alliance partners;
- the industry specific risks of the consumer finance industry;
- the recoverability of deferred tax assets;
- insufficient liquidity; and
- litigation and regulatory proceedings.

Given these and other risks and uncertainties, you should not place undue reliance on forward-looking statements, which speak only as of the date of the filing of this annual report. We expressly disclaim any obligation to update or to announce publicly any revision to any of the forward-looking statements contained in this annual report to reflect any changes in events, conditions, circumstances or other developments upon which any such statement is based. The information contained in this annual report identifies important factors in addition to those referred to above that could cause differences in our actual results.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

3.A. SELECTED FINANCIAL DATA

Selected Financial Data

The following selected financial data at and for each of the five fiscal years ended March 31, 2021, 2020, 2019, 2018 and 2017 have been derived from our consolidated financial statements. You should read this data together with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements included elsewhere in this annual report.

	For the fiscal year ended and at March 31,				
	2021	2020	2019	2018	2017
	(In millions, except per share data)				
Consolidated income statement data:					
Interest income	¥ 1,780,370	¥ 2,407,045	¥ 2,406,350	¥ 2,144,070	¥ 1,900,261
Interest expense	397,245	1,090,730	1,137,430	771,907	540,518
Net interest income	1,383,125	1,316,315	1,268,920	1,372,163	1,359,743
Fee and commission income	1,174,382	1,147,132	1,101,777	1,131,364	1,066,412
Fee and commission expense	201,723	203,822	178,351	178,867	181,573
Net fee and commission income	972,659	943,310	923,426	952,497	884,839
Net trading income	237,746	134,069	320,302	270,464	183,963
Net income (loss) from financial assets and liabilities at fair value through profit or loss	280,012	(21,939)	54,655	(667)	2,018
Net investment income	153,820	176,464	93,922	424,097	305,327
Other income	138,223	155,631	505,666	755,855	573,825
Total operating income	3,165,585	2,703,850	3,166,891	3,774,409	3,309,715
Impairment charges on financial assets	282,486	259,938	119,686	136,808	212,967
Net operating income	2,883,099	2,443,912	3,047,205	3,637,601	3,096,748
General and administrative expenses	1,679,115	1,696,386	1,679,813	1,775,183	1,713,955
Other expenses	283,879	488,806	575,657	792,765	531,759
Operating expenses	1,962,994	2,185,192	2,255,470	2,567,948	2,245,714
Share of post-tax profit of associates and joint ventures	36,373	24,031	40,157	49,323	29,318
Profit before tax	956,478	282,751	831,892	1,118,976	880,352
Income tax expense	251,402	51,768	184,306	229,378	139,766
Net profit	¥ 705,076	¥ 230,983	¥ 647,586	¥ 889,598	¥ 740,586

Risks Related to the Economic and Financial Environment

Our businesses, financial condition and results of operations have been, and may continue to be, adversely affected by the COVID-19 pandemic and collateral events.

Since December 2019, COVID-19 has spread throughout the world. The COVID-19 pandemic has resulted in the implementation of numerous measures to prevent the spread of COVID-19, such as restrictions on movement and closures of schools, businesses, factories and other public and private facilities in many countries and regions. These measures have significantly affected people's lives and business activities. Coupled with these measures, the COVID-19 pandemic has had a severe impact on both Japanese and global economic conditions. COVID-19 vaccination is considered to be an important tool to help stop the COVID-19 pandemic, and vaccination has already begun in many countries. However, there remains uncertainty whether vaccines will be produced, distributed and administered as expected, and effective against new variants of COVID-19. Even if the number of new COVID-19 cases significantly decreases in many countries including Japan, this global pandemic and its negative effects on global economic conditions may persist into the future. Even in countries that succeed in significantly reducing the number of the cases from the current outbreak, the level of economic activity may not fully recover in the short term or at all due to concerns of future waves of COVID-19 and the emergence of new variants of COVID-19 or changes in lifestyle and business practices. Therefore, the Japanese and global economy may remain volatile or continue to deteriorate.

If the Japanese and global economy remain volatile or continue to deteriorate due to the COVID-19 pandemic and collateral events, the balance of our impaired loans and credit-related costs may further increase due to deterioration in the financial condition of our customers. Additionally, disruption and volatility in financial markets may have an adverse effect on our funding activities and could subject our holdings of securities to impairment or valuation losses. Also, a decline in overall economic activity may cause us to miss business opportunities and this may adversely affect the execution of our operating strategy and our results of operations. Furthermore, since the outbreak of the COVID-19 pandemic, we have been continuing to provide services such as financing and settlement to fulfill our responsibility as a financial institution, which is a part of the social infrastructure. In carrying out that responsibility, we may be requested to provide new and additional financing to customers, and these may increase our risk assets and lead to a lower capital adequacy ratio and to additional credit-related losses. From a business operational standpoint, if our efforts to prevent the spread of COVID-19 within our workforce, such as enabling telework for employees and separating staff into two or more teams on alternating shifts, are ineffective or lead to decreased productivity and many of our employees contract the virus, such circumstances could adversely affect the operation of our businesses or force us to temporarily suspend operations. Furthermore, cyberattacks and financial crimes may increase under the new working arrangements such as expanded telework for employees.

The extent of the continuing impact of the COVID-19 pandemic on our operational and financial performance remains uncertain and will depend on many factors beyond our control, including the duration of the pandemic and further spread of the virus. To the extent that the ongoing COVID-19 pandemic adversely affects our business, results of operations and financial condition, it may also have the effect of increasing the likelihood and magnitude of the other risks described in "Item 3.D. Risk Factors."

For detailed information on the impact of the COVID-19 pandemic on the operating environment, our results of operations and our financial condition, see "Item 5. Operating and Financial Review and Prospects."

We may be adversely affected if Japanese and global economic conditions and financial markets deteriorate.

Our financial condition and results of operations are materially affected by general economic conditions and financial markets in Japan and foreign countries, which would be influenced by various factors such as monetary policies taken by the Bank of Japan ("BOJ") and other central banks, and fiscal policies, policies on financial markets, as well as related laws, regulations and agreements adopted by governmental authorities. Those factors

include, for example, monetary easing by the BOJ and the increase of tariffs and other protectionist trade policies of countries including the U.S. Furthermore, geopolitical instability in various parts of the world, including North Africa, the Middle East, Asia and Eastern Europe, and material changes in regional economic or political unions or associations between countries, such as the United Kingdom's exit from the European Union, which took place on January 31, 2020, could contribute to economic instability in those and other regions. Such regional economic instability could adversely affect Japanese and global economic conditions.

The deterioration of Japanese and global economic conditions, or financial market turmoil, could result in a worsening of our liquidity and capital conditions, an increase in our credit costs, and a decrease in the fair values of our investment securities and, as a result, adversely affect our business, financial condition and results of operations.

Future declines in securities prices on Japanese stock markets or other global markets could cause us to experience realized and unrealized losses on our equity securities portfolio, which could negatively affect our financial condition, results of operations and regulatory capital position.

The value of a listed equity security is measured at its market price. Declines in the Japanese stock markets or other global markets could result in realized and unrealized losses on the securities in our equity securities portfolio, adversely affecting our results of operations and financial condition.

Our regulatory capital position and that of SMBC depend in part on the fair value of our equity securities portfolio. Substantial declines in the Japanese stock markets or other global markets would negatively affect our and SMBC's capital positions, and limit SMBC's ability to make distributions to us.

Our equity securities portfolio mainly consists of equity instruments at fair value through other comprehensive income. The reported value of our equity instruments at fair value through other comprehensive income accounted for 2.0% of our total assets at March 31, 2021, approximately 85.5% of which were Japanese equity securities. This value depends mainly on prices of the instruments in the stock market. In addition, the reported value, and gross unrealized gains and losses of those equity instruments at fair value through other comprehensive income at March 31, 2021 are described in "Item 5.A. Operating Results—Financial Condition—Investment Securities."

In recent years, we have been reducing our strategic shareholding investments in order to mitigate the impact of share price fluctuations on our financial base. Any further disposal by us of equity holdings of our customers' shares could in turn cause our customers to dispose of their equity holdings of our shares, which could adversely affect the market price of our shares.

Changes in the levels or volatility of market rates or prices could adversely affect our financial condition and results of operations.

We engage in trading and investing activities dealing with various kinds of financial instruments such as bonds, equities, currencies, derivatives and funds. For example, we have substantial investments in debt securities. At March 31, 2021, we had ¥14 trillion of Japanese government bonds classified as debt instruments at fair value through other comprehensive income, which accounted for approximately 6.1% of our total assets.

Our financial condition and results of operations could be adversely affected by actual changes or volatility in interest rates, foreign exchange rates and market prices of investment securities. Increases in interest rates could substantially decrease the value of our fixed income portfolio, and any unexpected changes in yield curves could adversely affect the value of our bond and interest rate derivative positions, resulting in lower-than-expected revenues from trading and investment activities. Market volatility may also result in significant realized and unrealized losses on such instruments. Furthermore, the downgrading of investment securities by credit rating agencies may also cause declines in the value of our securities portfolio.

Risks Related to Our Business

Failure to satisfy capital adequacy requirements could constrain our and SMBC's operations.

We and SMBC are subject to capital adequacy requirements established by the Financial Services Agency of Japan ("FSA") which are based on the Basel rules text published by the Basel Committee on Banking Supervision ("BCBS").

With respect to the quality of the capital base, certain capital instruments, including existing preferred securities and subordinated debt, are eligible for inclusion as Tier 1 capital or Tier 2 capital only for the prescribed 10-year phase-out period. Preferred stocks convertible into common stocks no longer qualify as Common Equity Tier 1 capital but would qualify as Additional Tier 1 capital if they satisfy certain requirements including the requirement of loss absorbency at the point of non-viability under the Basel III rules. In addition, securities with step-up clauses will no longer qualify as Additional Tier 1 capital, and if the relevant security is classified as a liability for accounting purposes, it must satisfy the requirement of loss absorbency at a pre-specified trigger point, which must be 5.125% or more of Common Equity Tier 1 risk-weighted capital ratio as well as the aforementioned requirement of loss absorbency at the point of non-viability to qualify as Additional Tier 1 capital. With respect to Tier 2 capital, under the Basel III rules, the relevant security must satisfy the requirement of loss absorbency at the point of non-viability to qualify as Tier 2 capital, and subordinated debt securities callable at the initiative of the issuer within five years or with step-up clauses can no longer qualify as Tier 2 capital.

With respect to the quantity of the capital base, the minimum Common Equity Tier 1 risk-weighted capital ratio and minimum risk-weighted capital ratio applicable to us and SMBC have been 4.5% and 8% respectively since March 2015. Moreover, we are required to hold a capital conservation buffer to withstand future periods of stress and a countercyclical buffer as additional capital to reduce the buildup of systemic risk in periods and locations of excessive credit growth. The capital conservation buffer has been 2.5% since March 2019. As a result, taking the capital conservation buffer into account at March 2021, the total minimum Common Equity Tier 1 risk-weighted capital ratio has been 7%, and the total minimum risk-weighted capital ratio has been 10.5%. The countercyclical buffer is calculated as the weighted average of the buffers in effect in the jurisdictions to which we have credit exposure, with a maximum of 2.5% from March 2019.

In addition, the requirements for additional capital, in the form of a capital surcharge above the Basel III minimum requirement, have been applied from 2016 to those financial institutions identified by the Financial Stability Board ("FSB") as Global Systemically Important Banks ("G-SIBs"), including us. This requirement is commonly referred to as the G-SIB capital surcharge. The FSB updates its list of G-SIBs on an annual basis. Based on the list, we have been required to maintain an additional 1% of Common Equity Tier 1 capital as a percentage of risk-weighted assets from 2019.

In March 2019, the FSA published its guidelines for the leverage ratio applicable to banks and bank holding companies with international operations, which have been applied from March 31, 2019. Under the FSA's guidelines for the leverage ratio, banks and bank holding companies with international operations must maintain a leverage ratio of at least 3% on both a consolidated basis and a nonconsolidated basis from March 31, 2019. On June 30, 2020, in light of the increasing impact of the COVID-19 pandemic, the FSA published amendments to its guidelines for the leverage ratio, which mainly exclude deposits with the BOJ from the denominator for the calculation of the leverage ratio in order to maintain harmonization with the monetary policy implemented by the BOJ and the prudential regulations for banks and other financial institutions. These amendments came into effect on June 30, 2020 and were scheduled to expire on March 31, 2021. On March 31, 2021, the FSA extended the expiry date of these amendments to March 31, 2022.

G-SIBs are also subject to a global standard for Total Loss-Absorbing Capacity ("TLAC"), which defines certain minimum requirements for total loss-absorbing capacity so that if G-SIBs fail, they will have sufficient loss absorbing and recapitalization capacity available in resolution. In November 2015, the FSB published the

final TLAC standards (“FSB’s TLAC Standards”) and, in March 2019, the FSA published its regulatory guidelines and related documents for the implementation of the TLAC standards in Japan (“Japanese TLAC Standards”) to which we are subject as a G-SIB.

At March 31, 2021, on a consolidated basis, our total risk-weighted capital ratio, Tier 1 risk-weighted capital ratio and Common Equity Tier 1 risk-weighted capital ratio were 18.61%, 16.96% and 16.00%, compared to the minimum required ratios of 11.52%, 9.52% and 8.02%, respectively. Such minimum required ratios include the capital conservation buffer of 2.5%, the G-SIB capital surcharge of 1.0% and the countercyclical buffer of 0.02%.

Our and SMBC’s capital ratios could decline as a result of decreases in Tier 1 and Tier 2 capital or increases in risk-weighted assets. The following circumstances, among others, could reduce our risk-weighted capital ratio and that of SMBC:

- declines in the value of securities;
- inability to refinance existing subordinated debt obligations or preferred securities eligible for inclusion as Tier 1 capital or Tier 2 capital only for the prescribed 10-year phase-out period with those qualified as regulatory capital under the new capital adequacy requirements which phased in from March 2013; and
- increases in risk-weighted assets resulting from business growth, strategic investments, borrower downgrades, changes in parameters such as probability of default (“PD”) or regulatory reforms.

We and SMBC have adopted the advanced internal rating-based (“IRB”) approach for measuring exposure to credit risk and the advanced measurement approach (“AMA”) to measure exposure to operational risk. If the FSA revokes its approval of such implementation or otherwise changes its approach to measure capital adequacy ratios, our and SMBC’s ability to maintain capital at the required levels may be adversely affected.

In December 2017, the Group of Central Bank Governors and Heads of Supervision (the “GHOS”) endorsed the outstanding Basel III regulatory reforms. The endorsed reforms include the following elements:

- a revised standardized approach for credit risk;
- revisions to the internal ratings-based approach for credit risk;
- revisions to the credit valuation adjustment framework;
- a revised standardized approach for operational risk;
- revisions to the measurement of the leverage ratio and a leverage ratio buffer for G-SIBs; and
- revisions to the capital floor.

We will be subject to the final Basel III reform, as implemented in Japan.

If our or SMBC’s capital ratios fall below required levels, the FSA may require us or SMBC to take a variety of corrective actions, including withdrawal from all international operations or suspension of all or part of our operations, which may indirectly affect our ability to fulfill our contractual obligations or may result in restrictions on our businesses. Failure to maintain capital levels under the capital buffer requirements under Basel III and the requirement for the G-SIB capital surcharge will result in restrictions on capital distributions, such as dividends, share buybacks, discretionary payments on other Tier 1 capital instruments and bonuses. In addition, some of our and SMBC’s domestic and overseas subsidiaries are also subject to local capital ratio requirements. Failure of those subsidiaries to meet local requirements may result in administrative actions or sanctions imposed by local regulatory authorities.

We may incur losses as a result of financial difficulties of counterparties and other financial institutions.

We regularly execute transactions with counterparties in the financial services industry. Many of these transactions expose us to credit risk in the event of deterioration of creditworthiness of a counterparty or client. With respect to secured transactions, our credit risk may be exacerbated when the collateral cannot be foreclosed on or is liquidated at prices not sufficient to recover the full amount of the loan or other exposures due to us. Losses from our investments in and loans to other financial institutions could materially and adversely affect our business, financial condition and results of operations. We may also be requested to participate in providing assistance to distressed financial institutions that are not our subsidiaries. In addition, if the funds collected by the Deposit Insurance Corporation of Japan (“DIC”) are insufficient to insure the deposits of failed Japanese banks, the insurance premiums that we pay to the DIC will likely be increased, which could adversely affect our business and results of operations.

Adverse regulatory developments or changes in government policies could have a negative impact on our results of operations.

Our businesses are subject to extensive regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Japan and the other jurisdictions in which we operate. Those changes and their effects on us are unpredictable and beyond our control.

The Banking Act authorizes the FSA to inspect banks and bank holding companies in Japan at any time and with any frequency. The FSA’s inspection processes are revised or amended from time to time. Our compliance with any such changes could result in an increase in our administrative expenses, which could have an adverse effect on our results of operations and financial condition.

The FSA and regulatory authorities in the United States and other jurisdictions, along with the United Nations and the Financial Action Task Force, have continued to make the prevention of money laundering and terrorism financing a focus of governmental policy relating to financial institutions. In April 2019, SMBC and its New York branch entered into a written agreement with the Federal Reserve Bank of New York requiring SMBC and its New York branch to address certain deficiencies relating to the New York branch’s anti-money laundering and economic sanctions compliance program. SMBC and its New York branch are required, among other things, to implement corrective measures and submit periodic progress reports to the Federal Reserve Bank of New York. If we fail to comply with the terms of the written agreement, we may become subject to monetary penalties and other regulatory sanctions, which could have a material adverse effect on us. Further, as a result of the deficiencies identified in the written agreement, we no longer meet the requirements to be treated as a financial holding company, and, pending completion of a remediation plan designed to meet these requirements, we are currently subject to restrictions in our ability to engage in certain new categories of financial activities in the United States and to make acquisitions of companies engaged in activities in the United States. If we fail to correct the conditions giving rise to such restrictions within the prescribed period of time, we may be required to divest or terminate certain business activities in the United States, which could adversely affect our operations and impair our ability to implement our business plans. Although we are committed to improving compliance with laws and regulations relating to anti-money laundering and economic sanctions, we will continue to be subject to ongoing inspection by the regulatory authorities in the United States and other jurisdictions. Any adverse regulatory action or change in regulatory focus, whether as a result of inspections or regulatory developments, may negatively affect our banking operations, cause harm to our reputation, and result in expensive remediation, monetary penalties and other regulatory sanctions.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) provides a broad framework for significant regulatory changes across most areas of U.S. financial regulations. The Dodd-Frank Act addresses, among other issues, systemic risk oversight, bank capital standards, the resolution of failing systemically significant financial institutions, over-the-counter (“OTC”) derivatives, the

ability of banking entities to engage in proprietary trading activities and invest in hedge funds and private equity funds, consumer and investor protection, and securitization.

We expect that the Biden Administration and the Democratically-controlled Congress will seek to implement a regulatory reform agenda that is significantly different than that of the Trump Administration. This reform agenda could include, among other things, a heightened focus on the regulation of loan portfolios and credit concentrations to borrowers impacted by climate change, heightened scrutiny of the Bank Secrecy Act and anti-money laundering requirements. It is too early for us to assess which, if any of these, policies would be implemented and what their impact on us would be.

These and similar, or any other kind of significant regulatory developments could adversely affect our capital ratios and results of operations. For further details, see “Item 4.B. Business Overview—Regulations in Japan, Regulations in the United States, and Regulations in Other Jurisdictions.” Since changes in regulation or fiscal or other policies and their effects are unpredictable and beyond our control, we may not be able to comply with those changes at all times, despite our efforts, or may have to incur increased costs or make changes to our operations in order to do so. Any such failures to comply with those changes could result in administrative or judicial proceedings against us, including suspension of our business and financial penalties, which could materially and adversely affect our business, reputation, results of operations and financial condition.

The transition away from and discontinuation of LIBOR and other interest rate benchmarks could have a negative impact on our results of operations.

For several years, global regulators and central banks have been pursuing international efforts to reform interest rate benchmarks, such as the London Interbank Offered Rate (“LIBOR”). In July 2017, the UK Financial Conduct Authority (“FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. On March 5, 2021, the FCA and ICE Benchmark Administration, the authorized and regulated administrator of LIBOR, announced that all the GBP, CHF, JPY, EUR LIBOR settings and the one-week and two month USD LIBOR settings will cease after December 31, 2021, and the remaining USD LIBOR settings will cease after June 30, 2023.

We have identified a significant number of assets and liabilities linked to LIBOR and other interest rate benchmarks, across businesses that require transition to alternative reference rates.

The transition away from and discontinuation of LIBOR and other interest rate benchmarks, uncertainty as to the availability and/or suitability of alternative reference rates, and differences between LIBOR, and other interest rate benchmarks and alternative reference rates may have a material adverse effect on financial markets and market participants, including us. Accordingly, we have taken, and are continuing to take, necessary steps to proactively address the transition and meet the industry-recommended and regulatory milestones, including developing internal systems and infrastructure to transition to alternative reference rates, as well as conducting outreach to inform our customers of the necessity to prepare for the cessation of LIBOR. Also, SMFG and major subsidiaries adhere to the IBOR Fallbacks Supplement to the 2006 ISDA Definitions and the ISDA 2020 IBOR Fallbacks Protocol, which came into effect on January 25, 2021.

However, we may face the risks that our actions to address the transition, including developing internal systems and infrastructure as well as customer outreach, may be delayed or may not be successful. Even if our actions are undertaken successfully, they may not be sufficient to address the transition and may lead to a negative impact on our customers. For example, our customers may consider that the advice and information that we prepare and provide is inadequate and/or inaccurate. Moreover, the valuation of certain of our financial assets and liabilities may change, and the inability of existing hedged and hedging transactions to meet the hedge relationship designation requirements could lead to an increase in profit and loss volatility. All of these could adversely affect our results of operations and financial condition. For further details, see Note 2 “Summary of Significant Accounting Policies—Hedge Accounting—Interest Rate Benchmark Reform” and Note 7 “Derivative

Financial Instruments and Hedge Accounting—Hedge accounting—Interest Rate Benchmark Reform” to our consolidated financial statements included elsewhere in this report.

Changes in the competitive and financial environment and financial systems could have a negative effect on the financial services industry and us.

Deregulation of the financial system, consolidation among financial institutions, diversification within the financial services industry, and the expanded presence of foreign financial institutions and investors have made the Japanese financial services market highly competitive. Moreover, competition in overseas markets has intensified due to global consolidation, convergence and alliances among financial institutions. In addition, the development of new technologies in the “Fintech” and other sectors, along with the corresponding rise of new entrants from these sectors into the financial services industry, may further intensify competition in the business environments in which we operate. We compete with various types of financial services companies, including:

- banking groups, including Japan’s other major banking groups;
- government-controlled and government-affiliated entities;
- regional banking institutions;
- major investment banks;
- non-bank financial institutions; and
- other firms that are engaged in providing similar products and services.

Increased competition in Japan may put downward pressure on prices for our financial services, cause us to lose market share or require us to incur additional expenses in order to remain competitive. Internationally, various forms of financial support provided by foreign governments to foreign banks and other financial institutions may reduce the cost of capital to those institutions and otherwise give them competitive advantages. In addition, with technological advances, new competitors in the financial services industry continue to emerge, and as a result, we may be forced to adapt our business to compete more effectively. There can be no assurance that we will be able to respond effectively to current or future competition.

Changes in the financial environment in Japan may also have a negative effect on the Japanese financial services industry. For example, prolonged monetary easing by the BOJ may continue to lower domestic interest spreads. This may significantly affect the businesses of commercial banks in Japan, including us. For further information on the BOJ’s monetary policy measures, see “Item 5. Operating and Financial Review and Prospects—Overview—Factors Affecting Results of Operation.”

Adverse economic conditions and deterioration of the financial conditions of our customers could increase our credit costs.

Our non-performing loans (“NPLs”) and credit costs for corporate and individual customers may increase significantly if:

- domestic or global economic conditions worsen or do not improve;
- our customers do not repay their loans, due to reasons including deterioration of their financial conditions; and
- the value of collateral declines.

We have substantial exposure to corporate customers in the following sectors: real estate and goods rental and leasing, manufacturing, wholesale and retail, transportation, communications and public enterprises, and services, including electric utilities, and to individual customers mainly through housing loans. The financial

conditions of those customers may be subject to changes in the industry-specific economic conditions, including, for example, fluctuations in the prices of oil, gas and other natural resources, as well as general economic conditions. In addition, adverse region-specific economic conditions or changes in economic conditions due to unexpected incidents such as the spread of COVID-19 and collateral events could worsen our customers' financial conditions or could decrease the value of our collateral provided to us in such regions. As a result, we may be required to record increases in our allowance for loan losses.

Moreover, for certain borrowers, we may choose to engage in debt-for-equity swaps or provide partial debt write-offs, additional financing or other forms of assistance as an alternative to exercising our full legal rights as a creditor if we believe that doing so may increase our ultimate recoverable amount of the loan. We may be required to, or choose to, provide new or additional financing to customers who may incur unexpected liabilities, have difficulty in the future in continuing operations, encounter difficulties or need to devote significant resources to repair their infrastructures, as a result of natural disasters or other calamities.

In addition, changes in laws or government policies may have an adverse impact on the rights of creditors. For example, the Government of Japan has provided or may provide in the future government guarantees and other government support measures in response to the financial crisis or other unexpected incidents such as widespread pandemics such as COVID-19, large-scale natural disasters and any subsequent collateral events. Even if our current or future loans to borrowers have received or will receive any government support measures, it is unclear to what extent those loans will benefit, directly or indirectly, from the current or any future government guarantees or support measures.

In addition, our NPLs may increase and there may be additional credit costs if we fail to accurately estimate the expected losses in our loan portfolio. These estimates require difficult, subjective and complex judgments such as credit evaluation of our borrowers, valuation of collateral and forecasts of economic conditions.

The ratio of impaired loans and advances to the total loans and advances, both net of allowance for loan losses, were 0.8%, 0.5% and 0.6% at March 31, 2021, 2020 and 2019, respectively. For further information, see "Item 5.A. Operating Results— Financial Condition—Loans and Advances."

A significant downgrade of our credit ratings could have a negative effect on us.

At the date of this annual report, the Company has the issuer ratings of A1/P-1 from Moody's Japan K.K., the issuer credit rating of A- from S&P Global Ratings Japan Inc. and the foreign and local currency issuer default ratings of A/F1 from Fitch Ratings Japan Limited. There can be no assurance that these ratings will be maintained.

A material downgrade of our credit ratings may have various effects including, but not limited to, the following:

- we may have to accept less favorable terms in our transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions;
- foreign regulatory bodies may impose restrictions on our overseas operations;
- existing agreements or transactions may be cancelled; and
- we may be required to provide additional collateral in connection with derivatives transactions.

Any of these or other effects of a downgrade of our credit ratings could have a negative impact on the profitability of our treasury and other operations, and could adversely affect our regulatory capital position, liquidity position, financial condition and results of operations. For more information about our credit ratings, see "Item 5.B. Liquidity and Capital Resources."

We face significant challenges in achieving the goals of our business strategy, and our business may not be successful.

In May 2020, we announced our medium-term management plan through March 2023. We believe that we have targeted appropriate business areas. However, our initiatives to offer new products and services and to increase sales of our existing products and services may not succeed if market conditions do not stabilize, market opportunities develop more slowly than expected, our initiatives have less potential than we envisioned originally or the profitability of these products and services is undermined by competitive pressures. Consequently, we may be unable to achieve or maintain profitability in our targeted business areas.

In order to implement our business strategy successfully, we need to hire and train qualified personnel continuously and in a proactive manner, as well as to attract and retain employees with professional experience and specialized product knowledge. However, we face competition from other commercial banks, investment banks, consumer finance companies and other financial services providers in hiring highly competent employees. There can be no assurance that we will succeed in attracting, integrating and retaining appropriately qualified personnel.

We are exposed to new risks as we expand our businesses, the range of our products and services, and geographic scope of our businesses overseas.

As part of our business strategies we have expanded and may continue to expand our businesses or our range of products and services beyond our core business, commercial banking. This could expose us to new risks, such as adverse regulatory changes, more competition or deterioration in the operating environments that affect those businesses, products and services. Some of those risks could be types with which we have no or only limited experience. As a result, our risk management systems may prove to be insufficient and may not be effective in all cases or to the degree required.

In accordance with our strategy to further increase our presence in the international financial markets, we may continue to expand the scale of our overseas businesses, especially in emerging economies, notably Asian countries and regions. The expansion of our overseas businesses may further increase our exposure to risks of adverse developments in foreign economies and markets, including interest rate and foreign exchange rate risk, regulatory risk and political risk. Our overseas expansion also exposes us to the compliance risks and the credit and market risks specific to the countries and regions in which we operate, including the risk of deteriorating conditions in the credit profile of overseas borrowers.

Failure of our business strategies through our subsidiaries, affiliates and other business alliance partners could negatively affect our financial condition and results of operations, including impairment losses on goodwill or investments.

Aligned with our business strategies, we have made and may undertake acquisition of a subsidiary, investments in affiliates and other business alliance partners, and reorganization within SMBC Group companies. It is uncertain whether we will receive the expected benefits from those business strategies, due to any adverse regulatory changes, worsening of economic conditions, increased competition or other factors that may negatively affect the related business activities. Furthermore, unanticipated costs and liabilities may be incurred in connection with those business strategies, including liabilities from the claims related to the businesses prior to our business alliances, and cost from actions by regulatory authorities.

When we acquire a subsidiary, we may recognize goodwill and intangible assets. Impairment losses on goodwill or intangible assets in connection with acquisitions must be recognized when the recoverable amount of goodwill or intangible assets of the business is lower than the carrying amount at the time of impairment testing, which is performed annually or whenever there is an indication that the goodwill or intangible assets may be impaired.

We account for some of our investments in affiliates under the equity method. Therefore, net losses incurred by equity method investees may cause us to record our share of the net losses. Furthermore, we may lose the capital which we have invested in business alliances or may incur impairment losses on securities acquired in such alliances. We may also be required under contractual or other arrangements to provide financial support, including credit support and equity investments, to business alliance partners in the future. Additionally, we may also incur credit costs from our credit exposure to such partners.

We are exposed to the industry specific risks of the consumer finance industry.

Changes in the legal environment have severely and adversely affected the business performance of consumer lending and credit card companies. We have exposures to the risks specific to the consumer finance industry through our subsidiaries, including SMBC Finance Service Co., Ltd. (“SMBC Finance Service”), formerly known as Cedyne Financial Corporation, and SMBC Consumer Finance Co., Ltd. (“SMBC Consumer Finance”).

Consumer lending and credit card companies had offered unsecured personal loans, which included loans with so-called “gray zone” interest in excess of the maximum rate prescribed by the Interest Rate Restriction Act (ranging from 15% to 20%) up to the 29.2% maximum rate permitted under the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates (“Contributions Act”). However, amendments to laws regulating moneylenders, which increased the authority of government regulators, prohibited gray zone interest and introduced an upper limit on aggregate credit extensions to an individual by moneylenders at one-third of the borrower’s annual income, were promulgated in 2006 and became fully effective in June 2010. After the promulgation of such amendments, SMBC Finance Service, SMBC Consumer Finance and other companies engaged in related business reduced their interest rates on loans in preparation for the prohibition of gray zone interest. As a consequence, margins earned by those companies, as well as the amounts of loans extended, decreased.

In addition, as a result of court decisions unfavorable to those companies, claims for refunds of amounts paid in excess of the applicable maximum allowed rate by the Interest Rate Restriction Act have increased substantially. Although SMBC Finance Service, SMBC Consumer Finance and other subsidiaries have each recorded a provision for claims for refunds of gray zone interest on loans, we may be required to recognize additional losses if such provisions are determined to be insufficient, and the additional losses could have an adverse effect on our results of operations and financial condition.

Inability to generate sufficient future taxable profits or adverse changes to tax laws, regulatory requirements or accounting standards could have a negative impact on the recoverability of certain deferred tax assets.

We recognize deferred tax assets relating to tax losses carried forward and deductible temporary differences only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the temporary differences can be utilized. The deferred tax assets are quantified on the basis of currently enacted tax rates and accounting standards and are subject to change as a result of future changes to tax laws or the rules for computing taxable profits and allowable losses. Failure to generate sufficient future taxable profits or changes in tax laws or accounting standards may reduce our estimated recoverable amount of net deferred tax assets. Such a reduction could have an adverse effect on our financial condition and results of operations.

Declines in returns on our plan assets or revised actuarial assumptions for retirement benefits may adversely affect our financial condition and results of operations.

SMBC and some of our other subsidiaries have various defined benefit plans. We have experienced in the past, and may experience in the future, declines in returns on plan assets and changes in the discount rates and

other actuarial assumptions. If returns on plan assets decrease, or if we revise the discount rates and other assumptions, the deficit of the impacted defined benefit plan may increase and adversely affect our financial condition and results of operations. Because approximately half of our plan assets are composed of equity instruments, the plan assets are greatly affected by volatility in the prices of equity securities. Substantial declines in the prices for publicly traded Japanese stocks would negatively affect our plan assets. For further information, see Note 24 “Retirement Benefits” to our consolidated financial statements included elsewhere in this annual report.

Our liquidity could be adversely affected by actual or perceived weaknesses in our businesses and by factors we cannot control, such as a general decline in the level of business activity in the financial services sector.

We need liquidity to maintain our lending activities, meet deposit withdrawals, pay our operating expenses and pay interest on and principal of debt and dividends on capital stock. Adverse market and economic conditions in the domestic and global economies may limit or adversely affect our access to liquidity required to operate our business. If our counterparties or the markets are reluctant to finance our operations due to factors including actual or perceived weaknesses in our businesses as a result of large losses, changes in our credit ratings, or a general decline in the level of business activity in the financial services sector, we may be unable to meet our payment obligations when they become due or only be able to meet them with funding obtained on unfavorable terms. Circumstances unrelated to our businesses and outside of our control, such as, but not limited to, adverse economic conditions, disruptions in the financial markets or negative developments concerning other financial institutions perceived to be comparable to us, may also limit or adversely affect our ability to replace maturing liabilities in a timely manner. Without sufficient liquidity, we will be forced to curtail our operations, which could adversely affect our business, results of operations and financial condition.

Sales of our shares by us may have an adverse effect on the market price of our shares and may dilute existing shareholders.

We may issue shares from the unissued portion of our authorized share capital and sell shares held as treasury stock, generally without a shareholder vote. Sales of shares in the future may be at prices below prevailing market prices and may be dilutive.

Our business relies on our information technology systems, which are at risk of being damaged or failing as a result of various incidents including cyberattacks, and their failure could harm our relationships with customers or adversely affect our provision of services to customers.

In all aspects of our business, we use information technology systems to deliver services to and execute transactions on behalf of our customers as well as for back-office operations. We therefore depend on the capacity and reliability of the electronic and information technology systems supporting our operations. We may encounter service disruptions in the future, owing to failures of these information technology systems. Our information technology systems are at risk of being damaged or failing as a result of quality problems, human errors, natural disasters, power losses, sabotage, acts of terrorism, cyberattacks and similar events.

In particular, cybersecurity risks for financial institutions have significantly increased in recent years. This is partly because of the continuous introduction of new technologies and the use of the internet and telecommunications technologies as well as the elaboration of the cyberattacks, which include computer viruses, malicious code, phishing attacks or other security breaches. As we rely on information technology systems in our business and our receipt and handling of confidential personal information from our customers, any impairment, compromise or destruction of such systems may interfere with, or temporarily prevent us from, continuing our operations. In addition, we also face indirect cybersecurity risks relating to our customers and other third parties, including counterparties in the financial services industry. As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure or cyberattack could have a material impact on counterparties or other market participants, including us. Any third-party

technology failure or cyberattack could adversely affect our ability to execute transactions or deliver services to our clients effectively. For example, vulnerabilities in third-party technology systems may be exploited in ways that increase the risk our information technology systems are exposed to cyberattacks.

Accordingly, we have taken steps to protect information technology systems from these risks, including by establishing data recovery capability and functionality, and to address all contingencies that could arise in the event of a major disruption of services. Particularly, we have adopted our “Declaration of Cyber Security Management” in order to further strengthen our cybersecurity capabilities. In this declaration, our management recognizes cybersecurity as a major management issue and takes a leadership role in implementing measures such as allocating appropriate resources based on discussions at the meetings of the Management Committee and the board of directors, establishing a special department and manual for emergencies and enhancing security measures for our services including internet banking services.

However, these measures may not be sufficient, especially considering the increasing frequency and sophistication of recent cyberattacks. In addition, we may not be prepared to address all contingencies that could arise in the event of a major disruption of services. The failure to address such contingencies could harm our relationships with customers or adversely affect our provision of services to customers.

We handle personal information obtained from our individual and corporate customers in relation to our banking, securities, consumer lending, credit card, asset management and other businesses. The systems we have implemented to protect the confidentiality of personal information, including those designed to meet the strict requirements of the Act on the Protection of Personal Information, may not be effective in preventing disclosure of personal information by unauthorized access from a third party. Leakage of personal information could expose us to demands for compensation or lawsuits for ensuing economic losses or emotional distress, administrative actions or sanctions, additional expenses associated with making necessary changes to our systems and reputational harm. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Fraud, misconduct or other unlawful behavior by directors, officers and employees or third parties could subject us to losses and regulatory sanctions.

We are exposed to potential losses resulting from fraud, misconduct and other unlawful behavior by directors, officers and employees. Directors, officers and employees may bind us to transactions that exceed authorized limits or present unacceptable risks, hide from us and from our customers unauthorized activities, improperly use confidential information or otherwise abuse customer confidences. Third parties may engage in fraudulent activities, including fraudulent use of bank accounts or the use of false identities to open accounts for money laundering, tax evasion or other illegal purposes. Third parties could also use stolen or forged ATM cards, engage in credit card fraud or transfer funds illegally through online banking fraud, and we may be required to indemnify victims of such fraud for related losses. In the broad range of businesses in which we engage, fraud, misconduct and other unlawful behavior are difficult to prevent or detect. In addition, with or without actual fraud, misconduct and other unlawful behavior by directors, officers and employees, investigations, administrative actions or litigation could commence in relation to them. Furthermore, we may not be able to recover the losses caused by these activities, including possible deterioration of our reputation.

Transactions involving Iran and other countries and targets that are subject to U.S. or other financial sanctions may lead some potential customers and investors to avoid doing business with us or investing in our securities or may limit our business operations.

U.S. law generally prohibits or substantially restricts U.S. persons from doing business with countries, regions and persons that are the subject of sanctions administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”) or other agencies (“Restricted Targets” which include Iran, North Korea, Syria, Cuba and the Crimea region of Ukraine). Other applicable financial sanctions are administered by the Ministry of Finance of Japan and authorities in other countries.

We maintain a SMBC Group-wide policy designed to ensure compliance with U.S. and other applicable sanctions laws and regulations. Our non-U.S. offices engage in transactions relating to the Restricted Targets in compliance with applicable laws and regulations. These activities include or have included remittance of Japanese yen with respect to our customers' export or import transactions, maintenance of correspondent banking accounts with Iranian banks, including the Central Bank of Iran, and the payment of fees in Japanese yen to certain Iranian banks in connection with performance bonds issued in the past by SMBC through such Iranian banks related to our customers' projects in Iran. All such transactions were permissible under applicable laws and regulations at the times they were engaged in. SMBC has discontinued activities that have become impermissible as a result of changes in applicable laws and regulations. See "Item 4.B. Business Overview—Regulation in the United States—Laws Prohibiting Money Laundering and Terrorist Financing—U.S. Sanctions Targeting Iran Related Activities." The performance bonds expired and have not been renewed, but SMBC continues to be obligated to pay certain fees to the Iranian banks. In addition, we maintain a representative office in Iran that mainly performs an information-collecting function and liaises with non-designated Iranian financial institutions and non-SDN Iranian parties on behalf of our non-U.S. offices.

We do not believe that our operations relating to the Restricted Targets materially affect our business, financial condition or results of operations. A limited number of potential violations of U.S. economic sanctions by SMBC have been identified and voluntarily disclosed to OFAC. These transactions resulted from the inherent limitation on information about underlying transactions that can be obtained in the course of normal banking operations, inadvertent operational errors, or from the lack of familiarity of some personnel of SMBC with the requirements of the relevant regulations in the past. We have continuously strengthened our SMBC Group-wide OFAC and other financial sanctions compliance program in an effort to prevent the recurrence of such potential violations. We settled some of the voluntarily disclosed potential violations with OFAC and others were closed without a penalty. However, in light of the inadvertent nature of such potential violations and the degree to which our strengthened compliance program aims to mitigate the risk of potential violations, we do not believe that our settlement with OFAC, or any possible penalties that OFAC may impose with respect to the other potential violations that remain unsettled, will have a material impact on our reputation, financial condition or results of operations, or on the prices of our securities.

We are aware of initiatives by U.S. states and U.S. institutional investors, such as pension funds, to adopt laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities engaged in certain business with Iran and other Restricted Targets. It is possible that such laws and initiatives may result in our inability to enter into transactions with those entities that are subject to such prohibitions or to retain or acquire such entities as customers or investors in our securities.

In recent years, the U.S. government implemented a number of sanctions targeting non-U.S. persons for activities undertaken outside the United States ("secondary sanctions") that involve specific sanctions targets or certain activities including, among other things, certain transactions related to Iran's energy, petrochemical, shipping and shipbuilding sectors. Pursuant to the July 14, 2015 Joint Comprehensive Plan of Action ("JCPOA") agreed to by the five permanent members of the United Nations Security Council plus Germany and Iran, with the European Union, on January 16, 2016 ("Implementation Day"), the United States lifted U.S. nuclear-related secondary sanctions targeting Iran. Even after Implementation Day, certain secondary sanctions remained in effect, including those targeting significant transactions involving Iranian or Iran-related Specially Designated Nationals and Blocked Persons ("SDNs"). However, in 2018, the United States terminated its participation in the JCPOA. At November 5, 2018, following the conclusion of certain "wind-down" periods, all U.S. sanctions (both primary and secondary) that had been waived or lifted under the JCPOA have been re-imposed and are fully effective, and additional sanctions were put into place in 2019 and 2020. While the parties to the JCPOA have engaged in negotiations concerning a possible return to the agreement by the United States, as of June 29, 2021, all such sanctions remain in effect. In accordance with applicable laws and regulations, SMBC intends to provide certain services, including settlement services in connection with customers' trade transactions between Japan and Iran, to the extent that such activities are permissible under U.S. secondary sanctions. For more details of

relevant laws and regulations, see “Item 4.B. Business Overview—Regulations in the United States—Laws Prohibiting Money Laundering and Terrorist Financing.”

In addition, the U.S. government and authorities in other countries have enacted a series of Ukraine-related sanctions, including those under the U.S. Ukraine-Related Sanctions Regulations, the U.S. Ukraine Freedom Support Act of 2014, as amended, and “sectoral” sanctions on the financial, energy and defense sectors of the Russian economy.

The U.S. government has imposed targeted sanctions against individuals in China and Hong Kong pursuant to the Hong Kong Autonomy Act and Executive Order 13936, and has also imposed restrictions pursuant to Executive Order 13959, as amended, on transactions by U.S. persons in securities issued by or linked to certain Chinese companies determined to be associated with the Chinese military-industrial complex. Additionally, pursuant to the Global Magnitsky Human Rights Accountability Act and Executive Order 13818, the U.S. government has sanctioned a number of Chinese entities and individuals in connection with China’s actions with respect to the Xinjiang Uyghur Autonomous Region (“Xinjiang”), and published an advisory warning U.S. and non-U.S. companies with supply chain exposure to Xinjiang of reputational, economic, and legal risks of involvement with entities that engage in human rights abuses, including but not limited to forced labor in the manufacture of goods intended for domestic and international distribution. While the sanctions imposed under these authorities to date have not materially impacted our business, it is possible that future sanctions may have a more significant effect on us.

In February 2021, in response to the coup in Burma, President Biden issued Executive Order 14014, authorizing the imposition of targeted sanctions against individuals and entities in Burma. Pursuant to the order, OFAC has added to the SDN List a number of individuals involved in or supporting the coup, family members of such individuals, as well as a number of Burmese state-owned enterprises. If additional sanctions are imposed, it is possible that they could have an adverse impact on the operations of SMBC’s branch in Yangon or on our customers’ business involving entities in Burma.

The laws, regulations and sanctions referenced above or similar legislative or regulatory developments in the U.S., Japan or other jurisdictions where applicable, may further limit our business operations. If we were determined to have engaged in activities targeted by certain U.S. statutes, Executive Orders or regulations, we could lose our ability to open or maintain correspondent or payable-through accounts with U.S. financial institutions, among other potential sanctions. In addition, depending on sociopolitical developments, even though we take measures designed to ensure compliance with applicable laws and regulations, our reputation may suffer due to our association with the Restricted Targets. The above circumstances could have a significant adverse effect on our business or the prices of our securities.

Our business operations are exposed to risks of natural disasters, terrorism, pandemics and other calamities.

Our business operations are subject to the risks of natural disasters, terrorism, pandemics, blackouts, geopolitical incidents and other calamities, any of which could impair our business operations. Despite our preparation of operation manuals and other backup measures and procedures, such calamities could cause us to suspend operations and could adversely affect our businesses, financial condition and results of operations. Large-scale natural disasters such as the Great East Japan Earthquake of March 2011 and any subsequent collateral events, may adversely affect economic conditions in general, the financial conditions of our corporate and individual customers and stock market prices, or cause other negative effects, any or all of which could materially and adversely affect our financial condition and results of operations owing to, for example, an increase in the amount of credit-related costs or an increase in losses related to our holdings of securities.

We are exposed to risks associated with climate change, including the physical risks of climate change and risks from the transition to a decarbonized society.

Risks associated with climate change are subject to increasing societal, regulatory and political focus in Japan and globally. These risks include the physical risks of climate change and risks from the transition to a decarbonized society. In order to address these risks, we have begun efforts to strengthen our climate change scenario analysis and consider countermeasures at the management level. These proposed countermeasures are reported to the Management Committee and Risk Committee and reviewed by outside directors on the board of directors. However, these efforts may not be successful, and even if they are undertaken successfully, they may not be sufficient. In such a case, they may lead to an adverse effect on our financial condition and results of operations.

Physical risks of climate change arise from a number of factors and relate to specific weather events including large-scale typhoons. Despite our preparation of operation manuals and other backup measures and procedures, a large-scale disaster due to extreme weather conditions damages our employees and branches, interfering with our business continuity. Large-scale disasters could also adversely affect the financial conditions of our customers or the value of properties pledged as collateral, resulting in an increase in our credit costs. In addition, our operating income and values of assets held may decrease due to instability in financial markets, which could also adversely affect our ability to raise financing.

There are also risks from the transition to a decarbonized society. For example, due to changes in climate change policies, tightening of environmental regulations and technological innovation to address climate change, our customers in sectors that are deemed to contribute significantly to climate change may experience declines in the value of their assets (i.e., asset stranding). In addition, our customers' financial condition and performance could suffer from increasing costs associated with climate change response measures, which could result in an increase in our credit costs.

Moreover, amid growing interest in initiatives related to the Task Force on Climate-related Financial Disclosures ("TCFD") and Sustainable Development Goals ("SDGs"), if our efforts and disclosure regarding corporate social responsibility are viewed as insufficient, we could suffer from increased social criticism, which could adversely affect the market price of our shares and/or the environment for our capital raising activities. For further information, see "Item 4.B. Business Overview—Sustainability Management" and "Item 4.B. Business Overview—Management of Climate-related Risk."

Our risk management policies and procedures may not adequately address unidentified or unanticipated risks.

Our business operations are subject to various laws and regulations across the jurisdictions in which we do business. In addition, we face significant regulatory scrutiny and expectations with respect to, among other things, governance, infrastructure, data and risk management practices and controls.

We have implemented or enhanced SMBC Group-wide risk management programs and program oversight, including compliance risk management. We have also devoted significant resources to strengthening our risk management framework and the policies and procedures thereunder, and expect to continue doing so in the future. Nevertheless, particularly in light of the continuing evolution of our operations and expansion into new areas, our policies and procedures designed to identify, monitor and manage risks may not be fully effective or sufficient.

Furthermore, management of risks requires, especially for compliance risk management, among other things, policies and procedures to properly record and verify large numbers of transactions and events, but deficiencies in the quality or effectiveness of our data gathering, analysis and validation processes could result in ineffective risk management practices and inaccurate reporting. Some of our methods of managing compliance risks are based upon our use of observed historical market behavior and thus may not accurately predict future risks.

Ineffectiveness or insufficiency of our risk management may result in violations of laws including the Japanese antitrust and fair trade laws by us or by SMBC and/or failure to comply with regulatory and supervisory expectations with respect to our compliance function. As a consequence of such violations or failures, we could be subject to regulatory investigations, enforcement actions and legal proceedings, any of which could result in substantial penalties, fines or other sanctions and damage to our reputation.

Our business could be adversely affected by litigation and regulatory proceedings globally.

We conduct business in many locations in and outside of Japan. We face the risk of litigation and regulatory proceedings in connection with our operations. For example, if we engage in activities targeted by certain U.S. sanctions, this could result in the imposition of monetary penalties or other restrictions by the U.S. government against us. Lawsuits and regulatory actions may result in penalties or settlements of very large indeterminate amounts or limit our operations, and costs to defend either could be substantial. Moreover, SMBC and one of its subsidiaries contribute to financial benchmarks such as the Tokyo Interbank Offered Rate (“TIBOR”) and the LIBOR for certain specific currencies. These benchmarks are widely referenced in jurisdictions in which we operate and do not operate. We face or may face some investigations, litigation and regulatory proceedings, and an adverse regulatory decision, judgment or ruling, including in jurisdictions we do not operate in, could have a material adverse effect on our business, results of operations and financial condition.

Damage to our reputation may have an adverse effect on our business and results of operations.

Maintaining our reputation is vital to our ability to attract and maintain customers, investors and employees. Our reputation could be damaged through a variety of circumstances, including, among others, fraud or other misconduct or unlawful behavior by directors, officers or employees, systems failures, compliance failures, investigations, adverse litigation judgments or regulatory decisions, or unfavorable outcomes of governmental inspections. Adverse publicity or negative information regarding Japan’s financial services industry or us that may be published or broadcast by the media or posted on social media, non-mainstream news services or other parts of the internet, even if inaccurate or not applicable to us, may have a materially adverse effect on our brand image and undermine depositor confidence, thereby affecting our businesses and results of operations. For example, actual or rumored investigations of us or our directors, officers or employees, or actual or rumored litigation or regulatory proceedings, or media coverage of the same, may have a material adverse effect on our reputation and could negatively affect the prices of our securities. Actions by the financial services industry generally or by certain members in the industry can also adversely affect customers’ confidence on the financial services industry. In addition, investors and other stakeholders have placed emphasis and focus on environmental and social issues, including climate change due to global warming and human rights violations in supply chains. Our reputation may be adversely impacted by negative perceptions of us and our operations in light of these environmental and social concerns, or if we are unable to meet stakeholder expectations in our efforts to address them. Such reputational harm could also lead to a decreased customer base, reduced revenues and higher operating costs.

Our failure to establish, maintain and apply adequate internal controls over financial reporting could negatively impact investor confidence in the reliability of our financial statements.

In order to operate as a global financial institution, it is essential for us to have effective internal controls, corporate compliance functions, and accounting systems to manage our assets and operations.

As a New York Stock Exchange (“NYSE”)-listed company and a registrant with the U.S. Securities and Exchange Commission (“SEC”), under section 404 of the U.S. Sarbanes-Oxley Act of 2002 our management is required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal controls are effective. Our independent registered public accounting firm has to conduct an audit to evaluate and then render an opinion on the effectiveness of our internal control over financial reporting. The Financial Instruments and Exchange Act of Japan (“FIEA”) also requires companies listed on a Japanese stock

exchange, such as us, to file, together with their annual securities reports required by the FIEA, audited internal control reports assessing the effectiveness of their internal controls over financial reporting.

We have established internal controls over financial reporting, as well as rules for evaluating those controls, in order to provide reasonable assurance of the reliability of our financial reporting and the preparation of financial statements. However, these controls may not prevent or detect errors. Any evaluation of effectiveness of future periods is subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. To the extent any issues are identified through the foregoing processes, there can be no assurance that we will be able to resolve them in a timely manner or at all. If this occurs, our reputation may be damaged, which could lead to a decline in investor confidence in us.

Other Risks

It may not be possible for investors to effect service of process within the United States upon us or our directors or senior management, or to enforce against us or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws.

We are a joint stock corporation incorporated under the laws of Japan. Almost all of our directors and senior management reside outside the United States. Many of our assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon us or these persons or to enforce, against us or these persons, judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal or state securities laws. We believe that there is doubt as to the enforceability in Japan, in original actions or in actions to enforce judgments of U.S. courts, of claims predicated solely upon the U.S. federal or state securities laws mainly because the Civil Execution Act of Japan requires Japanese courts to deny requests for the enforcement of judgments of foreign courts if foreign judgments fail to satisfy the requirements prescribed by the Civil Execution Act, including requirements that:

- the jurisdiction of the foreign court be recognized under laws, regulations, treaties or conventions;
- proper service of process be made on relevant defendants, or relevant defendants be given appropriate protection if such service is not received;
- the judgment and proceedings of the foreign court not be repugnant to public policy as applied in Japan; and
- there exist reciprocity as to the recognition by a court of the relevant foreign jurisdiction of a final judgment of a Japanese court.

Judgments obtained in U.S. courts, predicated upon the civil liability provisions of the U.S. federal or state securities laws, may not satisfy these requirements.

As a holder of our American Depositary Shares (“ADSs”), you have fewer rights than a shareholder of record in our shareholder register because you must act through the depositary to exercise these rights.

The rights of our shareholders under Japanese law to take actions such as voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and exercising appraisal rights are available only to our shareholders of record. Because the depositary, through its custodian, is the record holder of the shares underlying the ADSs, only the depositary can exercise shareholder rights relating to the deposited shares. ADS holders will not be able to directly bring a derivative action, examine our accounting books and records or exercise appraisal rights.

Pursuant to the deposit agreement among us, the depositary and the holders and beneficial owners of ADSs, the depositary will endeavor to exercise voting and other rights associated with shares underlying ADSs in

accordance with instructions given by ADS holders, and the depositary will also pay to ADS holders dividends and distributions collected from us. However, the depositary is permitted under the deposit agreement to exercise reasonable discretion in carrying out those instructions or in making distributions and is not liable for failure to carry out instructions or make distributions as long as it acts in good faith. Therefore, ADS holders may not be able to exercise voting or other rights associated with the shares underlying ADSs in the manner that they intend or may lose some or all of the value of dividends or distributions collected from us. Moreover, the deposit agreement may be amended or terminated by us and the depositary without any reason, or consent from or notice to ADS holders. As a result, ADS holders may not be able to exercise rights in connection with the deposited shares exercised in the way they wish or at all.

ADS holders are dependent on the depositary for certain communications from us. We send to the depositary most of our communications to ADS holders in Japanese. ADS holders may not receive all of our communications in the same manner as or on an equal basis with shareholders of record in our shareholder register.

Item 4. Information on the Company

4.A. HISTORY AND DEVELOPMENT OF THE COMPANY

Legal and Commercial Name

Our legal name is Sumitomo Mitsui Financial Group, Inc. Our commercial name is Sumitomo Mitsui Financial Group.

Date of Incorporation

We were established in December 2002.

Domicile and Legal Form

We are a joint stock corporation incorporated with limited liability under the laws of Japan. Our address is: Sumitomo Mitsui Financial Group, Inc., 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan. Our telephone number is: +81-3-3282-8111.

History and Development

We were established in December 2002 as a holding company for the SMBC Group through a statutory share transfer (*kabushiki-iten*) of all of the outstanding equity securities of the former SMBC in exchange for our newly issued securities. Upon our formation and completion of the statutory share transfer, the former SMBC became our direct, wholly owned subsidiary. SMBC was established in March 2003 through the merger of the former SMBC with Wakashio Bank, which was established in 1996 as a subsidiary of Sakura Bank. The former SMBC was established in April 2001 through the merger of Sumitomo Bank and Sakura Bank, which was established through the merger of Taiyo Kobe Bank and Mitsui Bank in 1990. Mitsui and Sumitomo started their banking businesses in 1876 and 1895, respectively. The origins of both banking businesses can be traced back to the seventeenth century.

Information Concerning the Principal Capital Expenditures and Divestitures

In November 2018, based on the agreement concerning the reorganization of our joint leasing partnership announced in March 2018, we transferred a portion of our shares of Sumitomo Mitsui Finance and Leasing Company, Limited (“SMFL”), a company jointly owned by us and Sumitomo Corporation (“Sumitomo Corp”), to SMFL. Upon the share transfer, our equity interest in SMFL decreased from 60% to 50% while Sumitomo

Corp's equity interest increased from 40% to 50%. As a result, SMFL ceased to be our consolidated subsidiary and became our joint venture, and its consolidated subsidiaries SMBC Aviation Capital Limited and SMFL Capital Company, Limited ("SMFL Capital Company") became the SMBC Group's equity-method investees. Subsequently, in January 2019, SMFL Capital Company was merged into SMFL.

Public Takeover Offers

Not applicable.

Available Information

The SEC maintains a website at <https://www.sec.gov> that contains reports and proxy information regarding issuers that file electronically with the SEC. Some of the information may also be found on our website at <https://www.smfg.co.jp/english/>.

4.B. BUSINESS OVERVIEW

Overview

We are the holding company for the SMBC Group. The SMBC Group is comprised of SMBC, SMBC Trust Bank Ltd. ("SMBC Trust Bank"), SMFL, SMBC Nikko Securities Inc. ("SMBC Nikko Securities"), Sumitomo Mitsui Card Company, Limited ("Sumitomo Mitsui Card"), SMBC Finance Service Co., Ltd. ("SMBC Finance Service"), SMBC Consumer Finance Co., Ltd. ("SMBC Consumer Finance"), The Japan Research Institute, Limited ("The Japan Research Institute"), Sumitomo Mitsui DS Asset Management Company, Limited ("SMDAM") and other subsidiaries and affiliates. We are one of the three largest financial groups in Japan and offer a diverse range of financial services, including commercial banking, leasing, securities, consumer finance and other services. See "Item 4.C. Organizational Structure."

In March 2018, with the aim of enhancing our corporate group's brand value, we announced that "SMBC" would be designated as our corporate group's master brand from April 2018. In line with this change, our corporate group, which was formerly referred to as the "Sumitomo Mitsui Financial Group" or its acronym "SMFG," is now referred to as the "SMBC Group." "Sumitomo Mitsui Financial Group" continues to be used as the holding company's name.

Our Mission, Vision and Values

Our "Mission" is a universal guide for our group management and positioned as the anchor for our corporate action. We also set forth our "Vision" of the mid to long term goals and "Five Values" as the core values to be shared by all executives and employees.

On April 1, 2020, we made a revision of our Mission to add "We contribute to a sustainable society by addressing environmental and social issues" so that it reflects our commitment to fulfilling our social responsibilities by further enhancing our various initiatives, not only limited to financial services.

After the revision, our Mission, Vision and Five Values are as follows.

Mission

- We grow and prosper together with our customers, by providing services of greater value to them.
- We aim to maximize our shareholders' value through the continuous growth of our business.

- We create a work environment that encourages and rewards diligent and highly-motivated employees.
- We contribute to a sustainable society by addressing environmental and social issues.

Vision

- A trusted global solution provider committed to the growth of our customers and advancement of society.

Five Values

- Integrity: As a professional, always act with sincerity and a high ethical standard.
- Customer First: Always look at it from the customer's point of view, and provide value based on their individual needs.
- Proactive & Innovative: Embrace new ideas and perspectives, don't be deterred by failure.
- Speed & Quality: Differentiate ourselves through the speed and quality of our decision-making and service delivery.
- Team "SMBC Group": Respect and leverage the knowledge and diverse talent of our global organization, as a team.

Sustainability Management

The world is currently facing a range of environmental and social issues, for example, climate change due to global warming and human rights violations in supply chains. In response to these environmental and social challenges, the public and private sectors have implemented various initiatives aimed at realizing a sustainable society, with growing interest in the SDGs set by the United Nations General Assembly in 2015 and environment, social, and governance ("ESG") investing.

We define sustainability as "creating a society in which today's generation can enjoy economic prosperity and well-being, and pass it on to future generations," and are promoting sustainability management under the Corporate Sustainability Committee, which is chaired by the Group Chief Executive Officer. In addition, in April 2021, we established the Chief Sustainability Officer ("CSuO") position as part of the group CxO framework to oversee and promote the SMBC Group's sustainability-related initiatives.

In September 2019, we signed the Principles for Responsible Banking, which were proposed by the United Nations Environment Programme Finance Initiative as a framework for the sustainable banking system of the future.

In April 2020, we established the "SMBC Group Statement on Sustainability," as the basic principles upon which our efforts to realize a sustainable society will be based. To realize sustainability as well as to accelerate sustainability management, we also established "SMBC Group GREEN×GLOBE 2030," a ten-year plan toward 2030. It includes our external and internal initiatives such as promotion of finance contributing to the realization of sustainability and enhancement of employees' awareness of sustainability. The key pillars of "SMBC Group GREEN×GLOBE 2030" are as follows:

- Sustainability initiatives that are directed towards our customers/society;
- Internal initiatives that contribute to sustainability management;
- Enhance engagement with investors.

Based on the statement and plan, we are dedicated to our priority issues, focusing especially on the “Environment” as a corporate citizen that protects the green earth, as well as on the “Community” and the “Next generation” as a member of society.

Environment

The global environment is an important asset that is shared by all of humanity, regardless of region or age, and a healthy environment is prerequisite to the realization of a sustainable society. We are earnestly engaging with climate change and various other environmental issues. By helping resolve such issues through our business, we aim to ensure that we can pass on a healthy environment to future generations.

The imperative to address climate change concerns continues to grow especially since the adoption of the Paris Agreement. In October 2020, the Government of Japan announced a net-zero emissions goal for 2050, committing to achieving a transition toward a decarbonized society. Given these circumstances, we strive to achieve greenhouse gas emissions reductions in line with the goals of the Paris Agreement and to support the activities of our clients contributing to the transition toward and realization of a decarbonized society.

On May 12, 2021, we announced “Reinforcing Efforts against Climate Change.” In the reinforced efforts, climate change is recognized as a “Major Challenge” that spans the key pillars of “SMBC Group GREEN×GLOBE 2030.” Also, in order to effectively pursue efforts to reduce greenhouse gas emissions, we aim to establish and publicly announce a detailed action plan.

In addition, we are disclosing our financing policies for businesses and sectors listed below, with a high risk of significantly impacting the environment or society. The policies are introduced in SMBC, SMBC Trust Bank, SMFL and SMBC Nikko Securities. We continue to engage with customers and various other stakeholders while constantly considering the need to revise our financing policies as necessitated by the operating environment. In May 2021, we revised our policy regarding coal-fired power plants so that finance for newly planned coal-fired power plants and the expansion of existing plants is not provided, effective from June 1, 2021.

- Coal-fired power generation
- Hydroelectric power generation
- Oil and gas
- Coal mining
- Tobacco manufacturing
- Nature conservation areas
- Palm oil plantation development
- Deforestation
- Manufacturing of cluster bombs and other weapons of destruction

Furthermore, we have been supporting the Task Force on Climate-related Financial Disclosures (“TCFD”) since December 2017, and we are performing climate change scenario analyses and working together with customers to address the issues caused by climate change and help realize a decarbonized society. In August 2020, we issued our first “SMBC Group TCFD Report” which summarizes our approach on climate change.

Community

We understand that a community where people in our society feel the connection, support and safety among each other is the essence of human life and economic activities. As a responsible member of the community, we continue to make contributions to the society.

For example, we established the “GREEN×GLOBE Partners,” a community platform that aims to solve environmental and social issues. Through the platform, we work with customers to realize a sustainable society by hosting seminars and facilitating the exchange of information concerning the environment and society, assisting participants in connecting with each other, and initiating projects that contribute to solving social issues.

Next Generation

Ensuring the sustainability of our society and economy amid the changing social environment will require the cultivation of human resources who can support society with the necessary knowledge and technologies. We are promoting sustainability by fostering the next-generation human resources and industries that will shape the society of the future together with us.

For example, we provide financial literacy education to a wide range of age groups, from children to adults, on topics such as managing household finances and loans and credit as a way to provide accurate knowledge about financial matters.

Management of Climate-related Risk

Climate-related risk refers to the risk of loss arising from climate change and is primarily divided into physical risks and transition risks. Physical risks consider how acute meteorological phenomenon and chronic climate change can directly damage physical assets or otherwise impact their value or productivity. The progress of global warming may lead to increase in acute natural disasters such as typhoons and floods, and chronic climate changes such as an increase in precipitation due to a rise in average temperature. Accordingly, there are risks that we become unable to continue our business operations due to a disaster that strikes our head office or branch offices and a risk of increased costs due to disaster countermeasures and damage restoration. In addition, there are risks such as an increase in our credit costs and a decrease in deposits associated with deterioration in customer performance and collateral damage due to natural disasters.

Transition risks consider how strengthening of policies and regulations and changes in technologies and markets can lead to changes in the value of assets, commodities and companies. The transition to a decarbonized society is resulting in a push for tighter regulations at the national and international levels, including stricter carbon emission targets and carbon tax schemes, and may also promote transformation in the industrial structure due to the introduction of new technologies and energy sources and changes in consumer preferences. An increase in carbon emission control costs and changes in the supply and demand balance for products and services cause deterioration in customer performance due to revenue decline and impairment of existing assets for some customers, and as a result, there is a risk of an increase in our credit costs. Furthermore, it may be necessary to review our business strategies such as our financing policy on sectors.

In addition, companies are required to take measures such as business model transformation and carbon emission reduction that are appropriate for a decarbonized society. Growing demand for disclosure from stakeholders and efforts to address climate change are becoming one of the criteria for evaluation of companies. Lack of efforts to address climate change and delays in responding to demand for information disclosure may lead to deterioration of our reputation, and, as a result, there is a risk of deterioration in our funding environment.

With the increased importance and focus on climate-related risk, we have continued to expand our governance of climate-related risk and integrate climate considerations into the priorities of our board of directors and senior management. For example, regular reports regarding our sustainability-related efforts, including climate-related efforts, are submitted to the SMBC Group Management Committee, Corporate Sustainability Committee, board of directors, and Risk Management Committee. Moreover, the CSuO position was established in April 2021 as part of the group CxO framework to oversee and promote all our sustainability-related initiatives.

In addition, we have identified climate change risk as one of our Top Risks, which are risks that threaten to significantly impact management, and conducted scenario analyses of transition and physical risks while also introducing policies on businesses and sectors that are likely to have a significant impact on climate change.

We will continue to enhance the policies, expand the scope of its scenario analysis, and monitor other measures to strengthen our risk management framework. At the same time, we will reduce risks by supporting customers attempting to transition toward a decarbonized society. Additional information about our management of climate-related risk is available on our website (the contents of which are not incorporated by reference in this annual report).

Description of Operations and Principal Activities

Wholesale Business Unit

The Wholesale Business Unit provides comprehensive solutions primarily for corporate clients in Japan that respond to wide-ranging client needs in relation to financing, investment management, risk hedging, settlement, M&A and other advisory services, digital services and leasing. This business unit mainly consists of the wholesale businesses of SMBC, SMBC Trust Bank, SMFL, SMBC Nikko Securities, Sumitomo Mitsui Card and SMBC Finance Service, which changed its corporate name from Cedyna Financial Corporation upon merger with former SMBC Finance Service Co., Ltd. on July 1, 2020.

Financing and Investment Management

The Wholesale Business Unit provides financing services that include bilateral loans, syndicated loans, commitment lines, structured finance, project finance, nonrecourse loans to and investments in corporate customers directly or through private equity funds, securitization, debt and equity underwriting and corporate bond trustee and registrar services.

The Wholesale Business Unit also provides investment management services such as deposits and investment trusts. In addition, this business unit offers a wide range of securities products including structured bonds and subordinated bonds to corporate clients through SMBC and SMBC Nikko Securities.

Risk Hedging

The Wholesale Business Unit provides various risk hedging services including forward exchange contracts and derivatives to meet our customers' demand for hedging risks such as interest rate risk or foreign exchange rate risk in their transactions. This business unit also provides guarantee services including stand-by credit, performance bond and credit guarantee services.

Settlement

The Wholesale Business Unit offers a variety of products and services including remittance, cash management, trade finance for export and import activities and supply chain finance to optimize customers' cash flows and business flows.

M&A and Other Advisory Services

The Wholesale Business Unit responds to customers' diversifying business strategies and management issues by providing solutions custom-tailored to their business characteristics and growth stage.

The Wholesale Business Unit caters to large corporate clients in their global business activities by leveraging the collective strength of SMBC Group companies. For example, SMBC and SMBC Nikko Securities support the entire deal process of cross-border M&A projects on a collaborative basis.

For mid-sized companies and small and medium-sized enterprises, the Wholesale Business Unit provides a wide range of financial services including direct investment, LBO financing, debt restructuring, support for initial public offering and M&A advisory to enhance our customers' corporate value, working in conjunction with private equity funds as necessary. In real estate and related businesses, this business unit provides a full lineup of services including brokerage and asset management by SMBC Trust Bank and funding support mainly by SMBC.

For start-up companies, the Wholesale Business Unit offers support in accordance with clients' stage of growth such as management consulting, venture investment, financing and support for initial public offerings.

For clients considering business overseas, the Wholesale Business Unit provides tailored information on local laws and regulations and on Japanese companies already present in target countries. For clients who already have business overseas, each SMBC Group company collaborates to provide high quality solutions in areas such as business expansion and reorganization.

Digital Services

The Wholesale Business Unit supports customers' digitalization and new business creation efforts. For example, this business unit provides convenient digital services by enhancing collaboration between digital-related services by the SMBC Group companies, such as robotic process automation and electronic contract services. In addition, this business unit launched a corporate digital platform which delivers a diverse range of financial and non-financial services including those of external partners.

Leasing

The Wholesale Business Unit provides a wide range of leasing services including equipment, operating and leveraged leasing mainly through SMFL, one of the major leasing companies in Japan. We have a 50% equity interest in SMFL while the remaining 50% is held by Sumitomo Corp, a non-affiliate, which makes SMFL our joint venture with Sumitomo Corp.

SMFL had previously been our subsidiary, in which we held a 60% equity interest. In November 2018, based on the agreement concerning the reorganization of our joint leasing partnership announced in March 2018, we transferred a portion of our shares of SMFL, a company jointly owned by us and Sumitomo Corp, to SMFL. Upon the share transfer, our equity interest in SMFL decreased from 60% to 50% while Sumitomo Corp's equity interest increased from 40% to 50%. As a result, SMFL ceased to be our consolidated subsidiary and became our joint venture, and its consolidated subsidiaries SMBC Aviation Capital Limited, which belongs to the Global Business Unit, and SMFL Capital Company became our equity-method investees. Subsequently, in January 2019, SMFL Capital Company was merged into SMFL.

Retail Business Unit

The Retail Business Unit provides financial services to consumers residing in Japan and mainly consists of the retail businesses of SMBC, SMBC Trust Bank and SMBC Nikko Securities, together with three consumer finance companies, Sumitomo Mitsui Card, SMBC Finance Service and SMBC Consumer Finance. This business unit offers a wide range of products and services for consumers, including wealth management services, settlement services, consumer finance and housing loans, in order to address the financial needs of all individual customers.

Wealth Management

The Retail Business Unit offers a variety of wealth management services to high-net-worth customers as well as customers with needs for asset building in the mass affluent and mass segments. The financial products and services that this business unit offers include deposit products such as time deposits and foreign currency deposits, investment trusts, equities, bonds, insurance products and trust services.

In order to meet high-net-worth customers' diverse needs for asset management, including asset succession, SMBC, SMBC Trust Bank and SMBC Nikko Securities are promoting greater collaboration by leveraging SMBC's broad client base and high advisory capabilities of SMBC Trust Bank and SMBC Nikko Securities. In addition, we are appointing dedicated staff to high-net-worth customers to give them access to outstanding advice and service.

Settlement

The Retail Business Unit conducts credit card, installment and solution businesses and provides customers with secure and convenient payment methods.

In the credit card business, Sumitomo Mitsui Card and SMBC Finance Service conduct a comprehensive credit card business with a strong brand, and offer a variety of settlement and finance services to meet diverse customer needs.

Sumitomo Mitsui Card is a leading company in Japan's credit card industry, having introduced the Visa brand into the Japanese market, and issues a variety of affiliated credit cards in cooperation with partners including, but not limited to, railway companies, airline companies, department stores and online retailers to satisfy both these partners' and cardholders' needs.

SMBC Finance Service conducts credit card, installment (such as shopping credit and automobile loan) and solution (such as collection outsourcing and factoring) businesses.

We, Sumitomo Mitsui Card, SMBC and NTT DoCoMo, Inc. ("NTT DoCoMo") formed a strategic business and capital alliance in credit payment services in 2005. In September 2018, we entered into an agreement for new business cooperation with NTT DoCoMo to further expand credit payment services and explore new ways of collaboration in areas such as FinTech. Based on this agreement, we acquired an additional 34% of the outstanding shares of Sumitomo Mitsui Card from NTT DoCoMo and, as a result, our equity interest in Sumitomo Mitsui Card increased from 66% to 100% on April 1, 2019. Simultaneously, we made SMBC Finance Service, formerly known as Cedyna, a subsidiary of Sumitomo Mitsui Card, in order to provide comprehensive solutions that benefit both the business operators and end-users. SMBC, Sumitomo Mitsui Card and SMBC Finance Service are leveraging their strengths to address cashless payment needs and integrate marketing and business operations.

Sumitomo Mitsui Card, together with GMO Payment Gateway, Inc. and Visa Worldwide Japan, Co., Ltd., has built a next-generation payment platform for business operators, and commenced full operations in October 2019. It provides a one-stop solution combining payment systems of real and online stores, and also integrates the payment center that processes the payment data and the network that delivers the processed payment data to each business operator.

Consumer Finance

The Retail Business Unit offers a variety of consumer loan products including unsecured card loan products mainly through SMBC and SMBC Consumer Finance to meet the wide range of individual customers' demand for funds. Also, SMBC Consumer Finance guarantees certain consumer loans made by SMBC and other financial institutions.

In addition, SMBC and SMBC Mobit Co., LTD., ("SMBC Mobit") which is a wholly owned subsidiary of SMBC Consumer Finance engaged in the card loan business, are strengthening their partnership. For example, a loan card from SMBC Mobit can be applied for or received through automated contract machines in SMBC branch offices.

Furthermore, SMM Auto Finance, Inc. (“SMMAF”), which became a subsidiary of SMBC in April 2008, is a provider of automobile sales financing services. However, in July 2019, SMBC sold its shares of SMMAF and as a result, SMMAF is no longer our subsidiary.

Housing Loans

The Retail Business Unit provides housing loans with a variety of terms and interest rates, including fixed-rate loans with 2- to 35-year terms, to meet diversified customer needs. As an example of a product addressing a specific customer need, this business unit offers a housing loan combined with an insurance policy that covers the repayment of the outstanding loan balance in the event the borrower is diagnosed with certain diseases. Housing loans are principally secured by collateral or supported by guarantees.

The Retail Business Unit operations are mainly conducted through a large and well developed branch network. We had a domestic network consisting of 452 SMBC branch offices, 46 SMBC Trust Bank branch offices, 129 SMBC Nikko Securities branch offices and 825 SMBC Consumer Finance staffed and unstaffed branch offices at March 31, 2021. Some SMBC branches provide financial consultation services for asset management and housing loans during extended hours, including weekday evenings, weekends and national holidays, for the convenience of individual customers.

The Retail Business Unit also operates an extensive network of ATMs in Japan. SMBC offers its customers’ access to ATMs, some of which are SMBC’s ATMs and the majority of which are ATMs made available through arrangements with other ATM providers such as convenience store chains. At March 31, 2021, the number of SMBC’s ATMs was 4,558. In addition, SMBC Consumer Finance offers its customers’ access to 1,692 automatic contract machines and ATMs at March 31, 2021.

This business unit also offers internet banking services for consumers. At March 31, 2021, SMBC’s internet banking services had approximately 18 million registered users. The users are able to transfer funds, perform balance inquiries, make time deposits and foreign currency deposits, and buy and sell investment trusts over the internet with smartphones and computers.

Moreover, in credit card business, there are approximately 50 million card holders of Sumitomo Mitsui Card and SMBC Finance Service at March 31, 2021.

The Retail Business Unit is implementing an initiative to further enhance its simple and efficient administrative operations by digitalization of administrative processes and transfer of administrative functions of branches to administration centers, and over-the-counter consultation functions through the combination of full-service branches and branches specialized in individual consultation. With this initiative, we aim to reduce costs while providing customers with convenient and high quality services.

The Retail Business Unit promotes digitalization in a variety of areas, including promotion of use of debit cards and credit cards that address cashless payment needs, a smartphone application that allows our customers to easily and seamlessly view information on transactions with SMBC and Sumitomo Mitsui Card, and an automated chat service utilizing artificial intelligence.

Global Business Unit

The Global Business Unit, which was renamed from the International Business Unit on April 1, 2020, supports the global businesses of a diverse range of clients, such as Japanese companies operating overseas, non-Japanese companies, financial institutions and government agencies and public corporations of various countries. This business unit mainly consists of the international businesses of SMBC, SMBC Trust Bank, SMFL, SMBC Nikko Securities and their foreign subsidiaries. At March 31, 2021, we have global network of 148 overseas offices.

Banking Business

The Global Business Unit provides a variety of tailored products and services to meet customer and market requirements, including loans, deposits, clearing services, trade finance, project finance, loan syndication, derivatives and global cash management services.

In January 2019, PT Bank Tabungan Pensiunan Nasional Tbk, previously an associate bank of SMBC in Indonesia, became our consolidated subsidiary upon the purchase of additional shares by SMBC. Subsequently, in February 2019, PT Bank Tabungan Pensiunan Nasional Tbk merged with PT Bank Sumitomo Mitsui Indonesia, a consolidated subsidiary of SMBC also in Indonesia, and the merged company changed its corporate name to PT Bank BTPN Tbk. This merger was made for the purpose of operating a full-fledged commercial banking business in Indonesia that serves both the wholesale and retail segments and further developing our franchise to offer broader financial services to our customers.

In April 2019, we commenced full operations of SMBC Bank EU AG, a banking subsidiary established in Germany, to retain our ability to respond flexibly to changes in the political and economic environment in Europe, including the United Kingdom's exit from the European Union. Through SMBC Bank EU AG and our other existing networks, we continue to provide clients with sustained and stable financial services while expanding the range of our services.

SMBC seeks to meet customers' needs globally, together with the network of SMBC's foreign banking subsidiaries such as SMBC Bank International plc, which changed its corporate name from Sumitomo Mitsui Banking Corporation Europe Limited in October 2020, SMBC Bank EU AG, Sumitomo Mitsui Banking Corporation (China) Limited, PT Bank BTPN Tbk and foreign banking associates, including The Bank of East Asia, Limited, ACLEDA Bank Plc. and Vietnam Export Import Commercial Joint Stock Bank.

Securities Business

In overseas markets, the Global Business Unit provides services such as underwriting activities, Japanese stock brokerage and M&A advisory through SMBC Nikko Capital Markets Limited and SMBC Nikko Securities America, Inc., which are subsidiaries of SMBC in the United Kingdom and the United States respectively. In addition, this business unit provides services such as underwriting activities and Japanese stock brokerage through SMBC Nikko Capital Markets Europe GmbH, Japanese stock brokerage and M&A advisory services through SMBC Nikko Securities (Hong Kong) Limited and SMBC Nikko Securities (Singapore) Pte. Ltd., and M&A advisory related services through SMBC Nikko Investment Consulting (Shanghai) Limited. Together with other SMBC Nikko Securities' subsidiaries and affiliates, this business unit offers high quality financial services to clients on a global basis.

Leasing Business

The Global Business Unit provides a variety of leasing services related to the construction machinery, transportation equipment, industrial machinery, medical equipment and other categories mainly through SMFL's offices overseas. This business unit also offers aircraft leasing services through SMBC Aviation Capital Limited, a subsidiary of SMFL, and railcar leasing services through SMBC Rail Services LLC, which is a railcar operating leasing company and a subsidiary of SMBC Leasing and Finance, Inc.

For detailed information on the reorganization of our joint leasing partnership, see "Wholesale Business Unit—Leasing" in this section.

Global Markets Business Unit

The Global Markets Business Unit offers solutions through foreign exchange products, derivatives, bonds, stocks and other marketable financial products and also undertakes asset liability management operations, which help comprehensively control balance sheet liquidity risks and interest rate risks. This business unit consists of the Treasury Unit of SMBC and the global markets businesses of SMBC Nikko Securities.

Asset Liability Management and Portfolio Management

The Global Markets Business Unit maintains high profitability and stability by establishing a portfolio with highly liquid products and focusing on products for which investment appetite is high, and by carrying out portfolio rebalancing in a nimble and dynamic manner in response to changes in market conditions.

Foreign Currency Funding

To support our overseas businesses, this business unit strives to improve the stability of our foreign currency funding by diversifying funding methods and expanding the scope of investors we target. At the same time, this business unit keeps appropriate control of the balance sheet in response to international financial regulations.

Sales and Trading

The Global Markets Business Unit provides detailed information on market conditions and economic trends to address customers' hedging and asset management needs, expands its product lineup in foreign exchange, derivative, bond, stock and other products and supplies timely solutions to increase customer satisfaction and SMBC Group earnings.

In addition, this business unit encourages the use of electronic transactions such as its electronic foreign exchange execution platform available via the internet to respond to the needs of a wider range of customers.

Other Major Business

System Development, Data Processing, Management Consulting and Economic Research

We provide financial consultation services relating to management reforms, IT, the planning and development of strategic information systems and outsourcing. We also conduct diverse activities including domestic and international economic research and analysis, policy recommendations and business incubation. We offer these services mainly through The Japan Research Institute.

Asset Management

We engage in the investment advisory and investment trust management businesses.

In April 2019, Sumitomo Mitsui Asset Management (“SMAM”), our subsidiary, merged with Daiwa SB Investments Ltd. (“DSBI”), previously our associate, to form SMDAM. Our equity interest in SMDAM resulting from the merger is 50.1%, and as such, SMDAM is our subsidiary. Through the merger, we aim to establish an asset management company that combines the strengths and expertise of SMAM and DSBI, and offers high quality investment management performance and services in order to properly address client needs.

Others

Kansai Mirai Financial Group, Inc. (“Kansai Mirai Financial Group”), which became our associate in April 2018, engages in commercial banking business in Kansai area. However, in December 2020, we sold a part of our shares of Kansai Mirai Financial Group and as a result, Kansai Mirai Financial Group is no longer our associate.

Management Policies

On May 15, 2020, we announced our new medium-term management plan for the three years through March 2023. In the medium-term management plan, we aim to pursue a major reform of our business model and explore new businesses to overcome the dynamic change of the business environment. Thereby, we aim at providing solutions for the problems and challenges of our customers and society and pursue sustainable growth in order to further enhance our corporate value.

Under the medium-term management plan, we have established the following three core policies: “Transformation” and “Growth” for business strategy and “Quality” for management base, in order to make an important step towards the realization of our new Vision of becoming “A trusted global solution provider committed to the growth of our customers and advancement of society.”

Transformation: Transform existing businesses

We aim to improve profitability and efficiency by engaging in business model transformation and structural cost reform among major business areas while ensuring strategic resource allocation.

Specifically, mainly in the domestic business, we aim to rebuild the business franchise and perform strategic reallocation of resources corresponding to the market potential and pursue the improvement of both our service quality and business productivity through branch reorganization, digitalization, and streamlining of our business administration. Furthermore, in business areas where there is growth potential, we aim to enhance our capability of providing high-quality solutions to our customers and strengthen competitiveness of our products and services by restructuring the business model and organizational structure to maximally leverage our group capability.

Growth: Seek new growth opportunities

We aim to explore new growth opportunities including non-financial business fields and generate new added value by making investments for the future to increase our profit base.

Specifically, we aim to (a) strengthen asset-light businesses such as asset management and payment/transaction in response to the structural change in the financial market, (b) expand our business franchise in Asia where medium- to long term growth is expected, and (c) develop new businesses that provide solutions utilizing data and digital technology to expand our business base for future growth. To pursue such strategy, in addition to organic growth, we aim to actively seek inorganic growth opportunities by leveraging our sufficient capital level.

Under our business strategy of “Transformation” and “Growth”, we have identified “Seven Key Strategies” as shown below:

- Pursue sustainable growth of wealth management business;
- Improve productivity and strengthen solutions in the domestic wholesale business;
- Enhance overseas corporate and investment banking business to improve asset / capital efficiency;
- Hold the number one position in payment business;
- Enhance asset-light business on a global basis;
- Expand franchise in Asia and strengthen digital banking; and
- Develop digital solutions for corporate clients.

Quality: Elevate quality in all aspects

We aim to make a consistent effort to enhance our management system and corporate infrastructure as a global financial institution to fulfill the expectations of our stakeholders.

Specifically, as a basic management policy, we continue to ensure our customer-oriented approach and at the same time, we aim to take further actions such as promoting green finance and financial education programs to contribute to a sustainable society. In addition, we aim to continue to sophisticate human resource management and development to have employees perform at their full potential, and we aim to develop flexible and robust IT infrastructure in order to create new added value through digitalization and strengthen the

capability of cyber security. Furthermore, in order to enforce sound risk-taking, we strive to sophisticate the risk appetite framework and practice business management in an effective and scientific manner and aim to further enhance our governance system in overseas businesses, including risk management and compliance areas as a foundation of sustainable growth of our global business.

Revenues by Region

The following table sets forth the percentage of our total operating income under IFRS for the fiscal years ended March 31, 2021, 2020, and 2019, based on the total operating income of our offices in the indicated regions. For each of the periods presented, we earned more than half of our total operating income in Japan, where we compete with other major Japanese banking groups and financial service providers. We earned the remainder in the Americas, Europe and Middle East, and Asia and Oceania, where we mainly compete with global financial institutions.

	For the fiscal year ended March 31,		
	2021	2020	2019
Region:			
Japan	66%	66%	66%
Foreign:			
Americas	14%	10%	10%
Europe and Middle East	8%	7%	12%
Asia and Oceania (excluding Japan)	12%	17%	12%
Total	100%	100%	100%

Seasonality

Our business is not materially affected by seasonality.

Sources and Availability of Raw Materials

We are not reliant on any particular source of raw materials.

Marketing Channels

See “—Description of Operations and Principal Activities” for a discussion of our marketing channels.

Regulations in Japan

Our businesses are subject to extensive regulation, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Japan. On the other hand, deregulation of banking activities in Japan, and more generally of the Japanese financial system, has proceeded, which has made the Japanese banking industry highly competitive.

Supervisory and regulatory authorities

Pursuant to the Banking Act, the Financial Services Agency of Japan has the authority in Japan to supervise banks, bank holding companies and banks’ principal shareholders, meaning bank shareholders having 20% (or 15% in some cases) or more of the voting rights of a bank. The Bank of Japan also has supervisory authority over banks in Japan based primarily on its contractual agreements and transactions with Japanese banks. Only companies licensed by the Prime Minister are defined as banks under the Banking Act, and licenses may be granted only to a *kabushiki kaisha*, a joint stock corporation, with paid-up capital of ¥2 billion or more.

The Financial Services Agency of Japan

The Prime Minister has supervisory authority over banks in Japan, which is generally delegated to the Financial Services Agency of Japan (“FSA”) except for matters prescribed by cabinet order. The Minister for Financial Services has the power to direct the FSA. Under the Banking Act, the FSA has supervisory control over banks, bank holding companies and banks’ principal shareholders in Japan, except for matters to which the Prime Minister retains authority.

The FSA’s authority includes granting and revoking of operating licenses, and approving business activities such as becoming a principal shareholder, establishment of subsidiaries or overseas offices, mergers, corporate splits or business transfers, and dissolutions or discontinuations of business by existing banks, etc.

The FSA may also instruct a Japanese bank to suspend its business or to remove directors if the bank violates laws, other regulations or their articles of incorporation or commits acts contrary to public policy. The FSA may also direct a Japanese bank in financial difficulty to take certain actions, such as holding certain property in Japan for the protection of depositors. Under the prompt corrective action (“PCA”) system, the FSA may take corrective actions in the case of capital deterioration of financial institutions.

The Ministry of Finance and the FSA have introduced a number of regulatory measures into the banking sector in Japan to secure sound management of banks, as well as measures to increase the transparency of the regulatory process, such as bank holding company regulations, single customer credit limits, disclosure regulations, regulations regarding reserves for loan losses and inspections.

The Banking Act authorizes the FSA to inspect banks and bank holding companies in Japan at any time and with any frequency. The FSA monitors the financial soundness of banks and the status and performance of their control systems and reviews their compliance with laws and regulations. The FSA had issued guidelines on its inspection of financial institutions called the Financial Inspection Manual. The Financial Inspection Manual itself does not have the force of law, but the FSA’s inspections of banks have been based on the Financial Inspection Manual, which emphasized the need for bank self-assessment rather than assessment based on the advice of the government authority and risk management by each bank instead of a mere assessment of its assets. In December 2017, the FSA published a report on its supervisory approaches and transformation, which was revised in June 2018. Based on the report, the FSA introduced its new supervisory approaches, which include expanding the scope of its supervisory approaches from a backward-looking, element-by-element compliance check to substantive, forward-looking and holistic analysis and judgment, leading to the FSA’s repeal of the Financial Inspection Manual in December 2019. Following an inspection, the FSA may exercise its authority over a bank under the Banking Act to suspend or terminate its banking business.

The Ministry of Finance

The Ministry of Finance conducts examinations of banks in relation to foreign exchange transactions under the Foreign Exchange and Foreign Trade Act.

The Bank of Japan

The Bank of Japan (“BOJ”) is the central bank of Japan and serves as the principal instrument for the execution of Japan’s monetary policy. The BOJ implements monetary policy mainly by adjusting its basic loan rate, open market operations and imposing deposit reserve requirements. All banks in Japan maintain deposits with the BOJ and rely substantially upon obtaining borrowings from and rediscounting bills with the BOJ. Moreover, most banks in Japan maintain current accounts under agreements with the BOJ pursuant to which the BOJ can conclude a contract with SMBC concerning on-site examinations. BOJ supervision is intended to support the effective execution of monetary policy, while FSA supervision aims to maintain the sound operations of banks in Japan and promote the security of depositors. Through its examinations, the BOJ seeks to identify problems at an early stage and give corrective guidance where necessary.

Regulations Regarding Capital Adequacy and Liquidity

Capital Adequacy Requirement

In 1988, the BCBS issued the Basel Capital Accord. The Basel Capital Accord sets minimum risk-weighted capital ratios for the purpose of maintaining sound management of banks which have international operations. The minimum risk-weighted capital ratio required was 8% on both a consolidated and nonconsolidated basis. In 2004, the BCBS issued the amended Basel Capital Accord (“Basel II”), which includes detailed measurement of credit risk, the addition of operational risk, a supervisory review process and market discipline through disclosure. These amendments did not change the minimum risk-weighted capital ratio of 8% applicable to banks with international operations (including SMBC). These rules took effect in Japan in 2007, and since 2008, banks are able to apply the advanced IRB approach for credit risk and the AMA for operational risk.

In July 2009, the BCBS approved a final package of measures to enhance certain elements of the Basel II framework, which includes an increase of the risk weights of securitization instruments and revisions of certain trading book rules (referred to as “Basel 2.5”), and the FSA’s capital adequacy guidelines which reflect such framework have been applied in Japan from December 2011.

In September 2009, the GHOS reached an agreement on several key measures to strengthen regulation of the banking sector, and in December 2009 the BCBS published a consultative document entitled “Strengthening the resilience of the banking sector” containing proposals on these measures centering on several core areas. The BCBS’ proposals focused on raising the quality, consistency and transparency of the regulatory capital base through measures including a requirement that the predominant form of Tier 1 capital must be common shares and retained earnings; limitations on the use of hybrid instruments with an incentive to redeem; a requirement that regulatory adjustments, including deductions of the amount of net deferred tax assets which rely on the future profitability of a bank, be applied to common equity generally; and a requirement for additional disclosure regarding regulatory capital levels.

The BCBS’ proposals also cover the following key areas:

- strengthening the risk coverage of the capital framework;
- introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 (minimum capital requirement) treatment based on appropriate review and calibration (for further information, see “Leverage Ratio” below);
- introducing measures to promote the build-up of capital buffers in good times that can be drawn upon in periods of stress; and
- introducing minimum liquidity standards for internationally active banks that include a 30-day liquidity coverage ratio requirement underpinned by a longer-term structural liquidity ratio (for further information, see “Liquidity Requirement” below).

In July 2010, the GHOS reached a broad agreement on the overall design of the BCBS’ capital and liquidity reform package. In addition, in August 2010, the BCBS issued for consultation a proposal to enhance the loss absorbency function of regulatory capital. In September 2010, the GHOS announced a substantial strengthening of existing capital requirements. The framework of the proposed reform was endorsed by the G-20 leaders at their Seoul summit in November 2010.

These capital reforms were phased in from January 2013 to January 2019. The minimum common equity requirement, the minimum Tier 1 capital requirement and the total minimum capital requirement have been 4.5%, 6% and 8% respectively since January 2015. Moreover, banks have been required to hold a capital conservation buffer of 2.5% to withstand future periods of stress since January 2019. As a result, taking the capital conservation buffer into account, the minimum common equity requirement, the minimum Tier 1 capital requirement and the total minimum capital requirement have been 7%, 8.5% and 10.5% respectively since

January 2019. In addition, a countercyclical buffer within a range of 0% to 2.5% of Common Equity Tier 1 capital has been implemented according to national circumstances. In December 2010, the BCBS published the new Basel III rules text. To reflect changes made by the BCBS, the FSA changed its capital adequacy guidelines. The FSA's changes have mostly been applied from March 31, 2013, which generally reflect the main measures of the minimum capital requirements of the BCBS that started to be phased in on January 1, 2013 and have been fully applied from March 2019. The FSA's changes which reflect capital buffer requirements under Basel III and the G-SIB capital surcharge described below have been applied from March 2016.

In addition to the above-mentioned minimum capital requirements and capital buffer requirements under Basel III, organizations identified by the FSB as G-SIBs, which includes us, are required to maintain an additional 1% to 2% of Common Equity Tier 1 capital as a percentage of risk-weighted assets based on the organization's size, interconnectedness, substitutability, complexity and cross-jurisdictional activity as determined by the FSB. The amount of G-SIB capital surcharge that has applied to us from 2019 based on the FSB's determination is 1% of risk-weighted assets. The FSB updates its list of G-SIBs on an annual basis.

G-SIBs are also subject to a global standard for TLAC, which establishes minimum requirements for loss-absorbing and recapitalization capacity available in resolution at G-SIBs, to ensure that they can be resolved in an orderly manner without putting public funds at risk. In November 2015, as part of its agenda to address risks arising from G-SIBs, the FSB published the FSB's TLAC Standards. The FSB's TLAC Standards define certain minimum requirements for instruments and liabilities so that if a G-SIB fails, it will have sufficient loss-absorbing and recapitalization capacity available to ensure that it can be resolved in an orderly manner which minimizes potential impact on financial stability, maintains the continuity of critical functions and avoids exposing public funds to loss.

In March 2019, the FSA published the Japanese TLAC Standards. The Japanese TLAC Standards apply to Covered SIBs, which includes (i) Japanese G-SIBs, which are designated as G-SIBs by the FSA in accordance with the designation by the FSB, such as us, and (ii) any domestic systemically important bank in Japan (Japanese D-SIB) that has been deemed to be in particular need for a cross-border resolution arrangement and as having particular systemic significance to the Japanese financial system if it fails. The Japanese TLAC Standards were applied to Japanese G-SIBs from March 31, 2019.

Under the FSB's TLAC standards and the Japanese TLAC Standards, entities designated by the FSA as an entity that would enter into domestic resolution proceedings for Japanese G-SIBs, or the Domestic Resolution Entities, are required:

- to meet certain minimum external TLAC requirements (being at least 16% of their risk-weighted assets from March 2019 and at least 18% of their risk-weighted assets from March 2022 as well as at least 6% of their Basel III leverage ratio denominator from March 31, 2019 and at least 6.75% from March 31, 2022); and
- to cause any material subsidiaries or material sub-groups in Japan designated as systemically important by the FSA, or any foreign subsidiaries that are subject to TLAC or similar requirements by the relevant foreign authorities, to maintain a certain level of capital and debt that is recognized as having loss-absorbing and recapitalization capacity ("internal TLAC").

In addition, according to the Japanese TLAC Standards, Japanese G-SIBs are allowed to count Japan's deposit insurance fund reserves in an amount equivalent to 2.5% of their risk-weighted assets from March 2019 and 3.5% of their risk-weighted assets from March 2022 as external TLAC.

The FSB's TLAC Standards also prescribe a minimum TLAC requirement of at least 6% of the resolution group's Basel III leverage ratio denominator from March 31, 2019, increasing to at least 6.75% from March 31, 2022, and according to the Japanese TLAC Standards, the same external TLAC requirements on the leverage ratio basis are required for bank holding companies of Japanese G-SIBs including us.

In our case, the FSA designated SMFG as our Domestic Resolution Entity, which makes SMFG subject to the external TLAC requirements. The FSA also designated SMBC and SMBC Nikko Securities as our material subsidiaries in Japan, for which we are required to maintain a certain level of internal TLAC.

In the FSA's explanatory paper entitled "The FSA's Approach to Introduce the TLAC Framework," which was published in April 2016 and revised in April 2018, the FSA has identified Single Point of Entry ("SPE") resolution, in which resolution powers are applied to the ultimate holding company of a banking group by a single national resolution authority, as the preferred strategy for resolving currently designated G-SIBs in Japan. Under a possible model for SPE resolution of Japanese G-SIBs described in the Japanese TLAC Standards, if, with respect to a material subsidiary of a Japanese G-SIB that is designated as systemically important by the FSA, the FSA issues to the Domestic Resolution Entity of the Japanese G-SIB an order concerning the restoration of financial soundness, including recapitalization of, and restoration of liquidity to, such material subsidiary, such material subsidiary's internal TLAC instruments will be written off or, if applicable, converted into equity in accordance with the applicable contractual loss-absorption provisions of such internal TLAC instruments. The FSA may issue such an order pursuant to Article 52-33, Paragraph 1 of the Banking Act upon its determination that the material subsidiary is non-viable due to a material deterioration in its financial condition after recognizing that its liabilities exceed or are likely to exceed its assets, or that it has suspended or is likely to suspend payment of its obligations.

Furthermore, as a disincentive for G-SIBs facing the maximum G-SIB capital surcharge to "increase materially their global systemic importance in the future," an additional 1% capital surcharge could be applied. So long as we are identified as a G-SIB, we are also subject to stronger supervisory mandates and higher supervisory expectations for risk management functions, data aggregation capabilities, risk governance and internal controls. The substance of this heightened supervision has not yet been fixed, but we anticipate that at a minimum any rules will contain more stringent reporting requirements and impose common frameworks for data aggregation and internal risk management processes on G-SIBs.

Because we have been identified as a G-SIB, we are also subject to, among other things, resolution-related requirements described in the FSB's "Key Attributes of Effective Resolution Regimes for Financial Institutions." In particular, the FSB has required the initial group of G-SIBs to have in place a recovery and resolution plan, including a group-level plan, containing various specified elements, to be subject to regular resolvability assessments. Under the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc., issued by the FSA, as part of crisis management, financial institutions identified as G-SIBs must prepare and submit a recovery plan, which includes a description of events that would trigger implementation of the recovery plan and the analysis of the recovery options to the FSA, and the FSA must prepare the resolution plan for each G-SIB.

In December 2017, the GHOS endorsed the outstanding Basel III regulatory reforms. The endorsed reforms include the following elements:

- a revised standardized approach for credit risk;
- revisions to the internal ratings-based approach for credit risk, where the use of the most advanced internally modeled approaches for low-default portfolios will be limited;
- revisions to the credit valuation adjustment framework, including the removal of the internally modeled approach and the introduction of a revised standardized approach;
- a revised standardized approach for operational risk, which will replace the existing standardized approaches and the advanced measurement approach;
- revisions to the measurement of the leverage ratio and a leverage ratio buffer for G-SIBs; and
- revisions to the capital floor, under which banks' risk-weighted assets must be no lower than 72.5% of total risk-weighted assets as calculated using only the standardized approaches under the revised

Basel III framework, and a requirement that banks disclose their risk-weighted assets based on such standardized approaches.

On March 27, 2020, the GHOS endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of the COVID-19 pandemic on the global banking system. According to the measures, the implementation timeline of the outstanding Basel III standards has been deferred by one year. The revised framework, other than revisions to the capital floor, will take effect from January 1, 2023. The revisions to the capital floor will be phased in from January 1, 2023, with an initial capital floor of 50%, and will reach 72.5% by January 1, 2028. On March 30, 2020, in light of the above changes, the FSA announced its plan to defer the implementation of Basel III standards in Japan by one year, to March 31, 2023. On December 24, 2020, the FSA published its draft regulatory policy for implementation of the Basel III standards in Japan.

Our securities subsidiaries in Japan are also subject to capital adequacy requirements under the FIEA. Under the requirements, securities firms must maintain a minimum capital adequacy ratio of 120% on a nonconsolidated basis and must file periodic reports with the Commissioner of the FSA or the Director-General of the appropriate Local Finance Bureau, and also publicly disclose their capital adequacy ratio on a quarterly basis. In addition, securities firms whose total assets exceed ¥1,000 billion are required to maintain this minimum capital adequacy ratio on a consolidated basis. This requirement on a consolidated basis is applied in addition to and in a manner similar to the requirements on a nonconsolidated basis referred to above. Failure to meet the capital adequacy requirements will trigger mandatory regulatory action. For example, in the case of the requirement on a nonconsolidated basis, a securities firm with a capital adequacy ratio of greater than 120%, but less than 140% will be required to file daily reports with the Commissioner of the FSA or the Director-General of the appropriate Local Finance Bureau. A securities firm with a capital adequacy ratio of less than 120% may be ordered to change its business conduct, place its property in trust or be subject to other supervisory orders, as the relevant authorities deem appropriate. A securities firm with a capital adequacy ratio of less than 100% may be subject to temporary suspension of all or part of its business operations or cancellation of its license to act as a securities broker and dealer.

The capital adequacy ratio for securities firms is defined as the ratio of adjusted capital to a quantified total of business risks, which include market risks, counterparty risks and operational risks (e.g., risks in carrying out daily business activities, such as administrative problems with securities transactions and clerical mistakes) quantified in the manner specified by a rule promulgated under the FIEA. Adjusted capital is defined as net worth less illiquid assets, as determined in accordance with Japanese GAAP. Net worth consists mainly of stated capital, additional paid-in capital, retained earnings, reserves for securities transactions, certain allowances for doubtful current accounts, net unrealized gains (losses) in the market value of investment securities, and subordinated debt. Illiquid assets generally include non-current market assets, certain deposits and advances, and prepaid expenses.

Leverage Ratio

In March 2015, the FSA published its leverage ratio guidelines which have been applied from March 31, 2015 to help ensure broad and adequate capture of both on- and off-balance sheet sources of leverage for internationally active banks. The FSA's leverage ratio guidelines are based on the text of the leverage ratio framework and disclosure requirements issued by the BCBS in January 2014.

In January 2016, the GHOS agreed that the leverage ratio should be based on a Tier 1 definition of capital and should comprise a minimum level of 3%. In December 2017, the definition and requirements of the leverage ratio were revised as part of the revised Basel III reforms. Under the revised Basel III reforms, in addition to meeting the minimum leverage ratio, G-SIBs are required to meet a leverage ratio buffer, which will take the form of a Tier 1 capital buffer set at 50% of the applicable G-SIB capital surcharge. Various refinements were also made to the definition of the leverage ratio exposure measure. The leverage ratio requirements under the

definition based on the framework issued by the BCBS in January 2014 were implemented as a Pillar 1 measurement from January 2018, and those under the revised definition and the leverage ratio buffer requirement for G-SIBs will be implemented as a Pillar 1 measurement from January 1, 2023.

In March 2019, the FSA published its guidelines for the leverage ratio applicable to banks and bank holding companies with international operations, which have been applied from March 31, 2019. Under the FSA's guidelines for the leverage ratio, banks and bank holding companies with international operations must maintain a leverage ratio of at least 3% on both a consolidated basis and a nonconsolidated basis from March 31, 2019. On June 30, 2020, in light of the increasing impact of the COVID-19 pandemic, the FSA published amendments to its guidelines for the leverage ratio, which mainly exclude deposits with the BOJ from the denominator for the calculation of the leverage ratio in order to maintain harmonization with the monetary policy implemented by the BOJ and the prudential regulations for banks and other financial institutions. These amendments came into force on June 30, 2020 and were scheduled to expire on March 31, 2021. On March 31, 2021, the FSA extended the expiry date of these amendments to March 31, 2022.

Liquidity Requirement

In October 2014, the FSA published its guidelines for liquidity coverage ratio ("LCR") applicable to banks and bank holding companies with international operations that have been applied from March 31, 2015. These guidelines are based on the full text of the LCR standard issued by the BCBS in January 2013. LCR is intended to promote resilience to potential liquidity disruptions over a thirty-day horizon and help ensure that global banks have sufficient, unencumbered, high-quality liquid assets to offset the net cash outflows they could encounter under an acute short-term stress scenario. Under the FSA's LCR guidelines, banks and bank holding companies with international operations must maintain LCR of at least 100% on both a consolidated basis and a nonconsolidated basis. The minimum LCR requirements have been 100% since March 31, 2019.

On March 31, 2021, the FSA published its guidelines for net stable funding ratio ("NSFR") applicable to banks and bank holding companies with international operations that will be applied from September 30, 2021. These guidelines are based on the full text of the NSFR standard issued by the BCBS in October 2014. NSFR is intended to require a minimum amount of stable sources of funding at a bank relative to the liquidity profiles of the bank's assets, as well as the potential for contingent liquidity needs arising from off-balance sheet commitments, over a one-year horizon. Under the FSA's NSFR guidelines, banks and bank holding companies with international operations must maintain NSFR of at least 100% on both a consolidated basis and a nonconsolidated basis. The minimum NSFR requirements will be 100% from September 30, 2021.

Self-Assessment, Reserves and Related Disclosure

Financial institutions, including SMBC, are required to establish self-assessment programs to, among other things, analyze their assets giving due consideration to accounting principles and other applicable rules and to classify their assets into categories taking into account the likelihood of repayment and the risk of impairment to the value of the assets. These classifications determine whether an addition to or reduction in reserves or write-offs is necessary.

Pursuant to the Japanese Institute of Certified Public Accountants ("JICPA") guidelines, the outcome of each financial institution's self-assessment leads to substantially all of a bank's loans and other claims on customers being analyzed by classifying obligors into five categories: (1) normal borrowers; (2) borrowers requiring caution; (3) potentially bankrupt borrowers; (4) virtually bankrupt borrowers; and (5) bankrupt borrowers. The reserve for possible loan losses is then calculated based on the obligor categories.

FSA guidelines require banks to classify their assets not only by the five categories of obligor but also by four categories of quality. SMBC has adopted its own internal guidelines for self-assessment which conform to guidelines currently in effect and comply with the PCA system requirements.

Based on the results of the self-assessment discussed above, SMBC is required to establish a reserve for its loan portfolio in an amount SMBC considers adequate at a balance sheet date. Three categories of reserves SMBC establishes, for statutory purposes, along with the Accounting Standards for Banks issued by the Japanese Bankers Association, are a general reserve, a specific reserve and a reserve for specific overseas loan losses.

Under the Banking Act, banks and bank holding companies must disclose their non- and under-performing loans (consolidated and nonconsolidated) as risk-monitored loans. Risk-monitored loans are classified into four categories: (1) bankrupt loans, (2) non-accrual loans, (3) past due loans (three months or more) and (4) restructured loans. Banks and bank holding companies are required to submit to the FSA annual reports on their business including the amount of risk-monitored loans. Banks and bank holding companies must disclose their financial statements on an annual basis. The financial statements consist of the balance sheet and income statement, and explanatory documents regarding business and asset conditions, each prepared under the Banking Act both on a nonconsolidated and consolidated basis.

Independent of the Banking Act disclosure regulations, the Act Concerning Emergency Measures for the Revitalization of Financial Functions requires banks to disclose their loans and their other problem assets. Under this law, assets are classified into four categories: (1) bankrupt and quasi-bankrupt assets, (2) doubtful assets, (3) substandard assets and (4) normal assets. Generally, bankrupt and quasi-bankrupt assets correspond to the total of bankrupt loans and the lower tier of the non-accrual loans (the borrowers of which are virtually bankrupt) under the Banking Act disclosure. Doubtful assets generally correspond to the higher tier portion of the non-accrual loans (the borrowers of which are not, but have the potential to become, bankrupt). The substandard assets generally correspond to the total of the restructured loans and past due loans (three months or more). Bankrupt and quasi-bankrupt assets and doubtful assets also include non-loan assets, for example, securities lending, foreign exchange, accrued interest, advanced payments and customers' liabilities for acceptances and guarantees.

Prompt Corrective Action System

Under the Prompt Corrective Action ("PCA") system, the FSA may take corrective actions depending upon the extent of capital deterioration of a financial institution. The FSA may require a bank to submit and implement a capital reform plan, if;

- the total risk-weighted capital ratio of a bank with international operations becomes less than 8% but not less than 4%;
- the Common Equity Tier 1 risk-weighted capital ratio becomes less than 4.5% but not less than 2.25%;
- the Tier 1 risk-weighted capital ratio becomes less than 6% but not less than 3%; or
- the leverage ratio becomes less than 3% but not less than 1.5%.

The FSA may order a bank to (1) submit and implement a plan for improving its capital; (2) prohibit or restrict the payment of dividends to shareholders or bonuses to officers; (3) reduce assets or restrict any increase in assets; (4) prohibit or restrict the acceptance of deposits under terms less advantageous than ordinary terms; (5) reduce the business of some offices; (6) eliminate some offices other than the head office; (7) reduce or prevent the launching of non-banking businesses; or (8) take certain other actions, if;

- the total risk-weighted capital ratio of a bank with international operations declines to less than 4% but not less than 2%;
- the Common Equity Tier 1 risk-weighted capital ratio becomes less than 2.25% but not less than 1.13%;
- the Tier 1 risk-weighted capital ratio becomes less than 3% but not less than 1.5%; or
- the leverage ratio becomes less than 1.5% but not less than 0.75% (in this case, the FSA may order a bank to take actions described in (1) and (3) to (8) of the paragraph above).

The FSA may order a bank to conduct any one of the following: (1) a capital increase; (2) a substantial reduction in its business; (3) a merger; or (4) abolishment of its banking business, if;

- the total risk-weighted capital ratio of a bank with international operations declines to less than 2% but not less than 0%;
- the Common Equity Tier 1 risk-weighted capital ratio becomes less than 1.13% but not less than 0%;
- the Tier 1 risk-weighted capital ratio becomes less than 1.5% but not less than 0%; or
- the leverage ratio becomes less than 0.75% but not less than 0%.

The FSA may order the bank to suspend all or part of its business, if

- the total risk-weighted capital ratio, the Common Equity Tier 1 risk-weighted capital ratio or Tier 1 risk-weighted capital ratio of a bank with international operations declines below 0%; or
- the leverage ratio declines below 0%.

The FSA may take actions similar to the actions the FSA may take with respect to a bank, if;

- the total risk-weighted capital ratio of a bank holding company that holds a bank with international operations declines to levels below 8%;
- the Common Equity Tier 1 risk-weighted capital ratio declines to levels below 4.5%; or
- the Tier 1 risk-weighted capital ratio declines to levels below 6%; or
- the leverage ratio declines to levels below 3%.

Prompt Warning System

The prompt warning system currently in effect allows the FSA to take precautionary measures to maintain and promote the sound operation of financial institutions before those financial institutions become subject to the PCA system. These measures include requiring a financial institution to reform: (1) profitability, if deemed necessary to improve profitability based upon a fundamental profit index; (2) credit risk management, if deemed necessary to reform management of credit risk based upon the degree of large credit concentration and other circumstances; (3) stability, if deemed necessary to reform management of market and other risks based upon, in particular, the effect of securities price fluctuations; and (4) cash flow management, if deemed necessary to reform management of liquidity risks based upon deposit trends and level of reserve for liquidity.

Restrictions on Capital Distributions

Under the FSA's capital adequacy guidelines and related ordinances, if a bank fails to maintain capital levels under the capital buffer requirements in accordance with Basel III and the G-SIB capital surcharge, the FSA may order a bank to submit and implement a reasonable capital distribution constraint plan to restore the capital levels. This plan shall include restrictions on capital distributions, such as dividends, share buybacks, discretionary payments on other Tier 1 capital instruments and bonuses, in such amount as determined depending on the degree of insufficiency of such requirements.

Regulations for Stabilizing the Financial System

Deposit Insurance System

The Deposit Insurance Act was enacted to protect depositors when deposit-taking institutions fail to meet their obligations. The Deposit Insurance Corporation of Japan ("DIC") implements the law and is supervised by the Prime Minister and the Minister of Finance. Subject to limited exceptions, the Prime Minister's authority is delegated to the FSA Commissioner.

From April 2019 to March 2020, the DIC received annual insurance premiums from member deposit-taking institutions amounting to 0.045% of deposits primarily for payment and settlement purposes and 0.032% of deposits for other deposits, and from April 2020 to March 2021, they amounted to 0.045% and 0.031%, respectively. Furthermore, from April 2021, they amounted to 0.042% and 0.029% respectively.

Premiums held by the DIC may be either deposited at deposit-taking institutions or used to purchase marketable securities. The insurance money may be paid out to depositors in case of a suspension of repayments of deposits, banking license revocation, dissolution or bankruptcy of a bank. Payouts are generally limited to a maximum of ¥10 million of principal amount together with any interest accrued with respect to each depositor. Only non-interest-bearing deposits that are redeemable upon demand and used by depositors primarily for payment and settlement functions are protected in full.

City banks (including SMBC), regional banks (including member banks of the second association of regional banks), trust banks, credit associations, credit cooperatives, labor banks and JAPAN POST BANK Co., Ltd. (“Japan Post Bank”) participate in the deposit insurance system on a compulsory basis.

The Deposit Insurance Act also provides a permanent system for resolving failed deposit-taking institutions.

The basic method for resolving a failed deposit-taking institution under the Deposit Insurance Act is cessation of the business by paying insurance money to depositors up to the principal amount of ¥10 million plus accrued interest per depositor, or pay-off or transfer of the business to another deposit-taking institution, with financial assistance provided within the cost of pay-off. Under the Deposit Insurance Act, transfer of business is regarded as the primary method. In order to affect a prompt transfer of business, the following framework has been established:

- a Financial Reorganization Administrator is appointed by the FSA Commissioner and takes control of the management and assets of the failed deposit-taking institution. The administrator is expected to diligently search for a deposit-taking institution which will succeed to the business of the failed institution;
- if no successor deposit-taking institution can be immediately found, a “bridge bank” will be established by the DIC for the purpose of temporarily maintaining the operations of the failed deposit-taking institution, and the bridge bank will seek to transfer the failed deposit-taking institution’s assets to another deposit-taking institution or dissolve the failed deposit-taking institution; and
- in order to facilitate or encourage a deposit-taking institution to succeed to a failed business, financial aid may be provided by the DIC to any successor deposit-taking institution to enhance its capital after succession or to indemnify it for losses incurred as a result of the succession.

Where it is anticipated that the failure of a deposit-taking institution may cause an extremely grave problem in maintaining the financial order in Japan or the region where the deposit-taking institution is operating, the following exceptional measures may be taken following deliberation by Japan’s Financial Crisis Response Council:

- the DIC may subscribe for shares or other instruments issued by the relevant deposit-taking institution or the holding company thereof and require the institution to submit to the DIC a plan to reestablish sound management (Item 1 measures) (*dai ichigo sochi*);
- once the deposit-taking institution fails, financial aid exceeding the cost of pay-off may be available to the institution (Item 2 measures) (*dai nigo sochi*); and
- if the failed institution is a bank and the problem cannot be avoided by other measures, then the DIC may acquire all of the shares of the bank (Item 3 measures) (*dai sango sochi*).

In order to fund the above-mentioned activities, the DIC may borrow from financial institutions or issue bonds which may be guaranteed by the Government of Japan.

In addition, on June 12, 2013, a bill to amend the Deposit Insurance Act which includes establishment of a new orderly resolution regime of financial institutions was enacted and became effective on March 6, 2014. Financial institutions including banks, securities companies and insurance companies and their holding companies will be subject to the new resolution regime that includes, among others, the following features.

Under the new resolution regime, where the Prime Minister recognizes that the failure of a financial institution which falls into either of (a) or (b) below may cause significant disruption in the financial markets or other financial systems in Japan if measures described in (a) (specified Item 1 measures) (*tokutei dai ichigo sochi*) or measures described in (b) (specified Item 2 measures) (*tokutei dai nigo sochi*) are not taken, the Prime Minister may confirm that any of the following measures need to be applied to the financial institution following deliberation by Japan's Financial Crisis Response Council:

(a) if the financial institution is not a financial institution whose liabilities exceed its assets, which means it is unable to fully perform its obligations with its assets, the DIC shall supervise the operation of business and management and disposal of assets of that financial institution, and may provide it with loans or guarantees necessary to avoid the risk of significant disruption in the financial systems in Japan, or subscribe for shares or subordinated bonds of, or lend subordinated loans to, the financial institution, taking into consideration the financial condition of the financial institution;

(b) if the financial institution is a financial institution whose liabilities exceed or are likely to exceed its assets or which has suspended or is likely to suspend payment of its obligations, the DIC shall supervise the operation of business and management and disposal of assets of that financial institution and may provide financial aid necessary to assist a merger, business transfer, corporate split or other reorganization in respect to such failed financial institution; and

if a measure set out in (b) above is determined to be taken with respect to a financial institution, the Prime Minister may order that the financial institution's operations of business and management and disposal of assets be placed under the special control of the DIC. The business or liabilities of the financial institution subject to the special supervision by the DIC as set forth above may also be transferred to a "bridge bank" established by the DIC for the purpose of the temporary maintenance and continuation of operations of, or repayment of the liabilities of, such financial institution, and the bridge bank will seek to transfer the financial institution's business or liabilities to another financial institution or dissolve the financial institution. The financial aid provided by the DIC to assist a merger, business transfer, corporate split or other reorganization in respect to the financial institution set out in (b) above may take the form of a monetary grant, loan or deposit of funds, purchase of assets, guarantee or assumption of debts, subscription of preferred stock or subordinated bonds, subordinated loan, or loss sharing.

The expenses for implementation of the measures for these crisis management operations will be borne by the financial industry; provided, however, the Government of Japan may provide subsidies to the DIC within the limit to be specified in the government budget in cases where it is likely to cause extremely serious hindrance to the maintenance of the credit system in Japan or significant turmoil in the financial market or other financial system of Japan if such expenses are to be borne only by the financial industry.

In March 2014, the FSA made an announcement clarifying the requirement of loss absorbency at the point of non-viability for additional Tier 1 instruments and Tier 2 instruments under Basel III issued by banks and bank holding companies. According to the announcement, (i) additional Tier 1 instruments and Tier 2 instruments under Basel III issued by a bank must be written-down or converted into common shares when the Prime Minister of Japan confirms (*nintei*) that the above-described "Item 2 measures (*dai nigo sochi*)," "Item 3 measures (*dai sango sochi*)," or "specified Item 2 measures (*tokutei dai nigo sochi*)" need to be applied to the bank and (ii) additional Tier 1 instruments and Tier 2 instruments under Basel III issued by a bank holding company must be written-down or converted into common shares when the Prime Minister of Japan confirms (*nintei*) that the above-described "specified Item 2 measures (*tokutei dai nigo sochi*)" need to be applied to the

bank holding company. The FSA also stated in the announcement that the trigger event for loss absorbency at the point of non-viability with respect to such instruments should be construed in accordance with the then effective financial crisis response framework for banks and bank holding companies that have failed or are likely to fail, since the purpose of such write-down or conversion required under Basel III is to ensure that all classes of these capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss.

Special Measures Act Concerning Facilitation of Reorganization by Financial Institutions, Etc.

Under the Special Measures Act Concerning Facilitation of Reorganization by Financial Institutions, Etc.: (1) for one year after the merger or transfer of the entire business of a deposit-taking institution, the maximum amount to be covered by the deposit insurance will be ¥10 million multiplied by the number of parties to the merger or business transfer; and (2) the procedures are simplified to a certain extent in connection with the transfer of an entire business or a merger with another deposit-taking institution by a deposit-taking institution that is made in accordance with a management base-strengthening plan that has been approved by the Government of Japan.

Single Customer Credit Limit

The Banking Act restricts the aggregate amount of credit and loans that may be extended to any single customer in order to avoid the excessive concentration of credit risks and promote the fair and extensive use of bank credit. To tighten the restrictions under Japanese law to meet international standards, the amendment to the Banking Act and the related cabinet order were promulgated on October 30, 2019, and this amendment became effective on April 1, 2020. As a result of the amendment, the credit limit of bank holding companies, banks or bank groups for any single customer, is 25% of the Tier 1 capital of the bank holding company, bank or bank group, with certain adjustments.

Restrictions on Activities of a Bank Holding Company

Under the Banking Act, a bank holding company is prohibited from carrying on any business other than management of its subsidiaries and other incidental businesses. A bank holding company may have any of the following as a subsidiary: a bank, a securities company, an insurance company or a foreign subsidiary that engages in the banking, securities or insurance business. In addition, a bank holding company may have as a subsidiary any company that engages in finance-related business, such as a credit card company, a leasing company or an investment advisory company. Certain companies that are designated by ministerial ordinance as those that cultivate new business fields may also become the subsidiary of a bank holding company.

An amendment to the Banking Act was promulgated in June 2016. Among other things, the amendment (1) requires a bank holding company to enhance group management, by measures including establishment of a basic policy of such group, coordination of conflicts of interest among group companies, development of a group compliance system and others; (2) permits a bank holding company or a group company, with prior approval of the Government of Japan, to manage certain businesses of other group companies that are common and duplicative; and (3) permits a bank or a bank holding company, with prior approval of the government, to hold voting rights of companies conducting businesses that contribute to or are expected to contribute to the sophistication of the banking business or the enhancement of customer convenience by utilizing information technology or other technologies, regardless of the shareholding restriction described below. The amendment became effective from April 2017.

Restriction on Aggregate Shareholdings by a Bank

The Act Concerning Restriction on Shareholdings by Banks requires Japanese banks and their qualified subsidiaries to limit the aggregate market value (excluding unrealized gains, if any) of their equity securities holdings to an amount equal to 100% of their consolidated Tier 1 capital, with adjustments, in order to reduce

exposure to stock price fluctuations. Treasury shares, shares issued by subsidiaries, shares not listed on any stock exchange or not registered with any OTC market, shares held as trust assets, and shares acquired through debt-for-equity swaps in restructuring transactions are excluded from this limitation. In order to facilitate the disposition of shares of listed stocks held by banks while preventing adverse effects caused by sales of large amounts of shares in a short period of time, share purchases by the Banks' Shareholdings Purchase Corporation of listed shares have been restarted from March 2009.

Shareholding Restrictions Applicable to a Bank Holding Company and a Bank

The provision of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade which prohibits banks from holding more than 5% of the voting rights of non-financial companies in Japan does not apply to bank holding companies. However, the Banking Act generally prohibits a bank holding company and its subsidiaries, on an aggregated basis, from holding more than 15% of the voting rights of certain types of companies which are not permitted to become subsidiaries of bank holding companies. Also, the Banking Act generally prohibits a bank and its subsidiaries, on an aggregated basis, from holding more than 5% of the voting rights of certain types of companies which are not permitted to become subsidiaries of banks.

Examination and Reporting Applicable to Shareholders of a Bank

The FSA may request the submission of reports or other materials from a bank and/or its bank holding company or inspect the bank and/or the bank holding company, if necessary, in order to secure the sound and appropriate operation of the business of a bank.

Under the Banking Act, a person who desires to hold 20% (in some exceptional cases, 15%) or more of the voting rights of a bank is required to obtain advance approval of the FSA Commissioner. In addition, the FSA may request the submission of reports or materials from, or may conduct an inspection of, any principal shareholder who holds 20% (in some exceptional cases, 15%) or more of the voting rights of a bank if the FSA deems the action necessary in order to secure the sound and appropriate operation of the business of the bank. Under limited circumstances, the FSA may order the principal shareholder to take such measures as the FSA deems necessary.

Furthermore, any person who becomes a holder of more than 5% of the voting rights of a bank holding company or a bank must report the ownership of the voting rights to the Director General of the relevant local finance bureau within five business days. This requirement is separate from the significant shareholdings report required under the FIEA. In addition, a similar report must be made in respect of any subsequent change of 1% or more in any previously reported holding or in respect of any change in material matters set out in reports previously filed, with some exceptions.

Regulations for Protection of Customers

Protection of Personal Information

The Act on the Protection of Personal Information and related rules, regulations and guidelines impose requirements on businesses that use databases containing personal information, including appropriate custody of personal information and restrictions on information sharing with third parties.

Act on Sales, Etc. of Financial Products

Due to deregulatory measures in the banking and other financial services industries, more financial products, including highly structured and other complicated products, may now be marketed to a broad base of customers. The Act on Sales, Etc. of Financial Products was enacted to better protect customers from incurring unexpected losses as a result of purchasing these financial products. Under this law, sellers of financial products have a duty to their potential customers to explain important matters (i.e., the nature and magnitude of risk

involved) regarding the financial products that they sell. If a seller fails to comply with the duty, the loss in value of the purchased investment product due to the failure to explain is refutably presumed to be the amount of the customer's loss. An amendment to this law, together with other related laws including the FIEA, became effective in September 2007. The amended law enlarges the scope of the duty of financial services providers to inform customers of important matters related to the financial products that they offer.

On June 12, 2020, certain amendments to the Act on Sales, Etc. of Financial Products were promulgated, and will become effective within one and a half years from the date of promulgation. Per these amendments, the name of the law will be changed to "the Act on Provision of Financial Services." The amendments introduce a registration scheme for "financial services intermediary businesses." Through a single registration as a financial services intermediary business, registrants will be able to provide intermediary services for each of banking, securities and insurance. The amendments to the law will not require any provider of financial services intermediary business to belong to a specific financial institution, but will impose certain regulations to protect customers, including limitations on the type of services that they may provide and prohibitions on the acceptance of assets of customers and lodging a security deposit.

Act Concerning Protection of Depositors and Relief for Victims of Certain Types of Fraud

The Act Concerning Protection of Depositors from Illegal Withdrawals Made by Forged or Stolen Cards requires financial institutions to establish internal systems to prevent illegal withdrawals of deposits made using forged or stolen bank cards. The law also requires financial institutions to compensate depositors for any amount illegally withdrawn using forged or stolen bankcards, subject to certain conditions.

The Act Concerning Payment of Dividends for Relief of Damages from Funds in Account used in connection with Crimes requires that financial institutions take appropriate measures against various crimes including the closing of accounts used in connection with fraud and other crimes. The law also requires financial institutions to make, in accordance with specified procedures, payments from funds collected from the closed accounts to victims of certain crimes.

Laws Prohibiting Money Laundering and Terrorist Financing

Act on Prevention of Transfer of Criminal Proceeds

Under the Act on Prevention of Transfer of Criminal Proceeds, which addresses money laundering and terrorism concerns, financial institutions and certain other entities, such as credit card companies, are required to perform customer identification, submit suspicious transaction reports and keep records of their transactions.

Foreign Exchange and Foreign Trade Act of Japan

Under the Foreign Exchange and Foreign Trade Act, SMBC is required to confirm that necessary permission from the relevant authorities is obtained by the customer or obtain necessary permission itself, for certain transaction involving targets who are designated under the law and the relevant orders thereunder including North Korea or Iran.

Act on Special Measures Concerning International Terrorist Assets-Freezing, etc. Conducted by the Government Taking into Consideration United Nations Security Council Resolution 1267, etc.

Under the Act on Special Measures Concerning International Terrorist Assets-Freezing, etc. Conducted by the Government Taking into Consideration United Nations Security Council Resolution 1267, etc., SMBC is generally prohibited to conduct certain transactions including donating or lending of money, securities or real estates or refunding of deposit with International Terrorist, who are designated under the law.

Other Regulations Related to Our Business

Financial Instruments and Exchange Act of Japan

The Financial Instruments and Exchange Act of Japan (“FIEA”) regulates the securities industry and most aspects of securities transactions in Japan, including public offerings, private placements and secondary trading of securities, ongoing disclosure by securities issuers, tender offers for securities, organization and operation of securities exchanges and self-regulatory organizations and registration of securities companies. The Prime Minister has the authority to regulate the securities industry and securities companies, which authority is delegated to the FSA Commissioner under the FIEA. The Securities and Exchange Surveillance Commission, an external agency of the FSA, is independent from the Agency’s other bureaus and is vested with authority to conduct day-to-day monitoring of the securities markets and to investigate irregular activities that hinder fair trading of securities, including inspection of securities companies as well as banks in connection with their securities business. Furthermore, the FSA Commissioner delegates certain authority to the Director General of the Local Finance Bureau to inspect local securities companies and their branches. A violation of applicable laws and regulations may result in various administrative sanctions, including revocation of registration or authorization, suspension of business or an order to discharge any Director or Executive Officer who has failed to comply with applicable laws and regulations. Securities companies are also subject to the rules and regulations of the Japanese stock exchanges and the Japan Securities Dealers Association, a self-regulatory organization of securities companies.

Regulation of the Consumer Finance Business

In order to resolve the problems of heavily indebted borrowers and to effect proper regulation of the consumer finance business, in June 2010, maximum legal interest rates were reduced to levels prescribed by the Interest Rate Restriction Act, ranging from 15% to 20%, and gray zone interest, which is interest on loans in excess of rates prescribed by the Interest Rate Restriction Act up to the 29.2% maximum rate permitted under the Contributions Act, was abolished. Judicial decisions have strictly interpreted the conditions under which consumer finance companies may retain gray zone interest. As a result, claims for refunds of gray zone interest increased substantially. Amendments to the Money Lending Business Act provide an additional upper limit on aggregate borrowings by an individual from all moneylenders over which moneylenders may not extend further loans, as well as stricter regulation and supervision of moneylender activities.

Installment Sales Act

In order to ensure the fairness of transactions with respect to installment and other sales, prevent damage to consumers and manage credit card numbers, the Installment Sales Act imposes requirements on those who conduct installment sales businesses. In June 2008, revisions to the Installment Sales Act were enacted, most of which became effective in December 2009. The revisions impose more stringent and expanded requirements for credit card companies, including, among other things: (1) wider coverage of installment sales under the regulations; (2) measures to prevent inappropriate extensions of credit for certain credit transactions; (3) measures to prevent excessive lending for certain credit transactions that include requirements to investigate the payment ability of consumers by use of designated credit information organizations and prohibition of execution of credit agreements that exceed the payment ability of consumers; and (4) measures to protect certain information, such as credit numbers.

Base Erosion and Profit Shifting (BEPS)

In July 2013, the Organization for Economic Co-operation and Development (“OECD”) published the Action Plan on Base Erosion and Profit Shifting (“BEPS”) in order to prevent exploiting of gaps and mismatches in tax rules and artificial shifting of profits to low or no-tax locations. In October 2015, the OECD published the final package of measures for a comprehensive, coherent and coordinated reform of the international tax rules for 15 key areas. These measures will apply once they are implemented either in domestic laws or in the network of

bilateral tax treaties. Some of the deliverables published by the OECD have been partially reflected to Japanese tax regulations by the tax reforms adopted from 2015 through 2021 and to certain several bilateral tax treaties to which Japan is a party through the implementation of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting in Japan.

Common Reporting Standard (CRS)

In order to prevent tax evasion and avoidance through offshore financial accounts, the OECD developed the Common Reporting Standards (“CRS”), which calls on jurisdictions to obtain information on financial accounts of non-residents from their financial institutions and automatically exchange that information with other jurisdictions. From the perspective of implementation of the exchange of information based on CRS, the Act on Special Provisions of the Income Tax Act, the Corporation Tax Act and the Local Tax Act Incidental to Enforcement of Tax Treaties as well as the cabinet and ministerial ordinances thereunder has been amended as part of the tax reform of 2015, which became effective on January 1, 2017, and those who open a financial account with a financial institution located in Japan must submit a self-certification indicating the name of the jurisdiction of residence, etc. From 2018, each financial institution must report information pertaining to financial accounts of specific non-residents and the information is automatically exchanged with tax administrations of each jurisdiction on an annual basis.

Deregulation

The developments toward deregulation of the financial system including those described below have made the Japanese banking industry highly competitive.

Deregulation of Bank Engagement in the Securities Business

The gradual relaxation of the restrictions under the Securities and Exchange Act allowed banks to engage in the following business lines, after taking appropriate registration measures with the FSA:

- underwriting and dealing in Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, commercial paper and certain bonds issued by special purpose companies;
- selling beneficiary certificates of investment trusts and securities issued by an investment company; and
- dealing in listed or OTC securities or derivatives transactions as well as in the securities intermediary business.

In addition, amendments to the FIEA and the Banking Act relating to firewalls and conflicts of interest between banks, securities companies and insurance companies became effective on June 1, 2009. The amendment relating to firewalls abolished the ban on certain officers and employees from holding concurrent posts in banks, securities companies and insurance companies, and relaxed restrictions on the transfer of non-public customer information. On the other hand, the amendment relating to conflicts of interest requires those financial institutions, including banks, to implement proper information management procedures and to develop appropriate internal systems to prevent customer interests from being unfairly harmed through trading by the companies or by other companies within their group. For example, the companies may be required to create information barriers between departments and monitor how it executes transactions with customers.

Deregulation of Insurance Products

The gradual deregulation of the financial services industry permitted banks in Japan to offer an increased variety of insurance products, including pension-type insurance to the full range, as an agent.

Privatization of Japan Post Holdings Co., Ltd.'s subsidiaries

In December 2014, under the Postal Privatization Act, Japan Post Holdings Co., Ltd. (“Japan Post Holdings”), a joint stock corporation that holds shares of operating companies, published a plan for the listing of Japan Post Holdings, Japan Post Bank, one of the world’s largest deposit-taking institutions, and Japan Post Insurance Co., Ltd. (“Japan Post Insurance”) and the gradual disposition of its shares of Japan Post Bank and Japan Post Insurance down to approximately 50% ownership. In November 2015, each of Japan Post Holdings, Japan Post Bank and Japan Post Insurance publicly offered approximately 11% of their outstanding shares, respectively, and they were listed on the Tokyo Stock Exchange. Japan Post Bank is required to receive prior approval of the Government of Japan to expand its business until Japan Post Holdings disposes of at least half of the shares of Japan Post Bank.

Regulations in the United States

As a result of its operations in the United States, the Company and SMBC are subject to extensive federal and state banking and securities supervision and regulation. SMBC engages in U.S. banking activities directly through its branches in Los Angeles, San Francisco and New York and through its representative offices in Houston, Dallas, Silicon Valley, Chicago and White Plains, New York. SMBC also controls a U.S. banking subsidiary, Manufacturers Bank, and a U.S. broker-dealer subsidiary, SMBC Nikko Securities America, Inc. Through a reorganization of our existing U.S. operations, the Company and SMBC established a U.S. bank holding company, SMBC Americas Holdings, Inc. (“SMBCAH”), a wholly-owned direct subsidiary of SMBC at January 1, 2019. SMBCAH is currently the holding company for Manufacturers Bank, SMBC Nikko Securities America, Inc. and certain other U.S. subsidiaries. The establishment of SMBCAH enhanced the Company and SMBC’s U.S. corporate governance capabilities by centralizing the supervision and management of its U.S. operations and bring together its primary U.S.-based banking, securities, capital markets and other subsidiaries under the new holding company.

SMBC’s New York branch is supervised by the Federal Reserve Bank of New York and the New York State Department of Financial Services, but its deposits are not insured (or eligible to be insured) by the Federal Deposit Insurance Corporation (“FDIC”). SMBC’s Los Angeles and San Francisco branches are supervised by the Federal Reserve Bank of San Francisco and the California Department of Financial Protection and Innovation (“DFPI”), but their deposits are not insured (or eligible to be insured) by the FDIC. SMBC’s representative offices in Houston and in Dallas are subject to regulation and examination by the Federal Reserve Bank of Dallas and the Texas Department of Banking. SMBC’s representative office in Silicon Valley is subject to regulation and examination by the Federal Reserve Bank of San Francisco and the California DFPI. SMBC’s representative office in Chicago is subject to regulation and examination by the Federal Reserve Bank of Chicago and the Illinois Department of Financial and Professional Regulation. SMBC’s representative office in White Plains, New York is subject to regulation and examination by the Federal Reserve Bank of New York and the New York State Department of Financial Services.

Manufacturers Bank is a California state-chartered bank with FDIC-insured deposits that is not a member of the Federal Reserve System. As such, Manufacturers Bank is subject to regulation, supervision and examination by the FDIC and the California DFPI.

The Company, SMBC and SMBCAH are bank holding companies by virtue of their ownership of Manufacturers Bank, and as such are subject to the U.S. Bank Holding Company Act of 1956, as amended (“Bank Holding Company Act”), and are subject to regulation, supervision and examination by the Federal Reserve Board as their U.S. “umbrella supervisor.” The Company, SMBC and SMBCAH are required to serve as sources of financial strength to Manufacturers Bank.

Restrictions on Business Activities

The Bank Holding Company Act imposes restrictions on the Company and SMBC’s U.S. non-banking operations. Bank holding companies that elect to be treated as financial holding companies, such as the

Company, SMBC and SMBCAH are, however, permitted to engage in a broader range of activities in the United States. Unless otherwise limited by the Federal Reserve Board, financial holding companies generally can engage, directly or indirectly in the U.S. and abroad, in financial activities, either de novo or by acquisition, by providing after-the-fact notice to the Federal Reserve Board. These financial activities include underwriting, dealing and making markets in securities, insurance underwriting and brokerage and making merchant banking investments in non-financial companies for a limited period of time, as long as the financial holding company does not directly or indirectly manage the non-financial companies' day-to-day activities, and the financial holding company's banking subsidiaries engage only in permitted cross-marketing with the non-financial companies.

The Company and SMBC elected to be treated as financial holding companies in May 2013, and SMBCAH elected to be treated as a financial holding company upon becoming a U.S. bank holding company in January 2019. The Company, SMBC, SMBCAH and Manufacturers Bank, as our U.S. insured depository institution subsidiary, are required to be "well capitalized" and "well managed," including maintenance of examination ratings that are at least satisfactory, in order for the Company, SMBC, and SMBCAH to continue to be treated as financial holding companies. In April 2019, SMBC and its New York branch entered into a written agreement with the Federal Reserve Bank of New York requiring SMBC and its New York branch to address certain deficiencies relating to the New York branch's anti-money laundering and economic sanctions compliance program. SMBC and its New York branch are required, among other things, to implement corrective measures and submit periodic progress reports to the Federal Reserve Bank of New York. In addition, as a result of the deficiencies identified in the written agreement, we no longer meet the requirements to be treated as a financial holding company, and, pending completion of a remediation plan designed to meet these requirements, we are currently subject to restrictions in our ability to engage in certain new categories of financial activities in the United States and to make acquisitions of companies engaged in activities in the United States. Divestiture or termination of certain business activities in the U.S. may also be required as a consequence of failure to correct the conditions giving rise to such restrictions within the prescribed period of time.

Under the Bank Holding Company Act, the Company, SMBC and SMBCAH are also required to obtain the prior approval of the Federal Reserve Board before directly or indirectly acquiring the ownership or control of more than 5% of any class of voting shares of U.S. banks, certain other depository institutions and bank or depository institution holding companies. In addition, SMBC's U.S. banking operations (including Manufacturers Bank and SMBC's U.S. branches) are also restricted from engaging in certain "tying" arrangements involving products and services.

Other Prudential Restrictions

SMBC's U.S. branches and Manufacturers Bank are subject to requirements and restrictions under U.S. federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be made and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operations of Manufacturers Bank, and to a limited extent, SMBC's New York and California branches.

In addition, under U.S. federal banking laws, state-chartered banks (such as Manufacturers Bank) and state-licensed branches and agencies of foreign banks (such as SMBC's New York branch) may not, as a general matter, engage as a principal in any type of activity not permissible for their federally chartered or licensed counterparts, unless (i) in the case of state-chartered banks, the FDIC determines that the additional activity would pose no significant risk to the FDIC's Deposit Insurance Fund and is consistent with sound banking practices and (ii) in the case of state-licensed branches and agencies of foreign banks, the Federal Reserve Board determines that the additional activity is consistent with sound banking practices. The U.S. federal banking laws also subject state branches and agencies of foreign banks to the same single-borrower lending limits that apply to federal branches or agencies, which are substantially similar to the lending limits applicable to national banks. For SMBC's U.S. branches, these single-borrower lending limits are based on the worldwide capital of SMBC.

Under the International Banking Act, the Federal Reserve Board may terminate the activities of any U.S. office of a foreign bank if it determines (i) that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country (unless the home country is making demonstrable progress toward establishing such supervision), (ii) that there is reasonable cause to believe that such foreign bank or its affiliate has violated the law or engaged in an unsafe or unsound banking practice in the United States and, as a result of such violation or practice, the continued operation of the U.S. office would be inconsistent with the public interest or with the purposes of federal banking laws, or (iii) for a foreign bank that presents a risk to the stability of the United States financial system, the home country of the foreign bank has not adopted, or made demonstrable progress toward adopting, an appropriate system of financial regulation to mitigate such risk.

There are various qualitative and quantitative restrictions on the extent to which the Company and its subsidiaries can borrow or otherwise obtain credit from Manufacturers Bank or engage in certain other transactions involving that subsidiary. In general, these transactions must be on terms that would ordinarily be offered by Manufacturers Bank to unaffiliated entities, and credit transactions must be secured by designated amounts of specified collateral. In addition, certain transactions, such as certain purchases by Manufacturers Bank from SMBC or its non-bank subsidiaries, are subject to volume limitations. Credit exposure arising from derivative transactions, securities borrowing and lending transactions, and repurchase/reverse repurchase agreements is subject to these collateral and volume transactions limitations.

U.S. Financial Regulatory Reform

Both the scope of the U.S. laws and regulations and the intensity of supervision have increased in recent years, in response to the financial crisis as well as other factors such as technological and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Act and its implementing regulations and have resulted in additional costs and impose certain limitations on our and SMBC's business activities. In 2017, President Trump issued an executive order that set forth principles for financial regulatory and legislative reform of the federal financial regulatory framework, and sparked several statutory and regulatory initiatives aimed at providing relief for the financial services industry. We expect that the Biden Administration and the Democratically-controlled Congress will seek to implement a regulatory reform agenda that is significantly different than that of the Trump Administration. It is too early for us to assess which policies would be implemented and what their impact on us would be.

We are subject to the Volcker Rule, which restricts the ability of banking entities, such as us and SMBC, to engage as principal in proprietary trading activities, or sponsor, invest in, or retain investments in certain private equity, hedge or similar funds, but a number of exclusions and exemptions limit the Volcker Rule's extraterritorial reach. In the second half of 2019, rules were adopted amending certain aspects of the Volcker Rule, including the Volcker Rule definition of proprietary trading and certain compliance program requirements. In January 2020, additional amendments were proposed to the covered funds portion of the Volcker Rule and a final rule implementing the proposal was adopted in June 2020.

Under the Dodd-Frank Act, the Federal Reserve Board has imposed greater capital, leverage and liquidity requirements and other heightened prudential standards for bank holding companies and foreign banking organizations that exceed certain thresholds. In imposing heightened prudential standards on foreign banking organizations such as us and SMBC, the Federal Reserve Board is directed to take into account the principle of national treatment and equality of competitive opportunity, and the extent to which the non-U.S. bank holding company is subject to comparable home country standards.

In 2014, the Federal Reserve Board adopted rules that apply enhanced prudential standards to the large foreign banking organizations ("EPS Rules"), including us. The EPS Rules require certain foreign banking organizations, such as us, to certify that they are subject to home country capital standards that are broadly consistent with the Basel capital framework, including Basel III; conduct home country capital stress tests that

are comparable to U.S. standards; comply with a certain liquidity requirements, including, among other things, a U.S. liquidity buffer requirement for its U.S. branches and agencies based on the results of internal liquidity stress testing; and establish a U.S. risk committee that periodically reviews the risk management policies and oversees the risk management framework of its U.S. operations. The EPS Rules also require foreign banking organizations with combined U.S. assets (excluding assets held by its U.S. branches and agencies) of \$50 billion or more to establish a separately capitalized top-tier U.S. intermediate holding company. We are not subject to this requirement because we do not meet this threshold, but we have established SMBCAH in consideration of this requirement. The Federal Reserve Board finalized amendments to the EPS Rules in October 2019 to revise the thresholds for total consolidated assets at which the enhanced prudential standards apply (“Tailoring Amendments”), but the Tailoring Amendments did not significantly change the requirements under the EPS Rules that are applicable to us.

In June 2018, as part of the implementation of the EPS Rules, the Federal Reserve Board published a rule, which was subsequently amended by the Tailoring Amendments, implementing single counterparty credit limits (“SCCL”) applicable to the U.S. operations of certain foreign banking organizations, such as us. The SCCL rule, being applied from July 1, 2021, in general imposes limitations on net credit exposures to individual counterparties (aggregated based on affiliation) as a percentage of Tier 1 capital. We may comply with the SCCL rule by certifying to the Federal Reserve Board that we comply with a home country regime (“Home Country SCCL”) on a consolidated basis that is consistent with the Large Exposures Framework published by the Basel Committee going forward. New Japanese Home Country SCCL, which was implemented from April 1, 2020, is intended to be consistent with the Large Exposures Framework, and we intend to comply with the Federal Reserve Board’s SCCL rule through substituted compliance. Although a proposed rule has been released in 2012, a final rule for an early remediation framework applicable to foreign banking organizations under Section 166 of the Dodd-Frank Act has yet to be promulgated by the Federal Reserve Board.

The Dodd-Frank Act removed a longstanding prohibition on the payment of interest on demand deposits that was applicable to banking entities such as Manufacturers Bank and SMBC’s three branches in the United States. In addition, Manufacturers Bank and SMBC’s three branches in the United States are subject to federal lending limits that take into account credit exposure arising from derivative transactions and securities lending, securities borrowing, and repurchase agreements and reverse repurchase agreements with counterparties as well as state lending limits.

The Dodd-Frank Act also provides for an extensive framework for the regulation of OTC derivatives, including mandatory clearing, exchange trading and transaction reporting of certain OTC derivatives. In addition, certain entities are required to register with the CFTC as “swap dealers” or “major swap participants” or with the SEC as “security-based swap dealers” or “major security-based swap participants.” Our subsidiary, SMBC Capital Markets, Inc., is provisionally registered as a swap dealer. There are various mandatory clearing, trade execution and reporting requirements for swaps. We do not currently expect to register any entity with the SEC as a security-based swap dealer or major security-based swap participant.

Furthermore, the Dodd-Frank Act requires the SEC to establish rules requiring issuers with listed securities, which may include non-U.S. private issuers such as us, to establish a “clawback” policy to recoup previously awarded compensation in the event of an accounting restatement. The Dodd-Frank Act also expands the extraterritorial jurisdiction of U.S. courts over actions brought by the SEC or the United States with respect to violations of the antifraud provisions in the Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940.

Laws Prohibiting Money Laundering and Terrorist Financing

The Bank Secrecy Act / Anti-Money Laundering Regulation in the U.S.

The Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 (“PATRIOT Act”) and the Anti-Money Laundering Act of 2020 contains measures to prevent and detect the financing of terrorism and

international money laundering by imposing significant compliance and due diligence obligations, creating crimes, providing for penalties and expanding the extraterritorial jurisdiction of the United States. The Bank Secrecy Act, as amended, imposes anti-money laundering compliance obligations on U.S. financial institutions, including the U.S. offices of foreign banks. The passage of the PATRIOT Act and other events have resulted in heightened scrutiny of compliance with the Bank Secrecy Act and anti-money laundering rules by federal and state regulatory and law enforcement authorities.

U.S. Sanctions Targeting Iran Related Activities

Starting in 2010, the U.S. government implemented various sanctions targeting non-U.S. parties that engage in specified Iran-related activities. Various statutes, Executive Orders and regulations, including the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 (which, among other things, amended the Iran Sanctions Act of 1996), Section 1245 of the National Defense Authorization Act for Fiscal Year 2012, the Iran Threat Reduction and Syria Human Rights Act of 2012, and the Iran Freedom and Counter-Proliferation Act of 2012, authorize the imposition of sanctions on parties that engage in, among other things, certain activities relating to Iran's energy, petroleum, metals, shipping or shipbuilding sectors or that facilitate "significant" transactions or provide "significant financial services" for certain Iran-linked individuals or entities or the Islamic Revolutionary Guard Corps. Persons engaged in targeted activities involving Iran face exposure to secondary sanctions or enforcement actions under U.S. law. It is SMBC's policy not to conduct activities that are impermissible under secondary sanctions.

Prior to U.S. withdrawal from the JCPOA the United States along with the European Union provided Iran with certain sanctions relief. On Implementation Day, the U.S. government revoked certain Iran-related Executive Orders, temporarily waived certain statutory provisions and removed various individuals and entities from the Specially Designated Nationals and Blocked Persons List (the "SDN List") maintained by OFAC. However, certain U.S. secondary sanctions targeting Iran remained in effect, including those targeting significant transactions involving Iranian or Iran-related SDNs or the Islamic Revolutionary Guard Corps.

In November 2018, following certain wind-down periods, the United States fully re-imposed sanctions (both primary and secondary) that had been waived or lifted under the JCPOA. On the same day, OFAC added back to the SDN List a number of parties that had been removed on Implementation Day from the list. Persons engaged in targeted activities involving Iran face exposure to secondary sanctions or enforcement actions under U.S. law. It is SMBC's policy not to conduct activities that are impermissible under secondary sanctions. Additionally, in 2019 and 2020, former President Trump issued further Iran-related Executive Orders, including orders authorizing sanctions with respect to additional sectors of the Iranian economy, including metals, mining, manufacturing, textiles, construction, and other sectors identified by the Secretary of the Treasury. Pursuant to one of these orders, Executive Order 13902, on October 8, 2020, the Secretary of the Treasury identified the financial sector of the Iranian economy as subject to sanctions and OFAC added 18 major Iranian banks to the SDN List. As a result of this action, non-U.S. financial institutions that engage in non-humanitarian transactions involving the listed 18 banks may be targeted by secondary sanctions.

After a transition period in which certain countries, including Japan, were granted temporary "significant reduction exceptions" that permitted some purchases of oil from Iran to continue without risking sanctions, the United States also fully resumed efforts to reduce Iran's crude oil sales, backed by the potential threat of correspondent account sanctions targeting foreign financial institutions. These exceptions expired in May 2019 without further extension.

President Biden has signaled a willingness to resume U.S. participation in the JCPOA, and in April 2021, the parties to the JCPOA began negotiations as to the steps required for both the United States and Iran to come back into compliance with the JCPOA. As of June 29, 2021, these negotiations have not been concluded, and the sanctions described above remain in full effect.

Ukraine Freedom Support Act of 2014, as Amended

In order to deter the Russian government from further destabilizing and invading Ukraine, the U.S. government enacted the Ukraine Freedom Support Act of 2014 (signed into law on December 18, 2014). Among other things, the Act, as amended by the Countering America's Adversaries Through Sanctions Act of 2017 (signed into law in August 2017), mandates prohibitions or strict limitations on the opening or maintaining of correspondent or payable-through accounts in the United States by non-U.S. financial institutions determined by the U.S. government (i) to have knowingly engaged in on or after December 18, 2014 in significant transactions involving certain activities described in the Act, including those involving individuals or entities on whom sanctions are imposed pursuant to the Act for making a significant investment in a project for the extraction of deepwater, Arctic offshore or shale formation crude oil in Russia, or (ii) to have knowingly facilitated, on or after June 16, 2015, a significant financial transaction on behalf of any Russian individual or entity included on the SDN List pursuant to Ukraine-related sanction programs.

U.S. Sanctions Relating to China

The United States government has imposed sanctions and other restrictive measures, and taken other steps, in response to a number of concerns with the actions and policies of the Chinese government. In response to Chinese actions to limit the autonomy of Hong Kong, the U.S. government enacted the Hong Kong Autonomy Act (signed into law on July 14, 2020) which is implemented by Executive Order 13936. Among other things, the Act provides for the imposition of asset-blocking sanctions against any non-U.S. persons determined to be materially contributing to, have materially contributed to, or have attempted to materially contribute to the failure of the Government of China to meet its obligations under the Sino-British Joint Declaration or Hong Kong's Basic Law. The Act also mandates the imposition of sanctions against non-U.S. financial institutions determined by the U.S. government to have knowingly conducted a significant transaction involving persons sanctioned under the Act. The U.S. State and Treasury Departments are required to periodically submit reports to Congress identifying non-U.S. persons and non-U.S. financial institutions sanctioned under the Act. To date, 34 foreign persons (principally Chinese and Hong Kong government and security officials) have been identified as subject to asset-blocking sanctions under the Act and Executive Order 13936. No non-U.S. financial institutions have been determined to be subject to sanctions under the Act. The U.S. government has indicated that it will contact any non-U.S. financial institution it believes to be engaged in sanctionable conduct under the Act prior to imposing sanctions against it.

In response to concerns that companies linked to the Chinese military have used access to U.S. capital markets to improve Chinese military and intelligence capabilities, on November 12, 2020, then President Trump issued Executive Order 13959, which was subsequently amended in January 2021 by Executive Order 13974. On June 3, 2021, President Biden issued Executive Order 14032, which further amended Executive Order 13959 to rescind the Trump administration sanctions and replace them with similar restrictions applicable to a modified list of Chinese companies operating in the defense or surveillance technology sectors of the Chinese economy. As amended by Executive Order 14032, Executive Order 13959 prohibits U.S. persons from purchasing or selling publicly traded securities issued by the companies named in the Annex to or designated pursuant to the Order, as well as publicly traded securities that are derivative of or provide investment exposure to such securities. The Order's prohibitions will become effective with respect to securities of or linked to companies named in the Annex to the Order on August 2, 2021, and take effect 60 days after the date of listing for companies named pursuant to the Order. Executive Order 13959, as amended provides a 365-day period from the date of the relevant company's listing in or pursuant to the Order during which U.S. persons may purchase or sell affected securities for purposes of divestment.

The United States has also taken steps in response to concerns about Chinese actions in the Xinjiang Uyghur Autonomous Region ("Xinjiang"). Pursuant to the Global Magnitsky Human Rights Accountability Act and Executive Order 13818, which authorize the imposition of sanctions against persons in any country determined to be involved in certain human rights abuses, the U.S. government has named a number of Chinese government

officials and entities to the SDN List. The sanctioned entities include the Xinjiang Production and Construction Corps (“XPCC”) and its subsidiaries. In July 2020, several U.S. government agencies jointly published an advisory concerning risks and considerations for businesses with supply chain exposure to entities engaged in forced labor and other human rights abuses in Xinjiang. The advisory highlights legal, economic, and reputational risks to U.S. and non-U.S. companies with potential exposure in their supply chain to Xinjiang or to facilities outside Xinjiang that use labor or goods from that region and recommends that such businesses implement human rights-related due diligence policies and procedures. While the advisory does not have the force of law, it is possible that it could be supplemented in the future by mandatory regulations.

U.S. Sanctions Relating to Burma

On February 11, 2021, in response to the military coup in Burma, President Biden issued Executive Order 14014, which authorizes the imposition of sanctions, among others, against persons responsible for undermining democratic processes and institutions in Burma, Burmese government and military officials, and immediate family members of such persons, as well as Burmese government agencies or instrumentalities and entities operating in the defense sector of the Burmese economy or other sectors identified by the Secretary of the Treasury. Pursuant to the Order, OFAC has imposed sanctions on a number of Burmese government and military officials and their associates, as well as on state-owned gem, pearl, and lumber enterprises and state holding companies. Sanctions against additional individuals and entities are possible in the future.

Foreign Account Tax Compliance Act

Provisions of the U.S. tax law commonly referred to as the Foreign Account Tax Compliance Act (“FATCA”), which became effective on July 1, 2014, aims to prevent U.S. persons from hiding their financial assets or evading their U.S. federal income tax obligations by the use of offshore accounts. A foreign financial institution that has entered into an agreement with the U.S. Internal Revenue Service (“IRS”) pursuant to which it agrees to comply with FATCA, referred to as a “participating foreign financial institution” (“PFFI”), is required to perform specified due diligence, reporting and withholding functions (a “PFFI agreement”). Specifically, under FATCA, a PFFI is required to ascertain the U.S. status of customers through specified due diligence and report certain information annually to the IRS. In cases where customers are not compliant with FATCA, PFFIs are obligated to carry out specified reporting and withholding procedures as prescribed. The consequences for foreign financial institutions that are not compliant with FATCA include being subjected to a 30% withholding tax on certain withholdable payments from U.S. sources and reporting to the IRS.

The United States entered into intergovernmental agreements or reached agreements in substance with more than 100 countries in furtherance of the objectives of FATCA, which modify the operation of FATCA with respect to financial institutions located in those countries. The United States and Japan have entered into an intergovernmental agreement to facilitate the implementation of FATCA pursuant to which Japanese financial institutions (such as us and certain of SMBC Group companies) are directed by the Japanese authorities to register with the IRS and fulfill obligations consistent with those required under a PFFI agreement. We are registered with the IRS as a PFFI. We are committed to complying with FATCA as a PFFI and abiding by the terms of our PFFI agreement with the IRS within the jurisdictions in which we operate and in accordance with the time frame set out by the IRS. We closely monitor FATCA developments and evolving industry practices to ensure continued compliance with FATCA.

Other Regulations in the United States

In the United States, SMBC’s U.S.-registered broker-dealer subsidiary, SMBC Nikko Securities America, Inc. is regulated by the SEC. Broker-dealers are subject to regulations that cover all aspects of the securities business, including:

- sales methods;

- trade practices among broker-dealers;
- use and safekeeping of customers' funds and securities;
- capital structure;
- record-keeping;
- the financing of customers' purchases; and
- the conduct of directors, officers and employees.

In addition, SMBC Nikko Securities America, Inc. is a member of and regulated by the Financial Industry Regulatory Authority and is regulated by the individual state securities authorities in the states in which it operates. The U.S. government agencies and self-regulatory organizations, as well as state securities authorities in the United States having jurisdiction over SMBC's U.S. broker-dealer affiliates, are empowered to conduct administrative proceedings that can result in, among other things, censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or its directors, officers or employees.

Regulations in Other Jurisdictions

Elsewhere in the world, our operations are subject to regulation and control by local central banks and monetary authorities.

Disclosure Pursuant to Section 13(r) of the Securities Exchange Act of 1934

Section 13(r) of the Securities Exchange Act of 1934, as amended, requires an issuer to disclose whether it or any of its affiliates knowingly engaged in certain activities or transactions relating to Iran or with individuals or entities designated by the U.S. government under specified Executive Orders, even if those activities are not prohibited by U.S. law and are conducted outside the United States by non-U.S. affiliates. During the twelve months ended March 31, 2021, one affiliate of SMFG, SMBC, engaged in activities subject to disclosure under Section 13(r). SMBC conducted these activities consistent with its internal policies and procedures, the policies and procedures of SMFG, and applicable laws and regulations, and to the extent they are not sanctionable under U.S. secondary sanctions. SMBC has discontinued activities that have become impermissible or subject to secondary sanctions as a result of changes in applicable laws and regulations.

SMBC provided remittance and other settlement services in connection with customers' trade transactions between Japan and Iran. These transactions principally involved the exportation of civilian commercial products including medical devices from Japan and were conducted with an Iranian bank owned by the Government of Iran. These transactions did not involve entities or other persons listed on the SDN List at the time of the transaction and did not involve the settlement of U.S. dollar-denominated payments cleared through U.S. banks. SMBC has informed SMFG that it intends to continue to engage in these types of transactions only to the extent permitted under applicable regulations and to the extent they are not sanctionable under U.S. secondary sanctions. For the twelve months ended March 31, 2021, the gross revenue related to these transactions was ¥0.5 million, representing less than 0.0001% of SMFG's total interest and fee income. SMFG does not allocate direct costs to interest and fee income and therefore does not calculate net profits with respect to these transactions.

SMBC has issued performance bonds and advance payment bonds that supported various projects, including the construction of petroleum plants in Iran. Some of these bonds had counterparties that were entities controlled by the Government of Iran. Some of these bonds have matured, and SMBC has not renewed and will not renew them unless permitted under applicable regulations and to the extent they are not sanctionable under U.S. secondary sanctions, but SMBC continues to have obligations under the matured performance bonds until they are returned or cancelled by the beneficiaries. SMBC has also received fees from its customers on whose behalf

it issued the performance bonds. For the twelve months ended March 31, 2021, the gross revenue relating to these transactions was ¥1.6 million, representing less than 0.0001% of SMFG's total interest and fee income. As noted above, SMFG does not allocate direct costs to interest and fee income and therefore does not calculate net profits with respect to these transactions. SMBC has informed SMFG that it intends to continue to accept fee income from its customers for whose account the performance bonds were issued and to pay the relevant fees to the Iranian banks, to the extent authorized by the Ministry of Finance of Japan or otherwise permitted under applicable regulations, until the bonds are returned or cancelled. However, SMBC strongly urges the relevant customers to ask the beneficiaries to agree to return or cancel the matured performance bonds.

SMBC has frozen the U.S. dollar accounts of all Iranian banks. SMBC has frozen Japanese yen accounts of government-owned Iranian banks, including an account for the Central Bank of Iran; all such accounts were frozen at the time of the designation of the relevant bank under Executive Order 13224 or 13902, as applicable. Certain transactions described in this disclosure were conducted through the use of one of such accounts prior to the designation of the relevant bank under Executive Order 13902. These transactions were conducted in accordance with Japanese law, and we do not believe that the transactions were sanctionable under U.S. sanctions that were in effect at the time the transactions occurred. SMBC has discontinued activities that have become impermissible or subject to secondary sanctions as a result of changes in applicable laws and regulations, including transactions involving the Central Bank of Iran whose account has been frozen.

The gross revenue attributable to the accounts of government-owned Iranian banks for the twelve months ended March 31, 2021, was ¥0.8 million, representing less than 0.0001% of SMFG's total interest and fee income. SMFG does not allocate direct costs to interest and fee income and therefore does not calculate net profits with respect to these transactions. SMBC has informed SMFG that it intends to continue to maintain the Iranian accounts described above only to the extent permitted under applicable laws and regulations and to the extent the activities are not targeted by secondary sanctions.

As of the date of this annual report, to our knowledge, there is no other activity for the twelve months ended March 31, 2021 that requires disclosure under Section 13(r) of the Securities Exchange Act of 1934.

4.C. ORGANIZATIONAL STRUCTURE

The following chart presents our corporate structure summary at March 31, 2021.

		Business Segments ⁽²⁾				
		Wholesale Business Unit	Retail Business Unit	Global Business Unit	Global Markets Business Unit	Head office account and others
Sumitomo Mitsui Financial Group, Inc.	Commercial Banking	(Domestic)				
		Sumitomo Mitsui Banking Corporation (SMBC)	○	○	○	○
		SMBC Trust Bank Ltd.	○	○		
		SMBC Guarantee Co., Ltd. (Credit guarantee)		○		
		The Japan Net Bank, Limited ⁽¹⁾⁽³⁾ (Internet banking)		○		
		(Foreign)				
		SMBC Bank International plc		○		
		Sumitomo Mitsui Banking Corporation (China) Limited	○	○	○	
		PT Bank BTPN Tbk		○		
		SMBC Americas Holdings, Inc. (Bank holding company)		○		
		Manufacturers Bank		○		
		Banco Sumitomo Mitsui Brasileiro S.A.		○		
		JSC Sumitomo Mitsui Rus Bank		○		
		SMBC Bank EU AG		○		
		Sumitomo Mitsui Banking Corporation Malaysia Berhad		○		
		The Bank of East Asia, Limited ⁽¹⁾		○		
		ACLEDA Bank Plc ⁽¹⁾		○		
		Vietnam Export Import Commercial Joint Stock Bank ⁽¹⁾		○		
	Leasing	(Domestic)				
		Sumitomo Mitsui Finance and Leasing Company, Limited ⁽¹⁾	○	○		
		Sumitomo Mitsui Auto Service Company, Limited ⁽¹⁾	○	○		
		(Foreign)				
		SMBC Leasing and Finance, Inc.		○		
		SMBC Aviation Capital Limited ⁽¹⁾		○		
	Securities	(Domestic)				
		SMBC Nikko Securities Inc.	○	○	○	○
		(Foreign)				
		SMBC Nikko Securities America, Inc.		○		
		SMBC Nikko Capital Markets Limited		○		
	Consumer Finance	(Domestic)				
		Sumitomo Mitsui Card Company, Limited (Credit card)	○	○		
		SMBC Finance Service Co., Ltd. (Credit card, consumer credit and installment transaction)	○	○		
		SMBC Consumer Finance Co., Ltd. (Consumer lending)		○		
		SMBC Mobit Co., Ltd. (Consumer lending)		○		
		POCKET CARD CO., LTD. ⁽¹⁾ (Credit card)		○		
	Others	(Domestic)				
		The Japan Research Institute, Limited (System development, data processing, management consulting and economic research)				○
		Sumitomo Mitsui DS Asset Management Company, Limited (Investment management, and investment advisory and agency)				○
		Alternative Investment Capital Limited (Investment management and investment advisory)				○
		NCore Co., Ltd. (Data processing service and consulting)				○
		SMBC Venture Capital Co., Ltd. (Venture capital)	○			
		SMBC Consulting Co., Ltd. (Management consulting and information services)	○			
		Japan Pension Navigator Co., Ltd. (Operational management of defined contribution pension plans)		○		
		SAKURA KCS Corporation ⁽¹⁾ (System engineering and data processing)				○
		JSOL Corporation ⁽¹⁾ (System development and data processing)				○
		Sakura Information Systems Co., Ltd. ⁽¹⁾ (System engineering and data processing)				○
		(Foreign)				
		SMBC Capital Markets, Inc. (Derivatives)		○		
		TT International Asset Management Ltd (Investment management, and investment advisory and agency)				○

(1) These companies are our associates or joint ventures.

(2) Chart indicates the classification of SMBC Group companies into each of SMBC Group-wide business segments.

(3) The Japan Net Bank, Limited changed its corporate name to PayPay Bank Corporation on April 5, 2021.

As the ultimate holding company of the SMBC Group, we are responsible for:

- group strategy and management;
- group resource allocation;
- group financial accounting;
- investor relations;
- capital strategy;
- group IT strategy;
- HR management for group executives;
- group risk management, internal control and compliance;
- compensation schemes; and
- efficiently harmonizing our operations on a SMBC Group-wide basis.

Principal Subsidiaries

Our principal subsidiaries at March 31, 2021 are shown in the list below. We consolidate all entities that we control. We control an entity when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity.

Principal domestic subsidiaries

<u>Company Name</u>	<u>Proportion of Ownership Interest⁽¹⁾</u>	<u>Proportion of Voting Rights⁽¹⁾</u>	<u>Main Business</u>
	(%)	(%)	
Sumitomo Mitsui Banking Corporation	100.0	100.0	Commercial banking
SMBC Trust Bank Ltd.	100.0	100.0	Trust Banking
SMBC Guarantee Co., Ltd.	100.0	100.0	Credit guarantee
SMBC Nikko Securities Inc.	100.0	100.0	Securities
Sumitomo Mitsui Card Company, Limited	100.0	100.0	Credit card
SMBC Finance Service Co., Ltd.	100.0	100.0	Credit card, consumer credit and installment transaction
SMBC Consumer Finance Co., Ltd.	100.0	100.0	Consumer lending
SMBC Mobit Co., Ltd.	100.0	100.0	Consumer lending
The Japan Research Institute, Limited	100.0	100.0	System development, data processing, management consulting and economic research
Sumitomo Mitsui DS Asset Management Company, Limited	50.1	50.1	Investment management, and investment advisory and agency
Alternative Investment Capital Limited	60.0	60.0	Investment management and investment advisory
NCore Co., Ltd.	51.0	51.0	Data processing service and consulting
SMBC Venture Capital Co., Ltd.	40.0	40.0 ⁽²⁾	Venture capital
SMBC Consulting Co., Ltd.	98.3	98.3	Management consulting and information services
Japan Pension Navigator Co., Ltd.	69.7	69.7	Operational management of defined contribution pension plans

(1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.

(2) This company is accounted for as a subsidiary, despite our holdings of less than 50% of the voting rights, because we are able to govern the financial and operating policies of this company under a statute or an agreement.

Principal foreign subsidiaries

Company Name	Country of Incorporation	Proportion of Ownership Interest ⁽¹⁾ (%)	Proportion of Voting Rights ⁽¹⁾ (%)	Main Business
SMBC Bank International plc	U.K.	100.0	100.0	Commercial banking
Sumitomo Mitsui Banking Corporation (China) Limited	China	100.0	100.0	Commercial banking
PT Bank BTPN Tbk	Indonesia	98.4	93.5 ⁽²⁾	Commercial banking
SMBC Americas Holdings, Inc.	U.S.A.	100.0	100.0	Bank holding company
Manufacturers Bank	U.S.A.	100.0	100.0	Commercial banking
Banco Sumitomo Mitsui Brasileiro S.A.	Brazil	100.0	100.0	Commercial banking
JSC Sumitomo Mitsui Rus Bank	Russia	100.0	100.0	Commercial banking
SMBC Bank EU AG	Germany	100.0	100.0	Commercial banking
Sumitomo Mitsui Banking Corporation Malaysia Berhad	Malaysia	100.0	100.0	Commercial banking
SMBC Leasing and Finance, Inc.	U.S.A.	100.0	100.0	Leasing
SMBC Nikko Securities America, Inc.	U.S.A.	100.0	100.0	Securities
SMBC Nikko Capital Markets Limited	U.K.	100.0	100.0	Securities
SMBC Capital Markets, Inc.	U.S.A.	100.0	100.0	Derivatives
TT International Asset Management Ltd	U.K.	100.0	100.0	Investment management, and investment advisory and agency

(1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.

(2) During the fiscal year ended March 31, 2020, we disposed of 4.9% equity interest in PT Bank BTPN Tbk to a third party investor. The disposal was undertaken to ensure that PT Bank BTPN Tbk is compliant with the free float requirement under the Indonesia Stock Exchange's Rule. We had also entered into a commercial arrangement where the economic exposure resulting from the disposal is being retained. Therefore the disposal has not resulted in a decrease in our ownership interests.

4.D. PROPERTY, PLANT AND EQUIPMENT

We own or lease the land and buildings in which we conduct our business. Most of the property that we operate in Japan is owned by us to be used by our branches. In contrast, our international operations are conducted out of leased premises. Our head office building in Marunouchi is leased from a third party. Our largest property is SMBC's East Tower in Marunouchi, with a net carrying value of ¥167 billion, including the land and building, at March 31, 2021.

The following table shows the net carrying amount of our tangible fixed assets at March 31, 2021.

	At March 31, 2021 (In millions)
Assets for rent	¥ 437,735
Land	487,660
Buildings	363,963
Right of use assets	373,002
Others	92,301
Total	¥ 1,754,661

For more information, see Note 12 "Property, Plant and Equipment" to our consolidated financial statements included elsewhere in this annual report.

The total area of land related to our material office and other properties at March 31, 2021 was approximately 642,000 square meters for owned land and approximately 14,000 square meters for leased land.

We are not aware of any material environmental issues that may affect the utilization of our assets.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The discussion below should be read together with “Item 3.A. Selected Financial Data” and our consolidated financial statements and related notes included elsewhere in this annual report. Unless otherwise indicated, we present our information on a consolidated basis.

OVERVIEW

Operating Environment

Our results of operations and financial condition are significantly affected by developments in Japan as well as the global economy.

The Japanese economy deteriorated rapidly for the period from April to June 2020, due to the COVID-19 pandemic. It recovered gradually for the period from July to December 2020, reflecting the gradual resumption of business activities in Japan and overseas. However, it was at a standstill for the period from January to March 2021, resulting from the upward trend in new cases of COVID-19 and the reintroduction of restrictive measures.

Japanese gross domestic product (“GDP”) decreased by 4.6% for the fiscal year ended March 31, 2021, compared with a decrease of 0.5% in the previous fiscal year, based on data published in June 2021 by the Cabinet Office of the Government of Japan. The consumer price index for Japan (all items, less fresh food) (“CPI”) decreased by 0.4% for the same period, compared with an increase of 0.6% in the previous fiscal year, based on data published in April 2021 by the Statistics Bureau of Japan.

The following table presents quarter-on-quarter growth rates of Japanese GDP during the fiscal year ended March 31, 2020 and 2021.

	For the fiscal year ended March 31,							
	2020				2021			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Japanese GDP	0.1%	0.1%	(1.9%)	(0.5%)	(8.1%)	5.3%	2.8%	(1.0%)

Japanese GDP declined sharply for the first quarter ended June 30, 2020, primarily due to decreases in private consumption resulting from the voluntary restraint on social and business activities and exports of goods and services caused by the downturn in overseas economies and a sharp decline in foreign tourist spending, affected by the COVID-19 pandemic. It recovered gradually from the second quarter ended September 30, 2020 to the third quarter ended December 31, 2020, primarily due to increases in private consumption and exports of goods and services resulting from the resumption of business activities in Japan and overseas. However, for the fourth quarter ended March 31, 2021, the quarter-on-quarter growth rate of Japanese GDP was negative, primarily due to a decrease in private consumption resulting from the upward trend in new cases of COVID-19 and the reintroduction of restrictive measures.

Although the employment situation weakened due to the COVID-19 pandemic, it has subsequently remained stable. The active job openings-to-applicants ratio published by the Ministry of Health, Labour and

Welfare of Japan continued to decline for the first half of the fiscal year ended March 31, 2021, but showed some signs of improvement for the second half of the fiscal year. According to the statistical data published by the Statistics Bureau of Japan, the unemployment rate, which fell to 2.2% in December 2019, rose with the spread of COVID-19 to 3.1% in October 2020. Subsequently it fell to 2.6% in March 2021. Compensation of employees decreased by 3.5% on a quarter-on-quarter basis for the first quarter ended June 30, 2020 and it then recovered gradually. As a result, its rate of decrease was 2.1% for the fiscal year ended March 31, 2021.

Further, according to Teikoku Databank, a research institution in Japan, there were approximately 7,300 corporate bankruptcies in Japan during the fiscal year ended March 31, 2021, a decrease of 13.8% from the previous fiscal year, involving approximately ¥1.2 trillion in total liabilities, a decrease of 0.1% from the previous fiscal year.

Interest rates in Japanese financial and capital markets are affected by the monetary policy measures of the Bank of Japan (“BOJ”). In January 2016, in addition to the existing provision of ample funds, the BOJ announced the introduction of “quantitative and qualitative monetary easing with a negative interest rate.” Thereafter, the BOJ announced the introduction of a new policy framework, “quantitative and qualitative monetary easing with yield curve control” in September 2016. Under this policy framework, the BOJ would keep short-term interest rates down by maintaining its policy of applying a negative interest rate of minus 0.1% to certain excess reserves of financial institutions held at the BOJ. Moreover, the BOJ indicated it would purchase Japanese government bonds so that the yield of the 10-year Japanese government bonds would be close to around 0% to control long-term interest rates. In July 2018, the BOJ decided to introduce forward guidance for policy rates with a view to persistently continuing with powerful monetary easing. Further, in October 2019, the BOJ amended its forward guidance to indicate that it expects short- and long-term interest rates to remain at or below their present levels so long as the BOJ believes it is necessary to pay close attention to the possibility of a loss in momentum toward achieving its 2% price stability target. In March 2020, the BOJ announced “enhancement of monetary easing in light of the impact of the outbreak of COVID-19.” The BOJ stated in this announcement that it decided to enhance monetary easing with a view to doing its utmost to ensure smooth corporate financing and maintaining stability in financial markets, thereby preventing firms’ and households’ sentiment from deteriorating. Thereafter, on April 27, 2020 and May 22, 2020, the BOJ decided to further enhance monetary easing and introduce measures to support corporate financing taking into account the negative impact of the COVID-19 pandemic on Japanese economic conditions. Moreover, on March 19, 2021, the BOJ announced the establishment of a scheme to apply interest rates, which would be linked to the short-term policy interest rate, as an incentive to a certain amount of financial institutions’ current account balances, based on the recognition of the importance of continuing with monetary easing in a sustainable manner and making nimble and effective responses to counter changes in developments in economic activity and prices, as well as in financial conditions. In addition, the BOJ made clear that the range of the 10-year Japanese government bonds yield fluctuations would be between around plus and minus 0.25% from the target level. Under such circumstances, the uncollateralized overnight call rate, which is the benchmark short-term interest rate, remained negative for the fiscal year ended March 31, 2021. The yield on newly issued Japanese government bonds with a maturity of 10 years, which is the benchmark long-term interest rate, was at around 0% for the same period.

The yen depreciated against the U.S. dollar from ¥108.42 at March 31, 2020 to ¥110.74 at March 31, 2021, according to the statistical data published by the BOJ.

The Nikkei Stock Average, which is a price-weighted average of 225 stocks listed on the Tokyo Stock Exchange First Section, rose from ¥18,917.01 to ¥30,467.75 at February 16, 2021, its highest closing level since August 1990. However, it then dropped to ¥29,178.80 at March 31, 2021.

According to a report published by the Ministry of Land, Infrastructure, Transport and Tourism of Japan, the average residential land price and the average commercial land price in Japan increased by 0.8% and 3.1%, respectively, in the calendar year 2020.

The global economy deteriorated owing to the COVID-19 pandemic for the period from April to June 2020. Thereafter, it recovered gradually, reflecting the resumption of business activities around the world in general. However, in some countries and regions where new cases of COVID-19 had been on an upward trend, the pace of the recovery slowed down, primarily due to restraints on economic activity caused by reintroduction of restrictive measures.

The U.S. economy deteriorated rapidly for the period from April to June 2020, primarily due to declines in private consumption, business fixed investment and exports of goods and services affected by the COVID-19 pandemic. Thereafter, it recovered gradually for the period from July 2020 to March 2021, primarily due to an increase in private consumption and business fixed investment, reflecting the gradual recovery of business activities. Economic growth in Europe showed a sharp decline for the period from April to June 2020. This was primarily due to decreases in private consumption resulting from the restraint on movement and exports of goods and services caused by a decline in foreign tourist spending, affected by the COVID-19 pandemic. As a result of the gradual resumption of business activities, the European economy recovered initially. However, it was at a standstill thereafter, reflecting the upward trend in new cases of COVID-19 and the reintroduction of restrictive measures. In Asia, the Chinese economy was picking up with the resumption of business activities from April 2020. Asian economies other than China continued to slow down due to the COVID-19 pandemic, but some of them showed some signs of recovery or bottoming out during the second half of the fiscal year ended March 31, 2021.

In addition to economic factors and conditions, we expect that our results of operations and financial condition will be significantly affected by regulatory trends such as Japanese TLAC Standards, the Basel III reforms and the Dodd-Frank Act. For a more detailed description of regulations to which we are subject, risks associated with regulatory development and our management policy under this environment, see “Item 3.D. Risk Factors—Risks Related to Our Business,” “Item 4.B. Business Overview—Regulations in Japan, Regulations in the United States, Regulations in Other Jurisdictions and Description of Operations and Principal Activities—Management Policies.”

SMBC Group’s Response to COVID-19

Since December 2019, COVID-19 has spread throughout the world. The COVID-19 pandemic has resulted in the implementation of numerous measures to prevent the spread of COVID-19, such as restrictions on movement and closures of schools, businesses, factories and other public and private facilities in many countries and regions. These measures significantly have affected people’s lives and business activities. Coupled with these measures, the COVID-19 pandemic has had a severe impact on both Japanese and global economic conditions. In Japan, a state of emergency was declared for all prefectures in April 2020 in response to the COVID-19 pandemic, and economic activity shrank as a result of requests for voluntary restraint on movement and business closure requests to commercial facilities. Under these circumstances, the Japanese government approved “Emergency Economic Measures in Response to COVID-19” to protect the lives and lifestyles of the public and move toward economic recovery. The state of emergency in Japan was lifted in all prefectures in May 2020, and business activities had been resumed gradually. Although new cases of COVID-19 had remained at a relatively low level for several months, they increased rapidly from November 2020. Due to the rapid increases, a second state of emergency was declared for several prefectures including Tokyo. Thereafter, it was lifted by March 2021.

Global new cases of COVID-19, including several new variants of the virus, increased in April 2021 and then turned downward according to “COVID-19 Weekly Epidemiological Update” issued by the World Health Organization. In Japan, based on the upward trend in new cases in April 2021, stricter COVID-19 measures were re-imposed for some prefectures including Tokyo, but such measures have been partially relaxed as new cases decreased. Moreover, COVID-19 vaccination has already begun in many countries. However, there remains uncertainty whether vaccines will be produced, distributed and administered as expected, and effective against new variants of COVID-19. Therefore, it is difficult to predict the evolution of COVID-19 and its impact on the global economy, including the effect of various measures made by each government, and the extent of the continuing impact on our operational and financial performance remains uncertain.

Considering the significant impact on people's lives and the economy caused by the COVID-19 pandemic, we strive to ensure the health and safety of our customers and employees. Furthermore, the SMBC Group supports our customers through financial services and is committed to contributing to local communities and society including support of the medical industry.

Support for Customers through Financial Services

For our clients, the SMBC Group, as a financial institution which is a part of the social infrastructure, fulfills our responsibility by continuing to provide services such as financing and settlement. In Japan, we have kept all SMBC branches open and ATMs accessible. We have also offered flexible responses to urgent financial needs and requests for new loans and changes in loan terms and conditions. In addition to the above, we launched a new investment fund to support medical-related venture companies in Japan in order to contribute to solving social issues that have become apparent due to the COVID-19 pandemic.

Prevention of the Spread of Infection and Initiatives for Continuous Business Operation

For our employees, in addition to maintaining employment and salary, we promote teleworking capabilities and conduct operations by separating staff into two or more teams on alternating shifts. By thoroughly implementing infection prevention and control measures in branches and offices, we are continuing our operations. We are also giving consideration to the physical and mental health of our employees by establishing a consultation counter to support our employees who are concerned about their physical and/or mental health.

Contributing to Local Communities and Society

In order to contribute to the soundness of the local community and society, we are supporting medical institutions and related organizations who are working to prevent the spread of COVID-19 or establish an effective method of treating the virus. In addition, we are supporting organizations involved in philanthropic and humanitarian initiatives, the enhancement of education and social welfare, and the revival of culture and the arts. As part of such efforts, we have been providing donations to medical institutions and related organizations, as well as to organizations involved in philanthropic activities.

Factors Affecting Results of Operation

Income (Loss)

We have three principal sources of operating income: net interest income, net fee and commission income, and net income from trading/financial assets and liabilities at fair value through profit or loss/investment securities.

Net Interest Income. Net interest income, or the difference between interest income and interest expense, is determined by:

- the amount of interest-earning assets and interest-bearing liabilities;
- the interest spread;
- the general level of interest rates; and
- the proportion of interest-earning assets to interest-bearing liabilities.

Our principal interest-earning assets are loans and advances, investment securities, and deposits with banks. Our principal interest-bearing liabilities are deposits, borrowings and debt securities in issue. The interest income and expense on trading assets and liabilities and financial assets and liabilities at fair value through profit or loss are not included in net interest income. Our net interest income is earned mainly by SMBC. SMBC controls its exposure to interest rate fluctuations through asset and liability management operations.

SMBC, like other banks in Japan, makes most domestic loans based on a short-term interest rate, the TIBOR, or a short-term prime rate, which are generally intended to reflect its cost of short-term yen funding and significantly affected by the monetary policy of the BOJ.

The BOJ announced in October 2014 the expansion of its “quantitative and qualitative monetary easing” introduced in April 2013, and in December 2015 the introduction of “supplementary measures for quantitative and qualitative monetary easing,” in order to achieve the price stability target of 2% in terms of the year-on-year rate of increase in the CPI. In January 2016, in addition to the existing provision of ample funds, the BOJ announced the introduction of “quantitative and qualitative monetary easing with a negative interest rate.” Following the introduction of the policy, SMBC lowered its ordinary deposit rate by 0.019 percentage points from 0.02% to 0.001% in February 2016. Thereafter, the BOJ announced the introduction of a new policy framework, “quantitative and qualitative monetary easing with yield curve control” in September 2016. Under this policy framework, the BOJ would keep short-term interest rates down by maintaining its policy of applying a negative interest rate of minus 0.1% to certain excess reserves of financial institutions held at the BOJ. Moreover, the BOJ indicated it would purchase Japanese government bonds so that the yield of the 10-year Japanese government bonds would be close to around 0% to control long-term interest rates. In July 2018, the BOJ decided to introduce forward guidance for policy rates with a view to persistently continuing with powerful monetary easing. Further, in October 2019, the BOJ amended its forward guidance to indicate that it expects short- and long-term interest rates to remain at or below their present levels so long as the BOJ believes it is necessary to pay close attention to the possibility of a loss in momentum toward achieving its 2% price stability target. In March 2020, the BOJ announced “enhancement of monetary easing in light of the impact of the outbreak of COVID-19.” The BOJ stated in this announcement that it decided to enhance monetary easing with a view to doing its utmost to ensure smooth corporate financing and maintaining stability in financial markets, thereby preventing firms’ and households’ sentiment from deteriorating. Thereafter, on April 27, 2020 and May 22, 2020, the BOJ decided to further enhance monetary easing and introduce measures to support corporate financing taking into account the negative impact of the COVID-19 pandemic on Japanese economic conditions. Moreover, on March 19, 2021, the BOJ announced the establishment of a scheme to apply interest rates, which would be linked to the short-term policy interest rate, as an incentive to a certain amount of financial institutions’ current account balances, based on the recognition of the importance of continuing with monetary easing in a sustainable manner and making nimble and effective responses to counter changes in developments in economic activity and prices, as well as in financial conditions. In addition, the BOJ made clear that the range of the 10-year Japanese government bonds yield fluctuations would be between around plus and minus 0.25% from the target level.

The following table sets forth SMBC’s short-term prime rate, three-month TIBOR, ordinary deposit rate, long-term prime rate and ten-year swap rate, at the dates indicated:

	At March 31,		
	2021	2020	2019
Short-term prime rate	1.475%	1.475%	1.475%
Three-month TIBOR	0.069	0.069	0.069
Ordinary deposit rate	0.001	0.001	0.001
Long-term prime rate	1.050	0.950	1.000
Ten-year swap rate	0.153	0.014	0.111

It is difficult to earn a wide interest spread when interest rates are at a low level, as they currently are in Japan. When interest rates rise from extremely low levels, interest spreads at commercial banks generally increase. However, interest spreads may temporarily decrease immediately after an increase in interest rates because it may take time for banks to increase lending rates correspondingly, in contrast to their funding rates. After an adjustment period, lending rates generally also increase, and banks are able to secure a wider interest spread than in a low interest rate environment. Conversely, interest spreads may temporarily increase immediately after a decrease in interest rates because it may take time for banks to decrease lending rates

correspondingly, in contrast to their funding rates. After an adjustment period, lending rates generally also decrease, and banks generally are not able to maintain a wide interest spread.

Net Fee and Commission Income. We earn fees and commissions from a variety of services. The primary components of SMBC's net fee and commission income are fees and commissions related to money remittances and transfers, investment trusts sales, loans (such as loan commitment fees and loan syndication fees for arranging loans), securities transactions (such as bond trustee fees and bond recording agency fees), and guarantees and acceptances. Other fees and commissions include fees from investment banking and electronic banking.

In addition, we earn a significant amount of fees on transactions in our credit card businesses, conducted through Sumitomo Mitsui Card and SMBC Finance Service, and fees and commissions on transactions in our securities businesses, conducted through SMBC Nikko Securities. The principal components of Sumitomo Mitsui Card's and SMBC Finance Service's fees are membership fees from retailers and annual cardholders, while those of SMBC Nikko Securities' fees and commissions are subscription and agent commissions from investment trusts sales and underwriting fees.

The principal factors affecting fees and commissions are the demand for the services provided, the fees charged for those services and fees charged by competitors for similar services. The volume of services provided also affects profitability, as our fee businesses have significant economies of scale. In order to diversify sources of revenue and enhance return on assets, we are expanding our fees and commissions businesses, including sales of investment trusts and life insurance products, and investment banking businesses.

Net Income from Trading/Financial Assets and Liabilities at Fair Value Through Profit or Loss /Investment Securities. We undertake significant trading activities involving a variety of financial instruments, including derivatives. Our income from these activities is subject to volatility caused by, among other things, changes in interest rates, foreign exchange rates, equity prices or other market variables. Any unexpected change in interest rates could affect the fair value of our interest rate derivative positions and our net income from trading activities. Net trading income consists of margins made on market-making and our customer business as well as changes in fair value of trading assets and liabilities and derivative financial instruments. It also includes net interest and dividend income on these instruments.

We have a variety of financial assets and liabilities at fair value through profit or loss including investment trusts and hybrid instruments. Net income from financial assets and liabilities at fair value through profit or loss includes gains and losses arising from sales, redemptions and changes in the fair value of these financial instruments, and net interest and dividend income on these instruments. The fair values of those instruments such as investment trusts and hybrid instruments are subject to volatility caused by changes in equity prices and interest rates.

We have substantial investments in debt instruments measured at fair value through other comprehensive income. In particular, Japanese government bonds represent a significant part of our bond portfolio. We also own debt securities denominated in foreign currencies, principally the U.S. dollars. We also have investments in equity instruments measured at fair value through other comprehensive income, which consist primarily of our strategic shareholding investments in stocks issued by our customers. Net investment income includes the gains and losses arising from the sales or redemptions of debt instruments measured at fair value through other comprehensive income and the dividend income earned from equity instruments measured at fair value through other comprehensive income. Increases in interest rates or declines in equity prices could substantially decrease the fair value of those instruments.

Expenses

Impairment Charges on Financial Assets. We use the expected credit losses ("ECL") model for the recognition of impairment loss under IFRS 9 "Financial Instruments." The ECL model requires that impairment

losses be measured by using reasonable and supportable information including forecasts of future economic conditions and in an unbiased and probability-weighted manner. Our impairment charges are recorded primarily due to impairment on loans and advances.

Impairment charges on loans and advances are affected by the economic environment and financial conditions of borrowers. During periods of economic slowdown, corporate and individual borrowers are generally more likely to suffer credit rating downgrades, or become delinquent or default on their borrowings. The slowdown in the domestic or global economy may increase credit costs relating to a wide range of industries.

General and Administrative Expenses. General and administrative expenses consist primarily of personnel expenses (salaries and related expenses), depreciation and amortization expenses, and other expenses (outsourcing expenses, publicity and advertising expenses, and communication expenses).

Unrealized Gains or Losses on Investment Securities Portfolio

Changes in the fair value of domestic and foreign investment securities result in an increase or a decrease in unrealized gains or losses on investment securities measured at fair value through other comprehensive income. Unrealized gains or losses arising from changes in the fair value of the debt instruments in these securities are recognized directly in equity, until they are derecognized or impaired. Unrealized gains or losses arising from changes in the fair value of the equity instruments in these securities are recognized directly in equity, and amounts presented in equity are not subsequently transferred to profit or loss.

Most of our domestic equity instruments consist of publicly traded Japanese stocks. The Nikkei Stock Average decreased by 10.8% from ¥21,205.81 at March 29, 2019, to ¥18,917.01 at March 31, 2020, and increased by 54.2% to ¥29,178.80 at March 31, 2021. At March 31, 2021, we had net unrealized gains on domestic equity securities of ¥2,527,041 million, an increase of ¥962,690 million from ¥1,564,351 million at March 31, 2020. For more information, see “Item 5.A. Operating Results—Financial Condition—Investment Securities.”

Strengthening of Equity Capital

In response to the imposition of more stringent regulatory capital requirements, we have been taking a proactive approach to managing our risk-weighted capital ratio by focusing on increasing qualifying capital, including by building up our retained earnings, identifying risks, and controlling risk-weighted assets.

Foreign Currency Fluctuations

The average exchange rate used to convert dollars to yen in the consolidated financial statements included elsewhere in this annual report for the fiscal year ended March 31, 2021 was ¥ 106.11 per \$1.00, compared to the previous fiscal year’s average exchange rate of ¥108.71 per \$1.00. The percentage of revenue we earned from our foreign operations for the fiscal years ended March 31, 2021 and 2020 was 34%. For more information, see “Item 4.B. Business Overview—Revenues by Region.”

Critical Accounting Estimates and Judgments

Our financial position and results of operations are influenced by estimates and judgments that management employs in the course of preparation of our consolidated financial statements. We identified the following areas of significant accounting policies to be particularly sensitive in terms of estimates and judgments made by management. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

Allowance for Loan Losses

The allowance for loan losses is measured under the ECL model, where the allowance will be recognized as an amount equal to the expected credit losses over the lifetime of a loan, in case it has experienced a significant increase in credit risk since initial recognition. The measurement of the allowance requires a number of significant judgments to be applied, such as:

- qualitative assessment in determining obligor grades;
- determining criteria for a significant increase in credit risk;
- measuring ECL by choosing appropriate models and assumptions;
- incorporating forward-looking information into the ECL measurement by obligor grading, forecast ranges of macroeconomic scenarios, and additional ECL adjustments if the current circumstances, events or conditions at relevant portfolio level are not fully reflected in the ECL model; and
- estimating the expected future cash flows by taking into account factors such as historical loss information, the appropriateness of the borrower's business plan or operational improvement plan, the status of progress of its plan, the overall support from financial institutions, and the realizable value of any collateral held.

For the fiscal year ended March 31, 2021, the obligor grading, macroeconomic factors and additional ECL adjustments used to determine the final ECL reflected the current and forward-looking impact of the COVID-19 pandemic.

The obligor grades were reviewed based on the most recent information available as appropriate. For the fiscal year ended March 31, 2021, the obligor grades of many corporate borrowers severely affected by the COVID-19 pandemic were downgraded to the extent that the credit risk on loans and advances to such borrowers was determined to be significantly increased since initial recognition and their allowance for loan losses was measured at an amount equal to the lifetime ECL.

The macroeconomic scenarios for incorporating forward-looking information in the ECL measurement were updated, reflecting the recent economic forecasts. Although we understand that there is significant uncertainty in predicting the severity and duration of the COVID-19 pandemic and its impact on the Japanese and global economy, we assumed that the Japanese and global economy will recover from the fiscal year ending March 31, 2022, reflecting the roll-out of vaccines, and reach pre-COVID-19 level by the end of the fiscal year ending March 31, 2023. This assumption was considered in determining the base scenario. The extent to which the premises of the base scenario and past macroeconomic experiences are reflected in determining the upside and downside scenarios was revised to better capture relevant information under the unprecedented conditions experienced during the fiscal year ended March 31, 2021. The following table shows the growth rates of Japanese and global GDP, which are the key factors in the macroeconomic scenarios, under the base scenario.

	For the fiscal year ending March 31,	
	2022	2023
	(%)	
Japanese GDP	3.3	2.0
Global GDP	5.6	3.9

In determining the need for making additional ECL adjustments, we considered whether there is an increased credit risk for some portfolios on which the COVID-19 pandemic would have a material adverse impact but where the impact was not fully incorporated in the ECL model. This included the consideration of the temporary impact on probability of default of various measures taken by governments. We evaluated the forward-looking impact on credit risks and losses of certain industry-related portfolios selected based on changes in factors such as the market conditions and bankruptcy trends as a result of the reduction in economic activity by

requests for voluntary restraint on movement and business closure requests to commercial facilities. As a consequence, we decided to make additional ECL adjustments for portfolios related to some industries.

Management estimates and judgments may change from time to time as the economic environment changes or new information becomes available. Changes in these estimates and judgments will result in a different allowance for loan losses and may have a direct impact on impairment charges. Allowance for loan losses amounted to ¥849,287 million and ¥706,405 million at March 31, 2021 and 2020, respectively.

Fair Value of Financial Instruments

Some of our financial instruments are measured at fair value, such as trading assets and liabilities, financial assets at fair value through profit or loss, derivative financial instruments, investment securities at fair value through other comprehensive income and financial liabilities designated at fair value through profit or loss.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Our financial assets and liabilities measured at fair value are mostly valued based on quoted prices in active markets, or using valuation techniques that incorporate inputs, other than quoted market prices, that are observable either directly or indirectly in the market, including dealers' quotes. We principally use valuation techniques that are commonly used by market participants to price the instruments. To the extent practical, the valuation models make maximum use of observable data. However, for certain financial assets and liabilities, the fair values are measured by using valuation techniques with significant unobservable inputs. In such cases, significant management estimates are made, resulting in a less objective measurement of fair value.

The risk management departments in each subsidiary regularly review significant valuation methodologies and recalibrate model parameters and inputs, both observable and unobservable, in an effort to ensure an appropriate estimation of fair value has been made. Where significant management judgments are required in valuation, we establish a valuation control framework to validate the valuation models and fair values calculated based on such valuation models. Under the framework, the accounting department is responsible for ensuring that the accounting policies and procedures to determine the fair values are in compliance with the relevant accounting standards.

If the fair value at the trade date, which is measured using a valuation technique with significant unobservable inputs, differs from the transaction price, any gain or loss on the trade date is adjusted to be deferred. Management judgment is required to determine whether significant unobservable inputs exist in the valuation technique.

The financial assets and liabilities are classified into one of three levels within a fair value hierarchy based on the inputs used in the fair value measurement. The three levels of the fair value hierarchy are as follows:

- *Level 1.* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2.* Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3.* Significant unobservable inputs for the asset or liability.

Management judgment is involved in determining the level of hierarchy to which each financial instrument should be categorized and in periodical assessments of market liquidity for inputs and price transparency.

In addition to the fair value hierarchy disclosure, we provide a sensitivity analysis of the impact on the Level 3 financial instruments carried at fair value by using reasonably possible alternatives for the unobservable

parameters in Note 44 “Fair Value of Financial Assets and Liabilities” to our consolidated financial statements included elsewhere in this annual report. The determination of reasonably possible alternatives requires significant management judgment.

Impairment of Goodwill

Goodwill is tested for impairment at least annually and whenever events or changes in circumstances indicate that it may be impaired. The first step of the impairment test is identifying the cash-generating units (“CGUs”), which represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is then allocated to the CGUs, considering how the goodwill is recognized and other relevant factors.

In the impairment test, the carrying amount of the CGU to which goodwill is allocated is compared against its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Such recoverable amounts are determined based on significant management judgments and assumptions.

We determine the recoverable amount using the estimated future cash flows, pre-tax discount rates, growth rates and other factors. The estimation of future cash flows inherently reflects management judgments, even though such forecasts are prepared taking into account actual past performance and external economic data. The pre-tax discount rates and growth rates may be significantly affected by market interest rates or other market conditions, which are beyond management’s control, and therefore significant management judgments are made to determine these assumptions.

These management judgments are made based on the facts and circumstances at the time of the impairment test, and may vary depending on the situation and time. Changes in management judgments may result in different impairment test results and different impairment losses recognized. For the fiscal years ended March 31, 2021 and 2020, impairment losses on goodwill were ¥42,398 million and nil, respectively.

Impairment of Other Intangible Assets

We have other intangible assets, not including goodwill, which consist of software, contractual customer relationships, trademarks and others. These are divided into other amortizing intangible assets and other non-amortizing intangible assets. Other amortizing intangible assets are tested for impairment if events or changes in circumstances indicate that it may not be recoverable at the end of each reporting period. Other non-amortizing intangible assets are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that it may not be recoverable. If any such indication exists, then its recoverable amount is estimated. The process to determine the recoverable amount is inherently uncertain because such recoverable amount is determined based on a number of management estimates and judgments as described in “—Impairment of Goodwill.” Changes in management judgments may result in different impairment test results and different impairment amounts recognized. For the fiscal years ended March 31, 2021 and 2020, impairment losses on other intangible assets were ¥448 million and ¥28,689 million, respectively.

Provision for Interest Repayment

Provision for interest repayment represents management’s estimate of future claims for the refund of gray zone interest, taking into account historical experience such as the number of customer claims for a refund, the amount of repayments and the characteristics of customers, and the length of the period during which claims are expected to be received in the future.

Management estimates and judgments may change from time to time as the legal environment and market conditions change or new information becomes available. Changes in these estimates and judgments could affect the balance of provision for interest repayment. Provision for interest repayment is recorded in provisions as a liability, and it totaled ¥141,201 million and ¥143,429 million at March 31, 2021 and 2020, respectively.

Retirement Benefits

We have defined benefit plans such as defined benefit pension plans and lump-sum severance indemnity plans. The present value of the defined benefit obligation is calculated based on actuarial valuations that are dependent upon a number of assumptions, including discount rates, mortality rates and future salary (benefit) increases. The discount rates are equivalent to market yields of AA credit-rated corporate bonds that have terms to maturity approximating those of the related obligations. Future mortality rates are based on the official mortality table generally used for actuarial assumptions in Japan. Other assumptions used for the calculation of the defined benefit obligation are based on historical records. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. While we believe that these assumptions are appropriate, any change in these assumptions will impact actuarial gains and losses, as well as the present value of the defined benefit obligations and the net retirement benefit expense for each period. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the year, and return on plan assets excluding interest income are recognized in other comprehensive income and are never reclassified to profit or loss.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the end of the reporting period is recognized as assets and liabilities in the consolidated statement of financial position. When this calculation for each plan results in a benefit to us, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to us, if it is realizable during the life of the plan or on settlement of the plan obligation. The net total of assets and liabilities in the consolidated statement of financial position amounted to net assets of ¥480,053 million and ¥129,976 million at March 31, 2021 and 2020, respectively.

Deferred Tax Assets

We recognize deferred tax assets relating to tax losses carried forward and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the deductible temporary differences can be utilized. This assessment requires significant management judgments and assumptions. Future taxable profit is estimated based on, among other relevant factors, forecasted results of operations, which are based on historical financial performance and the business plans that management believes to be prudent and feasible. While we carefully assess the realization of tax losses carried forward and deductible temporary differences, the actual taxable profit in the future may be less than the forecast. The deferred tax assets amounted to ¥28,958 million and ¥102,198 million in the consolidated statement of financial position at March 31, 2021 and 2020, respectively, while the net total of deferred tax assets and liabilities amounted to net liabilities of ¥370,577 million at March 31, 2021 and net assets of ¥36,015 million at March 31, 2020, respectively.

New and Amended Accounting Standards and Recent Accounting Pronouncements

See “New and Amended Accounting Standards Adopted by the Group” and “Recent Accounting Pronouncements” under Note 2 “Summary of Significant Accounting Policies” to our consolidated financial statements included elsewhere in this annual report.

5.A. OPERATING RESULTS

For discussion about our operating results for the fiscal year ended March 31, 2019, including certain comparative discussion of the fiscal years ended March 31, 2020 and 2019, please refer to “Item 5. Operating and Financial Review and Prospectus—5.A. Operating Results” in our annual report on Form 20-F filed on June 26, 2020.

Under the economic and financial circumstances described in “Item 5. Operating and Financial Review and Prospects—Overview—Operating Environment,” we made a profit through our commercial banking and other

financial services businesses. Our total operating income increased by ¥461,735 million from ¥2,703,850 million for the fiscal year ended March 31, 2020 to ¥3,165,585 million for the fiscal year ended March 31, 2021, primarily due to increases in net income (loss) from financial assets and liabilities at fair value through profit or loss and net trading income. Our net profit increased by ¥474,093 million from ¥230,983 million for the fiscal year ended March 31, 2020 to ¥705,076 million for the fiscal year ended March 31, 2021, due to the increase in total operating income described above and a decrease in operating expenses, which were partially offset by an increase in income tax expense.

Our total assets increased by ¥22,866,524 million from ¥212,158,463 million at March 31, 2020 to ¥235,024,987 million at March 31, 2021, primarily due to increases in cash and deposits with banks and investment securities.

Our total liabilities increased by ¥21,525,252 million from ¥201,223,585 million at March 31, 2020 to ¥222,748,837 million at March 31, 2021, primarily due to an increase in deposits.

Our total equity increased by ¥1,341,272 million from ¥10,934,878 million at March 31, 2020 to ¥12,276,150 million at March 31, 2021, primarily due to increases in other reserves and retained earnings.

Operating Results

The following table presents information as to our income, expenses and net profit for the fiscal years ended March 31, 2021 and 2020.

	For the fiscal year ended March 31,	
	2021	2020
	(In millions, except per share data)	
Interest income	¥1,780,370	¥2,407,045
Interest expense	397,245	1,090,730
Net interest income	1,383,125	1,316,315
Fee and commission income	1,174,382	1,147,132
Fee and commission expense	201,723	203,822
Net fee and commission income	972,659	943,310
Net trading income	237,746	134,069
Net income (loss) from financial assets and liabilities at fair value through profit or loss	280,012	(21,939)
Net investment income	153,820	176,464
Other income	138,223	155,631
Total operating income	3,165,585	2,703,850
Impairment charges on financial assets	282,486	259,938
Net operating income	2,883,099	2,443,912
General and administrative expenses	1,679,115	1,696,386
Other expenses	283,879	488,806
Operating expenses	1,962,994	2,185,192
Share of post-tax profit of associates and joint ventures	36,373	24,031
Profit before tax	956,478	282,751
Income tax expense	251,402	51,768
Net profit	¥ 705,076	¥ 230,983
Profit attributable to:		
Shareholders of Sumitomo Mitsui Financial Group, Inc.	¥ 687,483	¥ 200,052
Non-controlling interests	4,471	18,567
Other equity instruments holders	13,122	12,364
Earnings per share:		
Basic	¥ 501.73	¥ 145.48
Diluted	501.49	145.39

Total operating income increased by ¥461,735 million, or 17%, from ¥2,703,850 million for the fiscal year ended March 31, 2020 to ¥3,165,585 million for the fiscal year ended March 31, 2021, primarily due to increases in net income (loss) from financial assets and liabilities at fair value through profit or loss of ¥301,951 million and net trading income of ¥103,677 million. Although impairment charges on financial assets increased, net operating income also increased by ¥439,187 million from ¥2,443,912 million for the fiscal year ended March 31, 2020 to ¥2,883,099 million for the fiscal year ended March 31, 2021.

Net profit increased by ¥474,093 million from ¥230,983 million for the fiscal year ended March 31, 2020 to ¥705,076 million for the fiscal year ended March 31, 2021, as a result of the increase in net operating income described above and a decrease in other expenses, which was partially offset by an increase in income tax expense.

Net Interest Income

The following tables show the average balances of our statement of financial position items, related interest income, interest expense, net interest income and average rates for the fiscal years ended March 31, 2021 and 2020.

For the fiscal year ended March 31,							
2021				2020			
Average balance ⁽³⁾	Interest income	Average rate		Average balance ⁽³⁾	Interest income	Average rate	
(In millions, except percentages)							
Interest-earning assets:							
Interest-earning deposits with other banks:							
Domestic offices	¥ 881,007	¥ 2,260	0.26%	¥ 1,061,849	¥ 3,099	0.29%	
Foreign offices	4,701,633	15,151	0.32%	3,994,229	78,493	1.97%	
Total	5,582,640	17,411	0.31%	5,056,078	81,592	1.61%	
Call loans and bills bought, reverse repurchase agreements and cash collateral on securities borrowed:							
Domestic offices	9,256,043	(687)	(0.01%)	9,167,833	17,540	0.19%	
Foreign offices	3,224,164	25,926	0.80%	3,032,754	51,881	1.71%	
Total	12,480,207	25,239	0.20%	12,200,587	69,421	0.57%	
Investment securities ⁽¹⁾ :							
Domestic offices	16,642,148	46,384	0.28%	11,245,654	75,026	0.67%	
Foreign offices	5,385,436	80,255	1.49%	4,832,026	103,804	2.15%	
Total	22,027,584	126,639	0.57%	16,077,680	178,830	1.11%	
Loans and advances ⁽²⁾ :							
Domestic offices	64,651,076	846,911	1.31%	60,498,334	937,419	1.55%	
Foreign offices	32,230,777	764,170	2.37%	31,467,410	1,139,783	3.62%	
Total	96,881,853	1,611,081	1.66%	91,965,744	2,077,202	2.26%	
Total interest-earning assets:							
Domestic offices	91,430,274	894,868	0.98%	81,973,670	1,033,084	1.26%	
Foreign offices	45,542,010	885,502	1.94%	43,326,419	1,373,961	3.17%	
Total	¥136,972,284	¥1,780,370	1.30%	¥125,300,089	¥2,407,045	1.92%	

For the fiscal year ended March 31,						
2021			2020			
Average balance ⁽³⁾	Interest expense	Average rate	Average balance ⁽³⁾	Interest expense	Average rate	
(In millions, except percentages)						
Interest-bearing liabilities:						
Deposits:						
Domestic offices	¥ 91,029,016	¥ 16,601	0.02%	¥ 85,668,767	¥ 51,976	0.06%
Foreign offices	28,285,386	163,309	0.58%	27,197,901	530,823	1.95%
Total	119,314,402	179,910	0.15%	112,866,668	582,799	0.52%
Call money and bills sold, repurchase agreements and cash collateral on securities lent and other interest-bearing liabilities:						
Domestic offices	11,074,484	(5,172)	(0.05%)	11,218,806	33,745	0.30%
Foreign offices	4,524,797	14,865	0.33%	5,063,872	112,479	2.22%
Total	15,599,281	9,693	0.06%	16,282,678	146,224	0.90%
Borrowings:						
Domestic office	17,075,586	40,483	0.24%	11,958,700	61,238	0.51%
Foreign offices	599,476	22,141	3.69%	600,321	31,187	5.20%
Total	17,675,062	62,624	0.35%	12,559,021	92,425	0.74%
Debt securities in issue:						
Domestic offices	9,764,667	100,987	1.03%	9,419,223	197,749	2.10%
Foreign offices	1,678,663	8,218	0.49%	1,883,920	34,724	1.84%
Total	11,443,330	109,205	0.95%	11,303,143	232,473	2.06%
Premiums for deposit insurance:						
Domestic offices	—	34,192	—	—	34,866	—
Foreign offices	—	1,621	—	—	1,943	—
Total	—	35,813	—	—	36,809	—
Total interest-bearing liabilities:						
Domestic offices	128,943,753	187,091	0.15%	118,265,496	379,574	0.32%
Foreign offices	35,088,322	210,154	0.60%	34,746,014	711,156	2.05%
Total	¥164,032,075	¥ 397,245	0.24%	¥153,011,510	¥1,090,730	0.71%
Net interest income and interest rate spread						
		¥1,383,125	1.06%		¥1,316,315	1.21%

- (1) Taxable investment securities and non-taxable investment securities are not disclosed separately because the aggregate effect of these average balances and interest income would not be material. In addition, the yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
- (2) Loans and advances include impaired loans and advances. The amortized portion of net loan origination fees (costs) is included in interest income on loans and advances.
- (3) Average balances are generally based on a daily average. Weekly, month-end or quarter-end averages are used for certain average balances where it is not practical to obtain applicable daily averages. The allocations of amounts between domestic and foreign are based on the location of the office.

The following tables show changes in our interest income, interest expense and net interest income based on changes in volume and changes in rate for the fiscal year ended March 31, 2021 compared to the fiscal year ended March 31, 2020.

Fiscal year ended March 31, 2021 compared to fiscal year ended March 31, 2020 Increase / (decrease)			
	Volume	Rate	Net change
	(In millions)		
Interest income:			
Interest-earning deposits with other banks:			
Domestic offices	¥ (491)	¥ (348)	¥ (839)
Foreign offices	11,899	(75,241)	(63,342)
Total	11,408	(75,589)	(64,181)
Call loans and bills bought, reverse repurchase agreements and cash collateral on securities borrowed:			
Domestic offices	166	(18,393)	(18,227)
Foreign offices	3,088	(29,043)	(25,955)
Total	3,254	(47,436)	(44,182)
Investment securities:			
Domestic offices	26,646	(55,288)	(28,642)
Foreign offices	10,906	(34,455)	(23,549)
Total	37,552	(89,743)	(52,191)
Loans and advances:			
Domestic offices	61,306	(151,814)	(90,508)
Foreign offices	27,008	(402,621)	(375,613)
Total	88,314	(554,435)	(466,121)
Total interest income:			
Domestic offices	87,627	(225,843)	(138,216)
Foreign offices	52,901	(541,360)	(488,459)
Total	¥ 140,528	¥(767,203)	¥626,675)

Fiscal year ended March 31, 2021 compared to fiscal year ended March 31, 2020 Increase / (decrease)			
	Volume	Rate	Net change
		(In millions)	
Interest expense:			
Deposits:			
Domestic offices	¥ 3,032	¥ (38,407)	¥ (35,375)
Foreign offices	20,404	(387,918)	(367,514)
Total	23,436	(426,325)	(402,889)
Call money and bills sold, repurchase agreements and cash collateral on securities lent and other interest-bearing liabilities:			
Domestic offices	(427)	(38,490)	(38,917)
Foreign offices	(10,835)	(86,779)	(97,614)
Total	(11,262)	(125,269)	(136,531)
Borrowings:			
Domestic offices	19,921	(40,676)	(20,755)
Foreign offices	(44)	(9,002)	(9,046)
Total	19,877	(49,678)	(29,801)
Debt securities in issue:			
Domestic offices	7,006	(103,768)	(96,762)
Foreign offices	(3,418)	(23,088)	(26,506)
Total	3,588	(126,856)	(123,268)
Premiums for deposit insurance:			
Domestic offices	(674)	—	(674)
Foreign offices	(322)	—	(322)
Total	(996)	—	(996)
Total interest expense:			
Domestic offices	28,858	(221,341)	(192,483)
Foreign offices	5,785	(506,787)	(501,002)
Total	¥ 34,643	¥(728,128)	¥(693,485)
Net interest income:			
Domestic offices	¥ 58,769	¥ (4,502)	¥ 54,267
Foreign offices	47,116	(34,573)	12,543
Total	¥ 105,885	¥ (39,075)	¥ 66,810

Interest Income

Our interest income decreased by ¥626,675 million, or 26% from ¥2,407,045 million for the fiscal year ended March 31, 2020 to ¥1,780,370 million for the fiscal year ended March 31, 2021. This decrease was primarily due to a decrease in interest income on loans and advances of ¥466,121 million, or 22%. Interest income on loans and advances decreased by ¥90,508 million, or 10% at domestic offices and by ¥375,613 million, or 33% at foreign offices. The decreases were primarily due to a decrease in the average rate of loans, which was partially offset by an increase in the average balance of loans to corporate customers as a result of our responses to their financing needs arising from the COVID-19 pandemic.

Interest Expense

Our interest expense decreased by ¥693,485 million, or 64%, from ¥1,090,730 million for the fiscal year ended March 31, 2020 to ¥397,245 million for the fiscal year ended March 31, 2021, primarily due to a decrease in interest expenses on deposits. Our interest expense on deposits decreased by ¥402,889 million, or 69%, from ¥582,799 million for the fiscal year ended March 31, 2020 to ¥179,910 million for the fiscal year ended March 31, 2021, primarily due to a decrease at foreign offices reflecting a decrease in the average rate.

Net Interest Income

Our net interest income increased by ¥66,810 million, or 5%, from ¥1,316,315 million for the fiscal year ended March 31, 2020 to ¥1,383,125 million for the fiscal year ended March 31, 2021. This was primarily due to increases in the volume of interest-earning assets, primarily loans, while both the average rate of interest-earning assets, primarily loans, and interest-bearing liabilities, primarily deposits, decreased but offset each other, resulting in less impact for the fluctuation of the net interest income.

From the fiscal year ended March 31, 2020 to March 31, 2021, the average rate on loans and advances at domestic offices decreased by 0.24 percentage points from 1.55% to 1.31%. The average rate on loans and advances at foreign offices decreased by 1.25 percentage points from 3.62% to 2.37%, resulting in the total for loans and advances decreasing by 0.60 percentage points from 2.26% to 1.66%. On the other hand, the average rate on deposits decreased by 0.37 percentage points from 0.52% to 0.15%, primarily due to a decrease in the average rate on deposits at foreign offices by 1.37 percentage points from 1.95% to 0.58%.

Net Fee and Commission Income

The following table sets forth our net fee and commission income for the periods shown.

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
Fee and commission income from:		
Loans	¥ 132,523	¥ 123,472
Credit card business	304,787	304,238
Guarantees	64,422	67,846
Securities-related business	169,251	149,837
Deposits	14,763	14,045
Remittances and transfers	138,907	141,617
Safe deposits	4,160	4,349
Trust fees	4,885	4,680
Investment trusts	163,522	150,349
Agency	8,442	9,612
Others	168,720	177,087
Total fee and commission income	<u>1,174,382</u>	<u>1,147,132</u>
Fee and commission expense from:		
Remittances and transfers	39,417	40,601
Others	162,306	163,221
Total fee and commission expense	<u>201,723</u>	<u>203,822</u>
Net fee and commission income	<u>¥ 972,659</u>	<u>¥ 943,310</u>

Fee and commission income increased by ¥27,250 million, or 2%, from ¥1,147,132 million for the fiscal year ended March 31, 2020 to ¥1,174,382 million for the fiscal year ended March 31, 2021. Primary sources of

fee and commission income are fees obtained through our credit card business, fees obtained through securities-related business, fees and commissions obtained through investment trusts, remittance and transfer fees, and loan transaction fees. The increase in fee and commission income was primarily due to increases in fees and commissions obtained through securities-related business and investment trusts reflecting the strong performance of the wealth management business under a robust market environment.

Fee and commission expense was ¥201,723 million for the fiscal year ended March 31, 2021, decreased by ¥2,099 million from ¥203,822 million for the fiscal year ended March 31, 2020.

As a result, net fee and commission income increased by ¥29,349 million, or 3%, from ¥943,310 million for the fiscal year ended March 31, 2020 to ¥972,659 million for the fiscal year ended March 31, 2021.

Net Income (Loss) from Trading, Financial Assets and Liabilities at Fair Value Through Profit or Loss and Investment Securities

The following table sets forth our net income (loss) from trading, financial assets and liabilities at fair value through profit or loss and investment securities for the periods shown.

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
Net trading income:		
Interest rate	¥ 38,987	¥ 149,420
Foreign exchange	168,462	(78,541)
Equity	34,772	59,388
Credit	(4,723)	2,495
Others	248	1,307
Total net trading income	¥ 237,746	¥ 134,069
Net income (loss) from financial assets and liabilities at fair value through profit or loss:		
Net income (loss) from financial assets mandatorily at fair value through profit or loss:		
Net income (loss) from debt instruments	¥ 262,396	¥ (23,557)
Net income from equity instruments	23,687	1,618
Net loss from financial liabilities designated at fair value through profit or loss	(6,071)	—
Total net income (loss) from financial assets and liabilities at fair value through profit or loss	¥ 280,012	¥ (21,939)
Net investment income:		
Net gain from disposal of debt instruments	¥ 79,711	¥ 96,624
Dividend income	74,109	79,840
Total net investment income	¥ 153,820	¥ 176,464

Net trading income, which includes income and losses from trading assets and liabilities and derivative financial instruments, increased by ¥103,677 million from ¥134,069 million for the fiscal year ended March 31, 2020 to ¥237,746 million for the fiscal year ended March 31, 2021. The increase was primarily due to an increase in net trading income from foreign exchange transactions, which was partially offset by a decrease in net trading income from interest rate related transactions. The increase in net trading income from foreign exchange transactions was primarily due to an increase in net gains from changes in the fair value of currency swaps and foreign exchange forward contracts.

We have carried out hedging transactions mainly to hedge the interest rate risk of financial assets and liabilities and the foreign exchange risk of foreign currency denominated assets and liabilities. Of those hedges,

economic hedges are economically effective for risk management but are not accounted for as hedge accounting under IFRS.

As for the economic hedges against the interest rate risk, hedged items include loans and deposits and hedging instruments are derivative financial instruments such as interest rate swaps. As for the economic hedges against the foreign exchange risk, hedged items are foreign currency denominated assets and liabilities and hedging instruments are currency derivatives. The economic hedge transactions may lead to accounting mismatches (i.e., when the gains or losses on the hedged items and hedging instruments do not arise at the same time, or the hedged items and hedging instruments do not offset each other either in profit or loss, or in other comprehensive income), and may result in significant fluctuations in net trading income.

Net income (loss) from financial assets and liabilities at fair value through profit or loss increased by ¥301,951 million from a net loss of ¥21,939 million for the fiscal year ended March 31, 2020 to a net income of ¥280,012 million for the fiscal year ended March 31, 2021. This was primarily due to an increase in net gains from changes in the fair value and sales of equity index-linked investment trusts.

Net investment income decreased by ¥22,644 million from ¥176,464 million for the fiscal year ended March 31, 2020 to ¥153,820 million for the fiscal year ended March 31, 2021. This was primarily due to a decrease in net gains from sales of bonds.

Impairment Charges on Financial Assets

The following table sets forth our impairment charges (reversals) on financial assets for the periods shown.

		For the fiscal year ended March 31,	
		2021	2020
		(In millions)	
Loans and advances	¥	277,085	¥ 249,478
Loan commitments		12,729	11,011
Financial guarantees		(7,328)	(551)
Total impairment charges on financial assets	¥	282,486	¥ 259,938

Our impairment charges on financial assets consist of losses relating to loans and advances, loan commitments and financial guarantee contracts. Impairment charges on these financial assets are mainly affected by the economic environment and financial conditions of borrowers.

Impairment charges on financial assets increased by ¥22,548 million from ¥259,938 million for the fiscal year ended March 31, 2020 to ¥282,486 million for the fiscal year ended March 31, 2021, primarily due to an increase in impairment charges on loans and advances. The increase was primarily due to an increase in the provision for loan losses related to our corporate customers affected by the COVID-19 pandemic. For detailed information on provision for loan losses, see “—Financial Condition—Allowance for Loan Losses.”

General and Administrative Expenses

The following table sets forth our general and administrative expenses for the periods shown.

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
Personnel expenses	¥ 770,769	¥ 787,880
Depreciation and amortization	255,702	258,516
Building and maintenance expenses	8,593	8,864
Supplies expenses	15,191	15,506
Communication expenses	33,454	34,213
Publicity and advertising expenses	89,924	73,483
Taxes and dues	83,554	84,364
Outsourcing expenses	111,737	109,100
Office equipment expenses	56,389	51,283
Others	253,802	273,177
Total general and administrative expenses	¥ 1,679,115	¥ 1,696,386

General and administrative expenses decreased by ¥17,271 million, or 1%, from ¥1,696,386 million for the fiscal year ended March 31, 2020 to ¥1,679,115 million for the fiscal year ended March 31, 2021. This was primarily due to a decrease in personnel expenses because the past service cost was recognized as profit due to a decrease in SMBC's defined benefit obligation as a result of the amendment to the terms of its defined benefit pension plans. Furthermore, restrictions on operating activities affected by the COVID-19 pandemic and our cost reduction efforts contributed to a decrease in general and administrative expenses.

Share of Post-tax Profit of Associates and Joint Ventures

Share of post-tax profit of associates and joint ventures increased by ¥12,342 million from ¥24,031 million for the fiscal year ended March 31, 2020 to ¥36,373 million for the fiscal year ended March 31, 2021, primarily due to an increase in our share of the profit of associates and joint ventures engaged in leasing business.

Income Tax Expense

Income tax expense increased by ¥199,634 million from ¥51,768 million for the fiscal year ended March 31, 2020 to ¥251,402 million for the fiscal year ended March 31, 2021, primarily due to an increase in deferred tax expense resulting from a decrease of deductible temporary differences attributable to derivative financial instruments and an increase of taxable temporary differences attributable to investment securities.

Business Segment Analysis

Our business segment information is prepared based on the internal reporting system utilized by our management to assess the performance of our business segments under Japanese GAAP.

We have four main business segments: the Wholesale Business Unit, the Retail Business Unit, the Global Business Unit, which was renamed from the International Business Unit on April 1, 2020, and the Global Markets Business Unit, with the remaining operations recorded in Head office account and others. Effective from April 1, 2020, an internal reorganization of certain SMBC businesses was made and the revenue management system at SMBC Nikko Securities was changed.

Our organizational charts are provided in "Item 4.C. Organizational Structure." Since figures reported to management are prepared under Japanese GAAP, the segment information does not agree to figures in the consolidated financial statements under IFRS. This difference is addressed in Note 4 "Segment Analysis—Reconciliation of Segmental Results of Operations to Consolidated Income Statements" to our consolidated financial statements included elsewhere in this annual report.

Segmental Results of Operations

The following tables show our results of operations by business segment for the fiscal year ended March 31, 2021 and 2020. The comparative information for the fiscal year ended March 31, 2020 has been restated to reflect the aforementioned internal reorganization and change in the revenue management system and eliminate the impact of factors such as changes in interest rates and exchange rates that may distort the comparison.

For the fiscal year ended March 31, 2021:

	Wholesale Business Unit	Retail Business Unit	Global Business Unit	Global Markets Business Unit	Head office account and others	Total
	(In billions)					
Consolidated gross profit ⁽¹⁾	¥ 634.9	¥ 1,127.4	¥ 723.7	¥ 460.7	¥ (140.5)	¥ 2,806.2
General and administrative expenses	(299.9)	(910.4)	(383.3)	(82.9)	(70.6)	(1,747.1)
Others ⁽²⁾	53.5	2.2	26.3	35.7	(92.8)	24.9
Consolidated net business profit	¥ 388.5	¥ 219.2	¥ 366.7	¥ 413.5	¥ (303.9)	¥ 1,084.0

For the fiscal year ended March 31, 2020:

	Wholesale Business Unit	Retail Business Unit	Global Business Unit	Global Markets Business Unit	Head office account and others	Total
	(In billions)					
Consolidated gross profit ⁽¹⁾	¥ 620.1	¥ 1,176.1	¥ 680.8	¥ 438.6	¥ (147.0)	¥ 2,768.6
General and administrative expenses	(303.6)	(934.5)	(370.9)	(79.6)	(51.0)	(1,739.6)
Others ⁽²⁾	50.5	2.0	52.9	32.5	(81.9)	56.0
Consolidated net business profit	¥ 367.0	¥ 243.6	¥ 362.8	¥ 391.5	¥ (279.9)	¥ 1,085.0

- (1) Consolidated gross profit = (Interest income – Interest expenses) + Trust fees + (Fee and commission income – Fee and commission expenses) + (Trading income – Trading losses) + (Other operating income – Other operating expenses).
- (2) “Others” includes share of profit or loss of equity-method associates and joint ventures and cooperated profit and loss, that is, profit and loss double counted within our business segments in the managerial accounting.

Wholesale Business Unit

Consolidated gross profit for the fiscal year ended March 31, 2021 was ¥635 billion and increased by ¥15 billion compared to the fiscal year ended March 31, 2020. This was primarily due to an increase in interest income on loans of SMBC in response to the urgent financial needs caused by the COVID-19 pandemic.

General and administrative expenses for the fiscal year ended March 31, 2021 was ¥300 billion and decreased by ¥4 billion compared to the fiscal year ended March 31, 2020.

Others for the fiscal year ended March 31, 2021 was ¥54 billion.

As a result, consolidated net business profit for the fiscal year ended March 31, 2021 was ¥389 billion and increased by ¥22 billion compared to the fiscal year ended March 31, 2020.

Retail Business Unit

Consolidated gross profit for the fiscal year ended March 31, 2021 was ¥1,127 billion and decreased by ¥49 billion compared to the fiscal year ended March 31, 2020. This was primarily due to a decrease in income from the payment businesses and the consumer finance businesses reflecting a decline in private consumption affected by the COVID-19 pandemic, which was partially offset by an increase in income from the wealth management businesses.

General and administrative expenses for the fiscal year ended March 31, 2021 was ¥910 billion and decreased by ¥24 billion compared to the fiscal year ended March 31, 2020. This was primarily due to decreases in revenue-linked variable costs of Sumitomo Mitsui Card and SMBC Finance Service, and cost reduction efforts including the branch reorganization of SMBC.

Others for the fiscal year ended March 31, 2021 was ¥2 billion.

As a result, consolidated net business profit for the fiscal year ended March 31, 2021 was ¥219 billion and decreased by ¥24 billion compared to the fiscal year ended March 31, 2020.

Global Business Unit

Consolidated gross profit for the fiscal year ended March 31, 2021 was ¥724 billion and increased by ¥43 billion compared to the fiscal year ended March 31, 2020. This was primarily due to increases in income from lending businesses and securities businesses in response to strong financial needs caused by the COVID-19 pandemic.

General and administrative expenses for the fiscal year ended March 31, 2021 was ¥383 billion and increased by ¥12 billion compared to the fiscal year ended March 31, 2020. This was due to increases in expenses related to overseas business development as well as enhancement of the governance system.

Others for the fiscal year ended March 31, 2021 was ¥26 billion and decreased by ¥27 billion compared to the fiscal year ended March 31, 2020. This was primarily due to a decrease in our share of post-tax profit of associates and joint ventures, reflecting the deterioration of global economic conditions caused by the COVID-19 pandemic.

As a result, consolidated net business profit for the fiscal year ended March 31, 2021 was ¥367 billion and increased by ¥4 billion compared to the fiscal year ended March 31, 2020.

Global Markets Business Unit

Consolidated gross profit for the fiscal year ended March 31, 2021 was ¥461 billion and increased by ¥22 billion compared to the fiscal year ended March 31, 2020. This was primarily due to nimble portfolio management in the volatile market environment.

General and administrative expenses for the fiscal year ended March 31, 2021 was ¥83 billion and increased by ¥3 billion compared to the fiscal year ended March 31, 2020.

Others for the fiscal year ended March 31, 2021 was ¥36 billion.

As a result, consolidated net business profit for the fiscal year ended March 31, 2021 was ¥414 billion and increased by ¥22 billion compared to the fiscal year ended March 31, 2020.

Financial Condition

Assets

Our total assets increased by ¥22,866,524 million from ¥212,158,463 million at March 31, 2020 to ¥235,024,987 million at March 31, 2021. The increase was primarily due to increases in cash and deposits with banks and investment securities.

Our assets at March 31, 2021 and 2020 were as follows.

	At March 31,	
	2021	2020
	(In millions)	
Cash and deposits with banks	¥ 73,090,816	¥ 62,471,453
Call loans and bills bought	2,553,468	898,256
Reverse repurchase agreements and cash collateral on securities borrowed	11,738,072	13,745,996
Trading assets	3,140,736	2,785,016
Derivative financial instruments	5,521,617	6,279,801
Financial assets at fair value through profit or loss	1,744,848	1,478,356
Investment securities	31,051,461	21,864,386
Loans and advances	97,714,938	94,671,818
Investments in associates and joint ventures	886,685	826,736
Property, plant and equipment	1,754,661	1,764,611
Intangible assets	819,720	835,477
Other assets	4,945,631	4,272,630
Current tax assets	33,376	161,729
Deferred tax assets	28,958	102,198
Total assets	<u>¥235,024,987</u>	<u>¥212,158,463</u>

Loans and Advances

Our main operating activity is the lending business. We make loans and extend other types of credit principally to corporate and individual customers in Japan and to corporate customers in foreign countries.

At March 31, 2021, our loans and advances were ¥97,714,938 million, or 42% of total assets, representing an increase of ¥3,043,120 million, or 3%, from ¥94,671,818 million at March 31, 2020. The increase in loans and advances was primarily due to an increase in those to domestic customers, mainly corporate customers. At the beginning of the fiscal year ended March 31, 2021, the balance of loans to domestic corporate customers increased as a result of our response to their financial needs arising from the COVID-19 pandemic. Thereafter, the balance of loans began to decrease due to repayments, but the balance at March 31, 2021 was still above the level at March 31, 2020.

Domestic

Through SMBC and other banking and non-bank subsidiaries, we make loans to a broad range of industrial, commercial and individual customers in Japan. The following table shows our outstanding loans and advances to customers whose domiciles are in Japan, classified by industry, before deducting the allowance for loan losses, and adjusting unearned income, unamortized premiums-net and deferred loan fees-net at the dates indicated.

	At March 31,	
	2021	2020
	(In millions)	
Manufacturing	¥ 10,174,683	¥ 8,787,566
Agriculture, forestry, fisheries and mining	277,471	280,233
Construction	886,539	919,043
Transportation, communications and public enterprises	5,878,522	5,637,560
Wholesale and retail	6,014,746	5,375,802
Finance and insurance	3,423,625	3,217,545
Real estate and goods rental and leasing	11,760,698	10,666,446
Services	4,831,938	4,452,195
Municipalities	625,639	839,878
Lease financing	24,678	8,380
Consumer ⁽¹⁾	15,274,719	15,691,638
Others ⁽²⁾	4,133,900	4,308,469
Total domestic	¥ 63,307,158	¥ 60,184,755

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥10,736,709 million and ¥10,913,869 million at March 31, 2021 and 2020, respectively.

(2) The balance in Others includes loans and advances to the Government of Japan.

Foreign

The following table shows the outstanding loans and advances to our customers whose domiciles are not in Japan, classified by industry, before deducting the allowance for loan losses, and adjusting unearned income, unamortized premiums-net and deferred loan fees-net at the dates indicated.

	At March 31,	
	2021	2020
	(In millions)	
Public sector	¥ 309,372	¥ 335,071
Financial institutions	7,241,844	6,220,956
Commerce and industry	24,659,663	25,597,599
Lease financing	306,988	309,531
Others	3,000,530	2,994,838
Total foreign	¥ 35,518,397	¥ 35,457,995

Allowance for Loan Losses

We calculate the allowance for loan losses using the latest assignment of obligor grades (our internal credit rating) and supplementary data such as the borrowers' operating cash flows, realizable value of collateral and recent economic conditions.

For the fiscal year ended March 31, 2021, the allowance for loan losses increased by ¥142,882 million, or 20%, from ¥706,405 million at the beginning of the period to ¥849,287 million at the end of the period.

The balance of the allowance for loan losses increases when a provision for loan losses is recognized and decreases when charge-offs are recognized through the sales of loans and write-offs. As we recorded a provision for loan losses of ¥277,085 million and charge-offs of ¥161,603 million for the fiscal year ended March 31, 2021, the provision for loan losses exceeded charge-offs and the overall allowance for loan losses increased.

The provision for loan losses increased by ¥27,607 million to ¥277,085 million for the fiscal year ended March 31, 2021 as compared to ¥249,478 million for the fiscal year ended March 31, 2020. The increase was

primarily due to an increase in the provision for loan losses related to our corporate customers affected by the COVID-19 pandemic. For the fiscal year ended March 31, 2021, the obligor grades of many corporate borrowers severely affected by the COVID-19 pandemic were downgraded to the extent that the credit risk on loans and advances to such borrowers was determined to be significantly increased since initial recognition and their allowance for loan losses was measured at an amount equal to the lifetime ECL.

Charge-offs increased by ¥7,611 million from the previous fiscal year to ¥161,603 million for the fiscal year ended March 31, 2021. Charge-offs of domestic loans and advances decreased by ¥29,391 million compared to the previous fiscal year to ¥96,937 million for the fiscal year ended March 31, 2021. Charge-offs of foreign loans and advances increased by ¥37,002 million compared to the previous fiscal year to ¥64,666 million for the fiscal year ended March 31, 2021.

The following tables show our allowance for loan losses for each of the periods indicated.

	At March 31, 2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	(In millions)			
Allowance for loan losses :				
Balance at April 1, 2020	¥ 203,286	¥ 147,382	¥ 355,737	¥ 706,405
Net transfers between stages	(8,021)	(18,280)	26,301	—
Provision (credit) for loan losses	(29,279)	123,622	182,742	277,085
Charge-offs ⁽¹⁾	—	—	161,603	161,603
Recoveries	—	—	12,801	12,801
Net charge-offs	—	—	148,802	148,802
Others ⁽²⁾	4,170	3,185	7,244	14,599
Balance at March 31, 2021	¥ 170,156	¥ 255,909	¥ 423,222	¥ 849,287
	At March 31, 2020			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	(In millions)			
Allowance for loan losses :				
Balance at April 1, 2019	¥ 158,094	¥ 92,446	¥ 354,448	¥ 604,988
Net transfers between stages	(3,184)	(4,503)	7,687	—
Provision (credit) for loan losses	52,085	60,724	136,669	249,478
Charge-offs ⁽¹⁾	—	—	153,992	153,992
Recoveries	—	—	12,413	12,413
Net charge-offs	—	—	141,579	141,579
Others ⁽²⁾	(3,709)	(1,285)	(1,488)	(6,482)
Balance at March 31, 2020	¥ 203,286	¥ 147,382	¥ 355,737	¥ 706,405

(1) Charge-offs consist of the reduction of allowance through the sales of loans and write-offs.

(2) Others mainly include foreign exchange translations for the fiscal years ended March 31, 2021 and 2020.

Impaired Loans and Advances

A portion of the total domestic and foreign loans and advances consists of impaired loans and advances, which are comprised of “potentially bankrupt, virtually bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” “restructured (loans)” and “other impaired (loans and advances).” The loans and

advances for which management has serious doubts about the ability of the borrowers to comply in the near future with the repayment terms are wholly included in impaired loans and advances.

“Potentially bankrupt, virtually bankrupt and bankrupt (loans and advances)” comprise loans and advances to borrowers that are perceived to have a high risk of falling into bankruptcy, may not have been legally or formally declared bankrupt but are essentially bankrupt, or have been legally or formally declared bankrupt.

Loans classified as “past due three months or more (loans)” represent those loans that are three months or more past due as to principal or interest, which are not included in “potentially bankrupt, virtually bankrupt and bankrupt (loans and advances).”

The category “restructured (loans)” comprises loans not included above for which the terms of the loans have been modified to grant concessions because of problems with the borrower.

“Other impaired (loans and advances)” represent impaired loans and advances, which are not included in “potentially bankrupt, virtually bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” or “restructured (loans),” but for which information about credit problems cause management to classify them as impaired loans and advances.

The following table shows the distribution of impaired loans and advances by “potentially bankrupt, virtually bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” “restructured (loans)” and “other impaired (loans and advances)” at March 31, 2021 and 2020 by domicile and type of industry of the borrowers. At March 31, 2021, gross impaired loans and advances were ¥1,171,576 million, an increase of ¥326,247 million from ¥845,329 million at March 31, 2020. The ratio of gross impaired loans and advances to the outstanding loans and advances before deducting the allowance for loan losses, and adjusting unearned income, unamortized premiums-net and deferred loan fees-net was 1.2% at March 31, 2021, an increase of 0.3 percentage points from 0.9% at March 31, 2020.

		At March 31,	
		2021	2020
		(In millions)	
Potentially bankrupt, virtually bankrupt and bankrupt (loans and advances):			
Domestic:			
Manufacturing	¥	63,894	¥ 44,640
Agriculture, forestry, fisheries and mining		7,836	7,648
Construction		8,086	10,008
Transportation, communications and public enterprises		36,177	35,562
Wholesale and retail		75,040	67,810
Finance and insurance		6,842	5,556
Real estate and goods rental and leasing		26,658	28,189
Services		64,574	44,040
Consumer		156,133	162,881
Others		23,474	19,475
Total domestic		468,714	425,809
Foreign:			
Financial institutions		11,632	29
Commerce and industry		179,199	137,438
Others		23,012	9,118
Total foreign		213,843	146,585
Total		682,557	572,394
Past due three months or more (loans):			
Domestic		37,297	27,923
Foreign		—	—
Total		37,297	27,923
Restructured (loans):			
Domestic		228,631	144,034
Foreign		146,324	42,123
Total		374,955	186,157
Other impaired (loans and advances):			
Domestic		36,343	52,020
Foreign		40,424	6,835
Total		76,767	58,855
Gross impaired loans and advances		1,171,576	845,329
Less: Allowance for loan losses for impaired loans and advances		(423,222)	(355,737)
Net impaired loans and advances	¥	748,354	¥ 489,592

In addition to the discussion in this section, see Note 46 “Financial Risk Management—Credit Risk” to our consolidated financial statements included elsewhere in this annual report.

Investment Securities

Our investment securities, including debt instruments at amortized cost, debt instruments at fair value through other comprehensive income and equity instruments at fair value through other comprehensive income, totaled ¥31,051,461 million at March 31, 2021, an increase of ¥9,187,075 million, or 42%, from ¥21,864,386 million at March 31, 2020. The increase in our investment securities was primarily due to increases in our holdings of Japanese government bonds and U.S. Treasury and other U.S. government agency bonds, which were partially offset by a decrease in our holdings of mortgage-backed securities.

Our bond portfolio is principally held for asset and liability management purposes. It mostly consisted of Japanese government bonds, U.S. Treasury securities and bonds issued or guaranteed by foreign governments, government agencies or official institutions.

Our debt instruments at amortized cost amounted to ¥72,015 million at March 31, 2021, a decrease of ¥248,756 million, or 78%, from ¥320,771 million at March 31, 2020, primarily due to redemptions at maturity of Japanese government bonds.

Domestic debt instruments at fair value through other comprehensive income amounted to ¥15,752,438 million at March 31, 2021, an increase of ¥8,147,385 million, or 107%, from ¥7,605,053 million at March 31, 2020. The increase was primarily due to an increase in our holdings of Japanese government bonds. As for our foreign debt instruments at fair value through other comprehensive income, we had ¥10,640,197 million at March 31, 2021, which was an increase of ¥191,086 million, or 2%, from ¥10,449,111 million at March 31, 2020. Most of our foreign debt instruments, including mortgage-backed securities, are issued or guaranteed by foreign governments, government agencies or official institutions. The increase was primarily due to an increase in our holdings of U.S. Treasury and other U.S. government agency bonds. Net unrealized losses on our foreign debt instruments amounted to ¥24,243 million at March 31, 2021, as compared to net unrealized gains of ¥235,111 million at March 31, 2020. This was primarily due to a decline in the fair value of the foreign debt instruments held, reflecting to increases in U.S. interest rates, together with the disposal during the fiscal year ended March 31, 2021 of foreign debt instruments with unrealized gains at March 31, 2020.

We had ¥3,919,787 million of domestic equity instruments and ¥667,024 million of foreign equity instruments at March 31, 2021, for which we made an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income under IFRS 9 “Financial Instruments.” Our domestic equity instruments, which consisted principally of publicly traded Japanese stocks and included common and preferred stocks issued by our customers, increased by ¥895,056 million, or 30%, from ¥3,024,731 million at March 31, 2020. Net unrealized gains on our domestic equity instruments increased by ¥962,690 million, or 62%, from ¥1,564,351 million at March 31, 2020 to ¥2,527,041 million at March 31, 2021. The increase was primarily due to an increase in the fair value of publicly traded Japanese stocks. Net unrealized gains on our foreign equity instruments increased by ¥196,600 million, or 59%, from ¥333,664 million at March 31, 2020 to ¥530,264 million at March 31, 2021, mainly reflecting favorable conditions in overseas stock markets.

We have no transactions pursuant to repurchase agreements, securities lending transactions or other transactions involving the transfer of financial assets with an obligation to repurchase such transferred assets that are treated as sales for accounting purposes.

The following tables show the amortized cost, gross unrealized gains and losses, and fair value of our investment securities, which are classified as debt instruments at amortized cost, debt instruments at fair value through other comprehensive income and equity instruments at fair value through other comprehensive income at March 31, 2021, 2020 and 2019.

					At March 31, 2021			
					Amortized cost ⁽¹⁾	Gross unrealized gains	Gross unrealized losses	Fair value
					(In millions)			
Debt instruments at amortized cost:								
Domestic:								
Japanese government bonds	¥	—	¥	—	¥	—	¥	—
Japanese municipal bonds		22,300		2		62		22,240
Japanese corporate bonds		—		—		—		—
Total domestic		22,300		2		62		22,240
Foreign:								
U.S. Treasury and other U.S. government agency bonds		—		—		—		—
Bonds issued by other governments and official institutions		47,129		221		239		47,111
Other debt instruments		2,586		—		43		2,543
Total foreign		49,715		221		282		49,654
Total	¥	72,015	¥	223	¥	344	¥	71,894
Debt instruments at fair value through other comprehensive income:								
Domestic:								
Japanese government bonds	¥	14,305,742	¥	1,507	¥	13,638	¥	14,293,611
Japanese municipal bonds		733,275		414		1,067		732,622
Japanese corporate bonds		727,473		1,111		2,689		725,895
Other debt instruments		310		—		—		310
Total domestic		15,766,800		3,032		17,394		15,752,438
Foreign:								
U.S. Treasury and other U.S. government agency bonds		5,601,838		49,692		86,586		5,564,944
Bonds issued by other governments and official institutions		3,006,178		8,231		20,377		2,994,032
Mortgage-backed securities		1,635,340		35,271		11,879		1,658,732
Other debt instruments		421,084		1,488		83		422,489
Total foreign		10,664,440		94,682		118,925		10,640,197
Total	¥	26,431,240	¥	97,714	¥	136,319	¥	26,392,635
Equity instruments at fair value through other comprehensive income:								
Domestic	¥	1,392,746	¥	2,592,655	¥	65,614	¥	3,919,787
Foreign		136,760		549,741		19,477		667,024
Total	¥	1,529,506	¥	3,142,396	¥	85,091	¥	4,586,811

At March 31, 2020					
	Amortized cost ⁽¹⁾	Gross unrealized gains	Gross unrealized losses	Fair value	
	(In millions)				
Debt instruments at amortized cost:					
Domestic:					
Japanese government bonds	¥ 260,079	¥ 207	¥ —	¥	260,286
Japanese municipal bonds	22,300	1	67		22,234
Japanese corporate bonds	—	—	—		—
Total domestic	282,379	208	67		282,520
Foreign:					
U.S. Treasury and other U.S. government agency bonds	—	—	—		—
Bonds issued by other governments and official institutions	37,358	145	—		37,503
Other debt instruments	1,034	—	—		1,034
Total foreign	38,392	145	—		38,537
Total	¥ 320,771	¥ 353	¥ 67	¥	321,057
Debt instruments at fair value through other comprehensive income:					
Domestic:					
Japanese government bonds	¥ 6,791,514	¥ 5,725	¥ 12,171	¥	6,785,068
Japanese municipal bonds	240,558	355	531		240,382
Japanese corporate bonds	579,508	1,655	1,870		579,293
Other debt instruments	310	—	—		310
Total domestic	7,611,890	7,735	14,572		7,605,053
Foreign:					
U.S. Treasury and other U.S. government agency bonds	4,347,608	147,078	—		4,494,686
Bonds issued by other governments and official institutions	2,941,222	10,340	20,756		2,930,806
Mortgage-backed securities	2,708,432	99,481	100		2,807,813
Other debt instruments	216,738	593	1,525		215,806
Total foreign	10,214,000	257,492	22,381		10,449,111
Total	¥ 17,825,890	¥ 265,227	¥ 36,953	¥	18,054,164
Equity instruments at fair value through other comprehensive income:					
Domestic	¥ 1,460,380	¥ 1,693,714	¥ 129,363	¥	3,024,731
Foreign	131,056	361,501	27,837		464,720
Total	¥ 1,591,436	¥ 2,055,215	¥ 157,200	¥	3,489,451

At March 31, 2019					
	Amortized cost ⁽¹⁾	Gross unrealized gains	Gross unrealized losses	Fair value	
	(In millions)				
Debt instruments at amortized cost:					
Domestic:					
Japanese government bonds	¥ 280,246	¥ 890	¥ —	¥	281,136
Japanese municipal bonds	—	—	—		—
Japanese corporate bonds	—	—	—		—
Total domestic	280,246	890	—		281,136
Foreign:					
U.S. Treasury and other U.S. government agency bonds	—	—	—		—
Bonds issued by other governments and official institutions	36,827	106	39		36,894
Other debt instruments	1,841	—	—		1,841
Total foreign	38,668	106	39		38,735
Total	¥ 318,914	¥ 996	¥ 39	¥	319,871
Debt instruments at fair value through other comprehensive income:					
Domestic:					
Japanese government bonds	¥ 5,005,649	¥ 22,285	¥ 239	¥	5,027,695
Japanese municipal bonds	98,427	742	5		99,164
Japanese corporate bonds	325,130	3,848	—		328,978
Other debt instruments	26	—	—		26
Total domestic	5,429,232	26,875	244		5,455,863
Foreign:					
U.S. Treasury and other U.S. government agency bonds	4,469,336	28,497	71,198		4,426,635
Bonds issued by other governments and official institutions	2,112,607	10,590	1,790		2,121,407
Mortgage-backed securities	1,047,183	9,739	12,935		1,043,987
Other debt instruments	284,835	664	170		285,329
Total foreign	7,913,961	49,490	86,093		7,877,358
Total	¥ 13,343,193	¥ 76,365	¥ 86,337	¥	13,333,221
Equity instruments at fair value through other comprehensive income:					
Domestic	¥ 1,600,072	¥ 2,221,660	¥ 92,612	¥	3,729,120
Foreign	95,989	368,511	20,728		443,772
Total	¥ 1,696,061	¥ 2,590,171	¥ 113,340	¥	4,172,892

(1) “Amortized cost” for equity instruments at fair value through other comprehensive income represents the difference between the fair value and gross unrealized gains or losses.

The following tables show the fair value and gross unrealized losses of our investment securities, aggregated by the length of time that the individual securities have been in a continuous unrealized loss position at March 31, 2021, 2020 and 2019.

		At March 31, 2021											
		Less than twelve months		Twelve months or more		Total							
		Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses						
		(In millions)											
Debt instruments at amortized cost:													
Domestic:													
Japanese government bonds	¥	—	¥	—	¥	—	¥	—					
Japanese municipal bonds		2,300	—	16,238	62	18,538		62					
Japanese corporate bonds		—	—	—	—	—		—					
Total domestic		2,300	—	16,238	62	18,538		62					
Foreign:													
U.S. Treasury and other U.S. government agency bonds		—	—	—	—	—		—					
Bonds issued by other governments and official institutions		10,279	239	—	—	10,279		239					
Other debt instruments		1,026	43	—	—	1,026		43					
Total foreign		11,305	282	—	—	11,305		282					
Total	¥	13,605	¥	282	¥	16,238	¥	62	¥	29,843	¥	344	
Debt instruments at fair value through other comprehensive income:													
Domestic:													
Japanese government bonds	¥	7,019,285	¥	2,155	¥	3,208,353	¥	11,483	¥	10,227,638	¥	13,638	
Japanese municipal bonds		338,284		606		140,848		461		479,132		1,067	
Japanese corporate bonds		197,020		416		240,088		2,273		437,108		2,689	
Other debt instruments		—		—		—		—		—		—	
Total domestic		7,554,589		3,177		3,589,289		14,217		11,143,878		17,394	
Foreign:													
U.S. Treasury and other U.S. government agency bonds		3,174,495		86,586		—		—		3,174,495		86,586	
Bonds issued by other governments and official institutions		1,652,235		20,372		30,706		5		1,682,941		20,377	
Mortgage-backed securities		594,950		11,874		1,511		5		596,461		11,879	
Other debt instruments		160,498		80		14,329		3		174,827		83	
Total foreign		5,582,178		118,912		46,546		13		5,628,724		118,925	
Total	¥	13,136,767	¥	122,089	¥	3,635,835	¥	14,230	¥	16,772,602	¥	136,319	
Equity instruments at fair value through other comprehensive income:													
Domestic	¥	24,850	¥	3,134	¥	164,109	¥	62,480	¥	188,959	¥	65,614	
Foreign		6		384		23,149		19,093		23,155		19,477	
Total	¥	24,856	¥	3,518	¥	187,258	¥	81,573	¥	212,114	¥	85,091	

At March 31, 2020												
Less than twelve months				Twelve months or more		Total						
Fair value		Gross unrealized losses		Fair value		Gross unrealized losses						
Fair value		Gross unrealized losses		Fair value		Gross unrealized losses						
(In millions)												
Debt instruments at amortized cost:												
Domestic:												
Japanese government bonds	¥	—	¥	—	¥	—	¥	—				
Japanese municipal bonds		18,532		67		—		—	18,532		67	
Japanese corporate bonds		—		—		—		—			—	
Total domestic		18,532		67		—		—		18,532		67
Foreign:												
U.S. Treasury and other U.S. government agency bonds		—		—		—		—		—		—
Bonds issued by other governments and official institutions		—		—		—		—		—		—
Other debt instruments		—		—		—		—		—		—
Total foreign		—		—		—		—		—		—
Total	¥	18,532	¥	67	¥	—	¥	—	¥	18,532	¥	67
Debt instruments at fair value through other comprehensive income:												
Domestic:												
Japanese government bonds	¥	4,367,384	¥	12,171	¥	—	¥	—	¥	4,367,384	¥	12,171
Japanese municipal bonds		153,889		527		9,556		4		163,445		531
Japanese corporate bonds		295,318		1,870		—		—		295,318		1,870
Other debt instruments		—		—		—		—		—		—
Total domestic		4,816,591		14,568		9,556		4		4,826,147		14,572
Foreign:												
U.S. Treasury and other U.S. government agency bonds		32,089		—		—		—		32,089		—
Bonds issued by other governments and official institutions		1,453,583		20,756		—		—		1,453,583		20,756
Mortgage-backed securities		1,800		6		6,268		94		8,068		100
Other debt instruments		88,192		1,228		10,584		297		98,776		1,525
Total foreign		1,575,664		21,990		16,852		391		1,592,516		22,381
Total	¥	6,392,255	¥	36,558	¥	26,408	¥	395	¥	6,418,663	¥	36,953
Equity instruments at fair value through other comprehensive income:												
Domestic	¥	144,382	¥	46,162	¥	139,484	¥	83,201	¥	283,866	¥	129,363
Foreign		45,541		1,216		15,024		26,621		60,565		27,837
Total	¥	189,923	¥	47,378	¥	154,508	¥	109,822	¥	344,431	¥	157,200

At March 31, 2019												
Less than twelve months				Twelve months or more		Total						
Fair value		Gross unrealized losses		Fair value		Gross unrealized losses		Fair value		Gross unrealized losses		
(In millions)												
Debt instruments at amortized cost:												
Domestic:												
Japanese government bonds	¥	—	¥	—	¥	—	¥	—	¥	—	¥	—
Japanese municipal bonds		—		—		—		—		—		—
Japanese corporate bonds		—		—		—		—		—		—
Total domestic		—		—		—		—		—		—
Foreign:												
U.S. Treasury and other U.S. government agency bonds		—		—		—		—		—		—
Bonds issued by other governments and official institutions		2,999		39		—		—		2,999		39
Other debt instruments		—		—		—		—		—		—
Total foreign		2,999		39		—		—		2,999		39
Total	¥	2,999	¥	39	¥	—	¥	—	¥	2,999	¥	39
Debt instruments at fair value through other comprehensive income:												
Domestic:												
Japanese government bonds	¥	—	¥	—	¥	296,652	¥	239	¥	296,652	¥	239
Japanese municipal bonds		—		—		9,555		5		9,555		5
Japanese corporate bonds		—		—		—		—		—		—
Other debt instruments		—		—		—		—		—		—
Total domestic		—		—		306,207		244		306,207		244
Foreign:												
U.S. Treasury and other U.S. government agency bonds		907,418		8,721		1,316,145		62,477		2,223,563		71,198
Bonds issued by other governments and official institutions		1,217,502		959		132,139		831		1,349,641		1,790
Mortgage-backed securities		412		1		432,651		12,934		433,063		12,935
Other debt instruments		138,685		111		11,930		59		150,615		170
Total foreign		2,264,017		9,792		1,892,865		76,301		4,156,882		86,093
Total	¥	2,264,017	¥	9,792	¥	2,199,072	¥	76,545	¥	4,463,089	¥	86,337
Equity instruments at fair value through other comprehensive income:												
Domestic	¥	137,946	¥	31,563	¥	147,991	¥	61,049	¥	285,937	¥	92,612
Foreign		—		2		20,970		20,726		20,970		20,728
Total	¥	137,946	¥	31,565	¥	168,961	¥	81,775	¥	306,907	¥	113,340

Trading Assets

The following table shows our trading assets at March 31, 2021 and 2020. Our trading assets were ¥3,140,736 million at March 31, 2021, an increase of ¥355,720 million from ¥2,785,016 million at March 31, 2020. The increase was primarily due to an increase in our holdings of corporate bonds.

	At March 31,	
	2021	2020
	(In millions)	
Debt instruments	¥ 2,732,480	¥ 2,545,703
Equity instruments	408,256	239,313
Total trading assets	<u>¥ 3,140,736</u>	<u>¥ 2,785,016</u>

Financial Assets at Fair Value Through Profit or Loss

The following table shows the fair value of our financial assets at fair value through profit or loss at March 31, 2021 and 2020. The fair value was ¥1,744,848 million at March 31, 2021, an increase of ¥266,492 million from ¥1,478,356 million at March 31, 2020. The increase was primarily due to an increase in our holdings of investment funds, which was partially offset by a decrease in our holdings of non-trading bonds.

	At March 31,	
	2021	2020
	(In millions)	
Debt instruments	¥ 1,667,164	¥ 1,454,387
Equity instruments	77,684	23,969
Total financial assets at fair value through profit or loss	<u>¥ 1,744,848</u>	<u>¥ 1,478,356</u>

Liabilities

Our total liabilities increased by ¥21,525,252 million from ¥201,223,585 million at March 31, 2020 to ¥222,748,837 million at March 31, 2021, primarily due to an increase in deposits.

The following table shows our liabilities at March 31, 2021 and 2020.

	At March 31,	
	2021	2020
	(In millions)	
Deposits	¥155,493,654	¥138,431,418
Call money and bills sold	1,368,515	3,740,540
Repurchase agreements and cash collateral on securities lent	18,509,906	15,455,782
Trading liabilities	2,080,826	2,018,484
Derivative financial instruments	4,949,433	5,555,201
Financial liabilities designated at fair value through profit or loss	239,519	—
Borrowings	19,423,355	17,121,362
Debt securities in issue	11,228,600	10,985,048
Provisions	224,274	200,053
Other liabilities	8,777,502	7,601,355
Current tax liabilities	53,718	48,159
Deferred tax liabilities	399,535	66,183
Total liabilities	<u>¥222,748,837</u>	<u>¥201,223,585</u>

Deposits

We offer a wide range of standard banking accounts through the offices of our banking subsidiaries in Japan, including non-interest-bearing demand deposits, interest-bearing demand deposits, deposits at notice, time deposits and negotiable certificates of deposit. Domestic deposits, approximately 79% of total deposits, are our principal source of funds for our domestic operations. The deposits in the domestic offices of our banking subsidiaries are principally from individuals and private corporations, governmental bodies (including municipal authorities), and financial institutions.

SMBC's foreign offices accept deposits mainly in U.S. dollars, but also in yen and other currencies, and are active participants in the Euro-currency market as well as the United States domestic money market. Foreign deposits mainly consist of stable types of deposits, such as deposits at notice, time deposits, and negotiable certificates of deposit.

Our deposit balances at March 31, 2021 were ¥155,493,654 million, an increase of ¥17,062,236 million, or 12%, from ¥138,431,418 million at March 31, 2020, primarily due to increases in non-interest-bearing demand deposits and interest-bearing demand deposits at domestic offices both from corporate customers proactively maintaining liquidity and from individual customers reflecting the provision of special cash payments to Japanese residents by the Japanese government as part of its economic measures to cope with the COVID-19 pandemic and a decline in private consumption.

The following table shows a breakdown of our domestic and foreign offices' deposits at the dates indicated.

	At March 31,	
	2021	2020
	(In millions)	
Domestic offices:		
Non-interest-bearing demand deposits	¥ 26,509,136	¥ 23,804,054
Interest-bearing demand deposits	63,810,233	56,650,510
Deposits at notice	732,564	779,514
Time deposits	17,833,960	17,759,453
Negotiable certificates of deposit	5,603,154	4,081,741
Others	8,578,530	7,198,447
Total domestic offices	<u>123,067,577</u>	<u>110,273,719</u>
Foreign offices:		
Non-interest-bearing demand deposits	1,760,079	1,503,721
Interest-bearing demand deposits	4,825,345	3,122,179
Deposits at notice	10,730,094	9,989,980
Time deposits	7,985,027	7,264,055
Negotiable certificates of deposit	6,967,464	6,098,695
Others	158,068	179,069
Total foreign offices	<u>32,426,077</u>	<u>28,157,699</u>
Total deposits	<u>¥155,493,654</u>	<u>¥138,431,418</u>

Borrowings

Borrowings include unsubordinated borrowings, subordinated borrowings, liabilities associated with securitization transactions of our own assets, and lease liabilities. At March 31, 2021, our borrowings were ¥19,423,355 million, an increase of ¥2,301,993 million, or 13%, from ¥17,121,362 million at March 31, 2020. The increase was primarily due to an increase in unsubordinated borrowings.

The following table shows the balances with respect to our borrowings at March 31, 2021 and 2020.

	At March 31,	
	2021	2020
	(In millions)	
Unsubordinated borrowings	¥ 17,565,291	¥ 15,208,696
Subordinated borrowings	249,833	254,064
Liabilities associated with securitization transactions	1,227,590	1,272,714
Lease liabilities	380,641	385,888
Total borrowings	¥ 19,423,355	¥ 17,121,362

Debt Securities in Issue

Debt securities in issue at March 31, 2021 were ¥11,228,600 million, an increase of ¥243,552 million, or 2%, from ¥10,985,048 million at March 31, 2020, primarily due to an increase in commercial paper, which was partially offset by a decrease in subordinated bonds.

	At March 31,	
	2021	2020
	(In millions)	
Commercial paper	¥ 2,325,290	¥ 1,736,702
Unsubordinated bonds	7,625,948	7,693,431
Subordinated bonds	1,277,362	1,554,915
Total debt securities in issue	¥ 11,228,600	¥ 10,985,048

For additional information, see Note 20 “Debt Securities in Issue” to our consolidated financial statements included elsewhere in this annual report, which sets forth summaries of debt securities in issue with their contractual interest rates and currencies.

In the normal course of business, we enter into contractual obligations that require future cash payments. “Item 5.F. Tabular Disclosure of Contractual Obligations” sets forth a summary of our contractual cash obligations at March 31, 2021.

Total Equity

Our total equity increased by ¥1,341,272 million from ¥10,934,878 million at March 31, 2020 to ¥12,276,150 million at March 31, 2021, primarily due to increases in other reserves and retained earnings. The increase in other reserves was primarily due to an increase in the financial instruments at fair value through other comprehensive income reserve reflecting a rise in the fair value of domestic equity instruments. The increase in retained earnings mainly reflected our net profit.

For more information, see Note 25 “Shareholders’ Equity” and Note 26 “Equity Attributable to Other Equity Instruments Holders” to our consolidated financial statements included elsewhere in this annual report.

	At March 31,	
	2021	2020
	(In millions)	
Capital stock	¥ 2,341,274	¥ 2,339,965
Capital surplus	722,595	728,551
Retained earnings	6,078,208	5,609,854
Treasury stock	(13,699)	(13,984)
Equity excluding other reserves	9,128,378	8,664,386
Other reserves	2,430,857	1,525,720
Equity attributable to shareholders of Sumitomo Mitsui Financial Group, Inc.	11,559,235	10,190,106
Non-controlling interests	68,379	60,296
Equity attributable to other equity instruments holders	648,536	684,476
Total equity	¥ 12,276,150	¥ 10,934,878

Reconciliation with Japanese GAAP

Our consolidated financial statements are prepared in accordance with IFRS as summarized in Note 2 “Summary of Significant Accounting Policies” to our consolidated financial statements included elsewhere in this annual report. These policies differ in some respects from Japanese GAAP. For reporting under the Financial Instruments and Exchange Act of Japan (“FIEA”) and Japanese banking regulations, we prepare our annual financial results in accordance with Japanese GAAP. To show the major reconciling items between our IFRS and Japanese GAAP consolidated financial statements, we have provided below, with respect to our most recent fiscal year, a reconciliation of consolidated net profit and total equity under IFRS with those amounts under Japanese GAAP.

	At and for the fiscal year ended March 31, 2021	
	Total equity	Net profit
	(In millions)	
IFRS	¥ 12,276,150	¥ 705,076
Differences arising from different accounting for:		
1. Scope of consolidation	144,060	(5,731)
2. Derivative financial instruments	234,994	(94,826)
3. Investment securities	(342,876)	(113,275)
4. Loans and advances	337,920	(60,866)
5. Investments in associates and joint ventures	95,453	(3,417)
6. Property, plant and equipment	22,181	2,481
7. Lease accounting	799	(986)
8. Defined benefit plans	45,998	3
9. Deferred tax assets	(36,675)	15,451
10. Foreign currency translation	—	20,246
11. Classification of equity and liability	(658,420)	(12,507)
Others	(95,832)	(15,365)
Tax effect of the above	(124,706)	79,607
Japanese GAAP	¥ 11,899,046	¥ 515,891

The explanations below summarize certain differences between IFRS and Japanese GAAP that may be significant. The paragraphs below refer to the corresponding items as set forth in the table above.

1. Scope of consolidation

Under Japanese GAAP, we consolidate an entity when we effectively control the decision making body of the entity's operating and financing policies. Control is generally presumed to exist when we own more than half of the voting power, or own from 40% to 50% of the voting power and certain facts exist indicating control. Certain entities established for securitization are presumed not to be controlled. Under IFRS, we consolidate an entity when we control the entity. Control is generally presumed to exist when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity. The existence and effect of potential voting rights that are deemed to be substantive are taken into account when assessing the control. When assessing control of an entity under IFRS, we apply a single consolidation model to all types of entities, irrespective of their nature. This results in a difference in the scope of consolidation between Japanese GAAP and IFRS. Most significantly, certain entities designed for special purpose such as securitization, usually in the form of trusts under the Trust Act of Japan, are not consolidated under Japanese GAAP but consolidated under IFRS. Accordingly, both the cumulative gains on transfers of financial assets to these securitization vehicles and amortization of our retained subordinate interest under Japanese GAAP were not recognized under IFRS due to consolidation of such vehicles.

2. Derivative financial instruments

Under Japanese GAAP, an embedded derivative is separately accounted for when the host contract may suffer losses arising from the embedded derivative. Also, an entity may separately account for an embedded derivative if the entity manages it separately, even though the criteria for separation are not fully met. Under IFRS, when a hybrid contract contains a host that is not a financial asset, an embedded derivative is separated from the host contract and accounted for as a derivative if, and only if, its economic characteristics and risks are not closely related to those of the host contract. The separation of the embedded derivatives from the host contract is adjusted so as not to result in any gain or loss at initial recognition under IFRS. On the other hand, under IFRS, when a hybrid contract contains a host that is a financial asset, an embedded derivative is not separately accounted for from the host.

We apply hedge accounting under Japanese GAAP. However, the qualifying criteria for certain hedge accounting under IFRS are more rigorous than those under Japanese GAAP. Therefore, except for fair value hedge accounting and hedge accounting for net investments in foreign operations we apply under IFRS, the effects of hedge accounting under Japanese GAAP have been reversed under IFRS.

3. Investment securities

Under Japanese GAAP, stocks and financial instruments similar to stocks that are not traded in an active market, such as unlisted stocks, are measured at cost if they are classified as available-for-sale, whereas, under IFRS, those are measured at fair values determined by using valuation techniques.

Under Japanese GAAP, the changes in fair value of available-for-sale financial assets are recognized in other comprehensive income and subsequently transferred to profit or loss on their disposal. Under IFRS, we made an irrevocable election for some equity instruments to present subsequent changes in fair value in other comprehensive income. The changes in fair value of those equity instruments presented in other comprehensive income are not subsequently transferred to profit or loss. Some available-for-sale financial assets under Japanese GAAP, including investment funds, are classified as financial assets measured at fair value through profit or loss, and therefore the changes in their fair values are recognized in profit or loss under IFRS.

4. Loans and advances

Under Japanese GAAP, the allowance for loan losses is calculated based on credit assessments at the end of the reporting period. A collective allowance is calculated using historical loss experience based on historical

results according to the obligor grade, adding forward looking information as appropriate. The allowance for specifically identified significant loans is calculated by the discounted cash flow (“DCF”) method, which is based on the present value of reasonably estimated cash flows discounted at the original contractual interest rate of the relevant loan. For the remaining loans, an individual allowance is calculated based on the estimated uncollectible amount considering historical loss experience and the recoveries from collateral, guarantees and any other collectible cash flows.

Under IFRS, measurement of ECL depends on whether the credit risk on the financial asset has increased significantly since initial recognition. If there is not a significant increase in credit risk on that financial asset since initial recognition, an allowance is measured at an amount equal to 12-month expected credit losses. Otherwise, an allowance is measured at an amount equal to lifetime expected credit losses. The allowance for loan losses for individually significant impaired loans is calculated by the DCF method based on the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate, which differs from the calculation of the DCF method under Japanese GAAP. The scope of loans that are subject to the DCF method under IFRS is wider than that under Japanese GAAP. ECL are measured in a way that reflects not only past events, but also current conditions and forecasts of future economic conditions. Under Japanese GAAP, loan origination fees and costs are generally recognized in the consolidated income statement as incurred. Under IFRS, loan origination fees and costs that are incremental and directly attributable to the origination of a loan are deferred and thus, included in the calculation of the effective interest rate.

Under both Japanese GAAP and IFRS, undrawn loan commitments are off-balance sheet. Provisions for undrawn loan commitments are measured in a way similar to those for loans drawn down in accordance with each standard. Under Japanese GAAP, all guarantee contracts are accounted for by accruing both asset and liability accounts at the nominal guarantee amount. A provision for the credit risk of the guarantee is calculated using the same method as the reserve for possible loan losses. Under IFRS, financial guarantees are initially recognized at fair value and subsequently measured at the higher of the amount of the loss allowance determined in accordance with ECL or the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

5. Investments in associates and joint ventures

Under Japanese GAAP, although goodwill related to investments in associates and joint ventures is included in the carrying amount of the investments, we are required to recognize and measure impairment losses only on goodwill separately from the investments if impairment indicators for the goodwill are identified. Under IFRS, for investments in associates and joint ventures, if we identify objective evidence of impairment, the entire carrying amount of the investment is tested for impairment since goodwill is not separately recognized on the initial acquisition of the investment. Additionally, the net profit of associates and joint ventures is adjusted for differences between Japanese GAAP and IFRS in accordance with our accounting policy prior to applying the equity method under IFRS.

6. Property, plant and equipment

For certain assets that are depreciated using the declining balance method under Japanese GAAP, we apply the straight-line method of depreciation to those assets under IFRS as we consider that the straight-line method most closely reflects the expected pattern of consumption of the future economic benefits embodied in those assets. Additionally, under IFRS, residual values of assets are reviewed at least at the end of each reporting period. After reviews of all categories of property, plant and equipment, the residual values of assets are considered to be zero under IFRS, whereas residual values are assigned to certain assets under Japanese GAAP.

Furthermore, under IFRS, when any indication that assets may be impaired exists, the recoverable amount of an asset shall be determined. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount and an impairment loss is recognized to

the extent that the carrying amount of the asset exceeds its recoverable amount. On the other hand, under Japanese GAAP, when there is an indicator of impairment, whether impairment exists shall be determined by comparing the carrying amount of the asset to the undiscounted future cash flow. Then, if the undiscounted cash flows are lower than the carrying amount, the carrying amount is not considered to be recoverable and an impairment loss is recognized for the difference between the carrying amount and the recoverable amount.

7. Lease accounting

Under Japanese GAAP, a lease transaction as a lessee is classified as either a finance lease or an operating lease. Finance leases are recognized as assets and liabilities in statements of financial position, so there is no significant difference from IFRS. On the other hand, a lessee does not recognize assets and liabilities for operating leases. Operating lease payments are recognized in the consolidated income statements on a straight-line basis over the lease term. Under IFRS, a single lessee accounting model, whereby a lessee accounts for all leases in the same way, requires a lessee to recognize a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments at the commencement date. After the commencement date, a right of use asset is measured applying the straight-line method of depreciation, and a lease liability is measured by increasing the carrying amount to reflect interest and reducing the carrying amount to reflect the lease payments.

8. Defined benefit plans

Under Japanese GAAP, the present value of the defined benefit obligation is measured using the market yields of long-term Japanese government bonds as discount rates. Additionally, the discount rates for the previous reporting period can be used for the current reporting period, if the change in the present value of the defined benefit obligation caused by a change in the discount rates from the previous reporting period to the current reporting period is less than 10%. Under IFRS, the present value of the defined benefit obligation is measured by discounting the estimated timing and amount of benefit payments using the discount rates reflecting market yields on high quality corporate bonds at the end of each reporting period.

Under Japanese GAAP, the expected rates of return on plan assets for the previous reporting period can be used for the current reporting period, unless the impact of the profit or loss for the current reporting period is considered to be significant. Under IFRS, the interest cost and expected return on plan assets are replaced with a net interest amount which is calculated by applying the discount rate to the net defined benefit liability (asset).

Under Japanese GAAP, the actuarial gains and losses are recognized in other comprehensive income, and are amortized using the straight-line method. Under IFRS, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the year, and return on plan assets excluding interest income are recognized in other comprehensive income and are never reclassified to profit and loss.

Under Japanese GAAP, past service costs are recognized in other comprehensive income and are amortized using the straight-line method. Under IFRS, past service costs are recognized immediately in the consolidated income statement.

9. Deferred tax assets

Under Japanese GAAP, we recognize deferred tax assets to the extent that the realization of the tax benefit is highly probable based on the schedule. Under IFRS, deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. For example, deferred tax assets for deductible temporary differences relating to impairment of financial instruments of which the timing of the reversal is difficult to estimate cannot be recognized under Japanese GAAP, whereas they can be recognized under IFRS to the extent that it is probable that future taxable profit will be available.

10. Foreign currency translation

Under Japanese GAAP, the income statement items of foreign operations are translated into Japanese yen, our presentation currency, using the (spot) closing rate, whereas under IFRS they are translated into the presentation currency using the exchange rate at the dates of the transactions or, if the exchange rates do not fluctuate significantly, at average exchange rates. In addition, under Japanese GAAP, certain foreign operations' monetary items denominated in foreign currencies are translated into Japanese yen using the exchange rate at the end of the reporting period. However, under IFRS the monetary items for which settlement is neither planned nor likely to occur in the foreseeable future are translated using the exchange rates at the dates of initial transactions.

11. Classification of equity and liability

Under Japanese GAAP, a financial instrument is generally classified as an equity instrument or a financial liability in light of its legal form. Under IFRS, a financial instrument or its component parts are classified as equity instruments or financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities and equity instruments. A financial instrument is classified as a financial liability if there is a contractual obligation to deliver cash or another financial asset other than a fixed number of equity shares in exchange for a fixed amount of cash or another financial asset. In the absence of such a contractual obligation, the financial instrument is classified as an equity instrument.

5.B. LIQUIDITY AND CAPITAL RESOURCES

We consistently endeavor to enhance the management of our liquidity profile and strengthen our capital base to meet our customers' loan requirements and deposit withdrawals and respond to unforeseen situations such as adverse movements in stock, foreign currency, interest rate and other markets, or changes in general domestic or international conditions.

Liquidity

We derive funding for our operations both from domestic and international sources. Our domestic funding is derived primarily from deposits placed with SMBC by its corporate and individual customers, and also from call money (inter-bank), bills sold (inter-bank promissory notes), repurchase agreements, borrowings, and negotiable certificates of deposit issued by SMBC to domestic and international customers. Our international sources of funds are principally from deposits from corporate customers and foreign central banks, negotiable certificates of deposit, bonds, commercial paper, and also from repurchase agreements and cash collateral on securities lent. We closely monitor maturity gaps and foreign exchange exposure in order to manage our liquidity profile.

As shown in the following table, total deposits increased by ¥17,062,236 million, or 12%, from ¥138,431,418 million at March 31, 2020 to ¥155,493,654 million at March 31, 2021. The balance of deposits at March 31, 2021 exceeded the balance of loans and advances by ¥57,778,716 million, primarily due to the stable deposit base in Japan. Our loan-to-deposit ratio (total loans and advances divided by total deposits) in the same period was 63%, which contributed greatly to the reduction of our liquidity risk. Our balances of large-denomination domestic yen time deposits are stable due to the historically high rollover rate of our corporate customers and individual depositors.

	At March 31,	
	2021	2020
	(In millions)	
Loans and advances	¥ 97,714,938	¥ 94,671,818
Deposits	155,493,654	138,431,418

We have invested the excess balance of deposits against loans and advances primarily in marketable securities and other highly liquid assets, such as Japanese government bonds. SMBC's Treasury Unit actively monitors the movement of interest rates and maturity profile of its bond portfolio as part of SMBC's overall risk management. The bonds can be used to enhance liquidity. When needed, they can be used as collateral for call money or other money market funding or short-term borrowings from the BOJ.

Secondary sources of liquidity include short-term debts, such as call money, bills sold, and commercial paper issued at an inter-bank or other wholesale markets. We also issue long-term debts, including both senior and subordinated debts, as additional sources of liquidity. With short- and long-term debts, we can diversify our funding sources, effectively manage our funding costs and enhance our capital adequacy ratios when appropriate.

We source our funding in foreign currencies primarily from financial institutions, general corporations, and institutional investors, through short- and long-term financing. Even if we encounter declines in our credit quality or that of Japan in the future, we expect to be able to purchase foreign currencies in sufficient amounts using the yen funds raised through our domestic customer base. As further measures to support our foreign currency liquidity, we hold foreign debt securities, maintain credit lines and swap facilities denominated in foreign currencies, and pledge collateral to the U.S. Federal Reserve Bank.

We maintain management and control systems to support our ability to access liquidity on a stable and cost-effective basis. For further information, see "Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk—Market Risk and Liquidity Risk—Framework for Market and Liquidity Risk Management."

We believe we are able to access such sources of liquidity on a stable and flexible basis by keeping credit ratings at a high level. The following table shows credit ratings assigned to the Company by Moody's Japan K.K. ("Moody's"), S&P Global Ratings Japan Inc. ("S&P") and Fitch Ratings Japan Limited ("Fitch") at May 31, 2021:

At May 31, 2021								
Moody's			S&P			Fitch		
Long-term	Outlook	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook	Short-term
A1	S	P-1	A-	S	—	A	N	F1

The following table shows credit ratings assigned to SMBC by Moody's, S&P and Fitch at May 31, 2021:

At May 31, 2021								
Moody's			S&P			Fitch		
Long-term	Outlook	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook	Short-term
A1	S	P-1	A	S	A-1	A	N	F1

We are assigned credit ratings by major domestic and international credit rating agencies. Credit ratings do not constitute recommendations to purchase, sell or hold a security, and rating agencies may review or indicate an intention to review ratings at any time. While the methodology and rating system vary among rating agencies, credit ratings are generally based on information provided by us or independent sources, and can be influenced by the credit ratings of Japanese government bonds and broader views of the Japanese financial system. Any downgrade in or withdrawal of these credit ratings, or any adverse change in these ratings relative to other financial institutions, could increase our borrowing costs, reduce our access to the capital markets and otherwise negatively affect our ability to raise funds, which in turn could have a negative impact on our liquidity position.

The guidelines published by the Financial Services Agency of Japan (“FSA”) for liquidity coverage ratio (“LCR”) applicable to banks and bank holding companies with international operations are based on the full text of the LCR standard issued by the Basel Committee on Banking Supervision (“BCBS”) in January 2013. Under these guidelines, banks and bank holding companies with international operations must maintain LCR of at least 100% on both a consolidated basis and a nonconsolidated basis. The following table shows the LCRs of the Company and SMBC for the three months ended March 31, 2021. Each figure is calculated based on our financial statements prepared in accordance with Japanese GAAP, as required by the FSA’s LCR guidelines.

	<u>For the three months ended March 31, 2021⁽¹⁾</u>
SMFG (consolidated)	140.1%
SMBC (consolidated)	143.3%
SMBC (nonconsolidated)	149.5%

- (1) Under the FSA’s LCR guidelines, LCR is set as the three-month average of the daily LCRs for the three months ended March 31, 2021, which is calculated by dividing the balance of high-quality liquid assets by the total net cash outflows on a daily basis for the same three months.

For further information, see “Item 4.B. Business Overview—Regulations in Japan—Regulations Regarding Capital Adequacy and Liquidity—Liquidity Requirement.”

Capital Management

With regard to capital management, we strictly abide by the capital adequacy guidelines set by the FSA. Japan’s capital adequacy guidelines are based on the Basel Capital Accord, which was proposed by the BCBS for uniform application to all banks which have international operations in industrialized countries. Japan’s capital adequacy guidelines may be different from those of central banks or supervisory bodies of other countries because they have been designed by the FSA to suit the Japanese banking environment. Our banking subsidiaries outside of Japan are also subject to the local capital ratio requirements.

Each figure for the FSA capital adequacy guidelines is calculated based on our financial statements prepared under Japanese GAAP.

The FSA capital adequacy guidelines permit Japanese banks to choose from the standardized approach, the foundation internal rating-based (“IRB”) approach and the advanced IRB approach for credit risk, and the basic indicator approach, the standardized approach (“TSA”) and the advanced measurement approach (“AMA”) for operational risk. To be eligible to adopt the foundation IRB approach or the advanced IRB approach for credit risk, and the TSA or the AMA for operational risk, a Japanese bank must establish advanced risk management systems and receive prior approval from the FSA.

We and SMBC have adopted the advanced IRB approach since March 2009 and the AMA since March 2008.

In December 2010, the BCBS published the new Basel III rules text to implement the Basel III framework, which sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio as a

backstop to the risk-based requirement, measures to promote the build-up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards. The main measures of the minimum capital requirements in the Basel III framework began in January 2013 and have been fully applied from January 2019. The minimum common equity requirement, the minimum Tier 1 capital requirement and the total minimum capital requirement have been 4.5%, 6% and 8%, respectively since January 2015. Moreover, banks have been required to hold a capital conservation buffer of 2.5% to withstand future periods of stress since January 2019. As a result, taking the capital conservation buffer into account, the minimum common equity requirement, the minimum Tier 1 capital requirement and the total minimum capital requirement have been 7%, 8.5% and 10.5%, respectively since January 2019. Furthermore, a countercyclical buffer within a range of 0% to 2.5% of common equity or other fully loss-absorbing capital has been implemented according to national circumstances.

In addition to the above-mentioned minimum capital requirements and capital buffer requirements under Basel III, organizations identified by the FSB as G-SIBs, which includes us, are required to maintain an additional 1% to 2% of Common Equity Tier 1 capital as a percentage of risk-weighted assets based on the organization's size, interconnectedness, substitutability, complexity and cross-jurisdictional activity as determined by the FSB. The amount of G-SIB capital surcharge that applies to us based on the FSB's determination is 1%. The FSB updates its list of G-SIBs on an annual basis.

To reflect the Basel III framework, the FSA changed its capital adequacy guidelines. The minimum Common Equity Tier 1 capital requirement, Tier 1 capital requirement and total capital requirement have been 4.5%, 6% and 8%, respectively since March 2015. The capital conservation buffer, countercyclical buffer and the G-SIB capital surcharge started to be phased in from March 2016 and have been fully applied from March 2019 under the FSA capital adequacy guidelines.

In December 2017, the Group of Central Bank Governors and Heads of Supervision (the "GHOS") endorsed the outstanding Basel III regulatory reforms. For further details regarding the finalized Basel III reforms, see "Item 4.B. Business Overview—Regulations in Japan—Regulations Regarding Capital Adequacy and Liquidity—Capital Adequacy Requirement."

In March 2015, the FSA published its leverage ratio guidelines, which have been applied from March 2015, to help ensure broad and adequate capture of both on- and off-balance sheet sources of leverage for internationally active banks. The FSA's leverage ratio guidelines are based on the text of the leverage ratio framework and disclosure requirements issued by the BCBS in January 2014.

In December 2017, the definition and requirements of the leverage ratio were revised as part of the finalized Basel III reforms, under which the leverage ratio is based on a Tier 1 definition of capital and with the minimum leverage ratio of 3%. Under the finalized Basel III reforms, G-SIBs are required to meet a leverage ratio buffer, which will take the form of a Tier 1 capital buffer set at 50% of the applicable G-SIB capital surcharge. Various refinements were also made to the definition of the leverage ratio exposure measure. The leverage ratio requirements under the definition based on the framework issued by the BCBS in January 2014 were implemented as a Pillar 1 measurement from January 2018, and those under the revised definition and the leverage ratio buffer requirement for G-SIBs will be implemented as a Pillar 1 measurement from January 1, 2023.

In March 2019, the FSA published its guidelines for the leverage ratio applicable to banks and bank holding companies with international operations, which have been applied from March 2019. Under the FSA's guidelines for the leverage ratio, banks and bank holding companies with international operations must maintain a leverage ratio of at least 3% on both a consolidated basis and a nonconsolidated basis from March 2019. On June 30, 2020, in light of the increasing impact of the COVID-19 pandemic, the FSA published amendments to its guidelines for the leverage ratio, which mainly exclude deposits with the BOJ from the denominator for the calculation of the leverage ratio in order to maintain harmonization with the monetary policy implemented by the

BOJ and the prudential regulations for banks and other financial institutions. These amendments came into effect on June 30, 2020 and were scheduled to expire on March 31, 2021. On March 31, 2021, the FSA extended the expiry date of these amendments to March 31, 2022.

The table below presents our risk-weighted capital ratios, total capital, risk-weighted assets and leverage ratio under Japanese GAAP at March 31, 2021, based on the Basel III rules.

	At March 31, 2021 (In billions, except percentages)
SMFG Consolidated:	
Total risk-weighted capital ratio	18.61%
Tier 1 risk-weighted capital ratio	16.96%
Common Equity Tier 1 risk-weighted capital ratio	16.00%
Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital)	¥ 12,289.3
Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital)	11,199.3
Common Equity Tier 1 capital	10,562.8
Risk-weighted assets	66,008.0
The amount of minimum total capital requirements ⁽¹⁾	5,280.6
Leverage ratio	5.65%

(1) The amount of minimum total capital requirements is calculated by multiplying risk-weighted assets by 8%.

Common Equity Tier 1 capital consists primarily of capital stock, capital surplus and retained earnings relating to common shares, and non-controlling interests that meet the criteria set forth in the FSA capital adequacy guidelines for inclusion in Common Equity Tier 1 capital.

Non-controlling interests arising from the issue of common shares by a fully consolidated subsidiary of a bank may receive recognition in Common Equity Tier 1 capital only if: (1) the instrument giving rise to the non-controlling interest would, if issued by the bank, meet all of the criteria set forth in the FSA capital adequacy guidelines for classification as common shares for regulatory capital purposes; and (2) the subsidiary that issued the instrument is itself a bank or other financial institution subject to similar capital adequacy guidelines.

Regulatory adjustments such as goodwill and other intangibles, deferred tax assets, investment in the common equity capital of banking, financial and insurance entities and defined benefit pension fund assets and liabilities are applied mainly to the calculation of Common Equity Tier 1 capital in the form of a deduction.

Additional Tier 1 capital consists primarily of perpetual subordinated bonds.

Tier 2 capital consists primarily of subordinated debt securities.

Capital instruments such as subordinated debt issued on or after March 31, 2013 must meet the new requirements to be included in regulatory capital. Capital instruments issued prior to March 31, 2013 that do not meet the requirements set forth in the FSA capital adequacy guidelines no longer qualify as Additional Tier 1 or Tier 2 capital. However, if those capital instruments meet the requirements for transitional arrangements set forth in such guidelines, they can qualify as Additional Tier 1 or Tier 2 capital during the phase-out period beginning March 31, 2013. The remaining balance of those non-qualifying capital instruments recognized as Additional Tier 1 or Tier 2 capital are being reduced in annual 10% increments and will be fully phased out by March 31, 2022.

Our capital position and SMBC's capital position depend in part on the fair market value of our investment securities portfolio, since unrealized gains and losses are included in the amount of regulatory capital. At March 31, 2013, unrealized gains and losses were counted as Tier 2 capital and Additional Tier 1 capital, respectively, but started to be counted as Common Equity Tier 1 capital from March 31, 2014 by increments of

20% and have been fully counted as Common Equity Tier 1 capital since March 31, 2018. Since our other securities (including money held in trust) with a readily ascertainable market value included unrealized gains and losses, substantial fluctuations in the Japanese stock markets may affect our capital position and the capital position of SMBC.

Set forth below is a table of risk-weighted capital ratios, total capital, risk-weighted assets and leverage ratio of SMBC at March 31, 2021 on a consolidated and nonconsolidated basis.

	At March 31, 2021 (In billions, except percentages)
SMBC Consolidated:	
Total risk-weighted capital ratio	17.72%
Tier 1 risk-weighted capital ratio	15.89%
Common Equity Tier 1 risk-weighted capital ratio	13.98%
Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital) . . .	¥ 10,612.4
Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital)	9,518.0
Common Equity Tier 1 capital	8,374.7
Risk-weighted assets	59,871.2
The amount of minimum total capital requirements ⁽¹⁾	4,789.7
Leverage ratio	5.21%
SMBC Nonconsolidated:	
Total risk-weighted capital ratio	16.96%
Tier 1 risk-weighted capital ratio	15.08%
Common Equity Tier 1 risk-weighted capital ratio	13.09%
Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital) . . .	¥ 9,651.5
Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital)	8,580.9
Common Equity Tier 1 capital	7,451.4
Risk-weighted assets	56,883.5
The amount of minimum total capital requirements ⁽¹⁾	4,550.7

(1) The amount of minimum total capital requirements is calculated by multiplying risk-weighted assets by 8%.

Our securities subsidiary in Japan, SMBC Nikko Securities is also subject to capital adequacy requirements under the FIEA described in “Item 4.B. Business Overview—Regulations in Japan—Regulations Regarding Capital Adequacy and Liquidity.” At March 31, 2021, the capital adequacy ratio was 304.5% for SMBC Nikko Securities, and sufficiently above 140%, below which level it would be required to file daily reports with the Commissioner of the FSA.

5.C. RESEARCH, DEVELOPMENT, PATENTS AND LICENSES

We did not conduct any significant research and development activities for the fiscal year ended March 31, 2021. However, there are certain research and development activities for our information system infrastructure.

5.D. TREND INFORMATION

Our trend information is contained elsewhere in this annual report, including but not limited to “Item 4.B. Business Overview,” and “—A. Operating Results,” and “—B. Liquidity and Capital Resources” in this Item.

5.E. OFF-BALANCE SHEET ARRANGEMENTS

To meet our customers’ financial needs, we engage in various types of off-balance sheet arrangements in the ordinary course of business.

Our arrangements include loan commitments, financial guarantees and other credit-related contingent liabilities. Loan commitment contracts on overdrafts and loans are agreements to lend up to a prescribed amount to customers, as long as there is no violation of any condition established in the contracts. Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument. Other credit-related contingent liabilities include performance bonds, which are contracts that provide compensation if another party fails to perform the contractual obligation.

The table below shows the nominal amounts of undrawn loan commitments, and financial guarantees and other credit-related contingent liabilities at March 31, 2021 and 2020.

	At March 31,	
	2021	2020
	(In millions)	
Loan commitments	¥71,677,806	¥62,151,698
Financial guarantees and other credit-related contingent liabilities	9,872,696	9,204,996
Total	<u>¥81,550,502</u>	<u>¥71,356,694</u>

The nominal amounts of these off-balance sheet instruments generally represent the maximum potential amounts of future payments without consideration of possible recoveries under recourse provisions or from collateral held. For example, since many of these loan commitments are expected to expire without being drawn down, the total amount of unused commitments does not necessarily represent an actual future cash flow requirement. Many of these loan commitments include clauses under which we can reject an application from customers or reduce the contract amounts in cases where economic conditions change, we need to secure claims, or some other significant event occurs. In addition, we may request the customers to pledge collateral such as premises and securities at the time of the contracts, and take necessary measures such as monitoring customers' financial positions, revising contracts when the need arises and securing claims after the contracts are made. We regularly review the credit quality of the customer based on our risk management system as set forth in "Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk" and Note 46 "Financial Risk Management" to our consolidated financial statements included elsewhere in this annual report.

In addition to the above-mentioned off-balance sheet arrangements, some of the SMBC Group's off-balance sheet arrangements are related to activities of structured entities. For further information, see Note 49 "Structured Entities" to our consolidated financial statements included elsewhere in this annual report.

5.F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

In the normal course of business, we enter into contractual obligations that require future cash payments. The following table sets forth a summary of our contractual cash obligations at March 31, 2021.

	At March 31, 2021				
	Due in one year or less	Due from one year to three years	Due from three years to five years (In millions)	Due after five years	Total ⁽¹⁾
Time deposits	¥ 22,282,443	¥ 2,533,546	¥ 459,395	¥ 545,607	¥ 25,820,991
Negotiable certificate of deposits	12,069,560	412,494	88,564	—	12,570,618
Financial liabilities designated at fair value through profit or loss	92,741	51,183	18,746	73,869	236,539
Borrowings	7,830,220	4,615,101	4,800,771	1,792,917	19,039,009
Debt securities in issue	3,526,830	1,959,596	2,072,760	3,533,304	11,092,490
Lease liabilities	82,237	106,129	72,848	134,738	395,952
Purchase obligation ⁽²⁾	41,971	14,625	2,263	2,782	61,641
Total	¥ 45,926,002	¥ 9,692,674	¥ 7,515,347	¥ 6,083,217	¥ 69,217,240

(1) The amount of interest on debt instruments is not included in the maturity table above due to its insignificance.

(2) Purchase obligation in the above table includes the contractual commitments to purchase goods or services of construction and information technology that are binding on us for the payment of more than ¥100 million.

5.G. SAFE HARBOR

See the discussion under “Cautionary Statement Regarding Forward-Looking Statements.”

Item 6. Directors, Senior Management and Employees

6.A. DIRECTORS AND SENIOR MANAGEMENT

Directors and Senior Management

We have adopted a company with three statutory committees system of corporate governance. Under the Companies Act, a company with three statutory committees is required to have a nominating committee, an audit committee and a compensation committee, each of which consisting of members of the board of directors and of which the majority of the members must be outside directors. In addition to the three statutory committees, we have voluntarily established our risk committee. Also, under the Companies Act, a company with three statutory committees must have one or more corporate executive officers elected by resolution of the board of directors. Corporate executive officers decide on the execution of the operations of the company that were delegated to them by resolution of the board of directors. The board of directors decides on the execution of operations of the company, including basic management policy, and supervises the execution of duties by corporate executive officers.

Our board of directors is comprised of fifteen directors, seven of whom are outside directors as defined under the Companies Act. In addition, our board of directors has elected fourteen corporate executive officers.

For more information, see “Item 6.C. Board Practices.”

Directors

At June 29, 2021, the following directors held the indicated positions with us:

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Takeshi Kunibe (March 8, 1954)	Chairman of the Board of the Company	April 1976	Joined Sumitomo Bank
		June 2003	Executive Officer of SMBC
		October 2006	Managing Executive Officer of SMBC
		April 2007	Managing Executive Officer of the Company
		June 2007	Director of the Company
		April 2009	Director and Senior Managing Executive Officer of SMBC
		April 2011	President and Chief Executive Officer of SMBC
		April 2017	President of the Company
			Resigned as Director of SMBC
		June 2017	Director President of the Company
		April 2019	Chairman of the Board of the Company (to present)
Jun Ohta (February 12, 1958)	Director President of the Company (Representative Corporate Executive Officer) Group Chief Executive Officer, or CEO	April 1982	Joined Sumitomo Bank
		April 2009	Executive Officer of SMBC
		April 2012	Managing Executive Officer of SMBC
		April 2013	Managing Executive Officer of the Company
		April 2014	Senior Managing Executive Officer of the Company
			Senior Managing Executive Officer of SMBC
		June 2014	Director of the Company
		April 2015	Director and Senior Managing Executive Officer of SMBC
		April 2017	Director and Deputy President of the Company
			Resigned as Director of SMBC
		June 2017	Director Deputy President and Corporate Executive Officer of the Company
Makoto Takashima (March 31, 1958)	Director of the Company President of SMBC	March 2018	Director and Deputy President of SMBC
		April 2019	Director President of the Company (to present)
			Resigned as Director of SMBC
		April 1982	Joined Sumitomo Bank
		April 2009	Executive Officer of SMBC
		April 2012	Managing Executive Officer of SMBC
		April 2014	Senior Managing Executive Officer of SMBC
		December 2016	Director and Senior Managing Executive Officer of SMBC
		April 2017	President of SMBC (to present)
		June 2017	Director of the Company (to present)

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Toru Nakashima (September 14, 1963)	Director Senior Managing Corporate Executive Officer of the Company	April 1986	Joined Sumitomo Bank
		April 2014	Executive Officer of SMBC
	Group Chief Financial Officer, or CFO, and Group Chief Strategy Officer, or CSO	April 2015	General Manager of Corporate Planning Department of the Company
		Officer in charge of Public Relations Department, Corporate Planning Department, Business Development Department and Financial Accounting Department	April 2016
		April 2017	Managing Executive Officer of the Company
		March 2019	Director and Managing Executive Officer of SMBC
	Director and Senior Managing Executive Officer of SMBC	April 2019	Senior Managing Corporate Executive Officer of the Company
		June 2019	Director Senior Managing Corporate Executive Officer of the Company (to present)
Teiko Kudo (May 22, 1964)	Director Senior Managing Corporate Executive Officer of the Company	April 1987	Joined Sumitomo Bank
		April 2014	Executive Officer of SMBC
	Group Chief Risk Officer, or CRO	April 2017	Managing Executive Officer of SMBC
		Officer in charge of Corporate Risk Management Department, Risk Management Department, Americas Division and Credit & Investment Planning Department	April 2020
		March 2021	Director and Senior Managing Executive Officer of SMBC (to present)
	Director and Senior Managing Executive Officer of SMBC	April 2021	Senior Managing Corporate Executive Officer of the Company
		June 2021	Director Senior Managing Corporate Executive Officer of the Company (to present)
Atsuhiko Inoue (July 3, 1957)	Director of the Company	April 1981	Joined Sumitomo Bank
	Director of SMBC	April 2008	Executive Officer of SMBC
		April 2011	Managing Executive Officer of SMBC
		April 2014	Senior Managing Executive Officer of the Company
			Director and Senior Managing Executive Officer of SMBC
	June 2014	Director of the Company	
	April 2015	Resigned as Director of the Company	
			Senior Managing Executive Officer of SMBC
	June 2019	Director of the Company (to present)	
		Director of SMBC (to present)	

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Toshihiro Isshiki (September 15, 1962)	Director of the Company	April 1985	Joined Sumitomo Bank
		April 2013	Executive Officer of SMBC
		April 2015	Co-General Manager of General Affairs Department of the Company
			Managing Executive Officer of SMBC
		April 2017	Managing Executive Officer of the Company
		April 2019	Senior Managing Executive Officer of the Company
			Senior Managing Executive Officer of SMBC
		April 2021	Retired as Senior Managing Executive Officer of SMBC
Yasuyuki Kawasaki (April 30, 1959)	Director of the Company Representative Director, Chairman of the Board of SMBC Nikko Securities Inc. ("SMBC Nikko Securities")	June 2021	Director of the Company (to present)
		April 1982	Joined Sumitomo Bank
		April 2009	Executive Officer of SMBC
		April 2012	Managing Executive Officer of SMBC
		April 2013	Managing Executive Officer of the Company
		April 2014	Senior Managing Executive Officer of the Company
			Senior Managing Executive Officer of SMBC
		April 2015	Director and Senior Managing Executive Officer of SMBC
		April 2017	Deputy President of the Company
			Director and Deputy President of SMBC
		June 2017	Deputy President and Corporate Executive Officer of the Company
		April 2018	Deputy Chairman of the Company
			Deputy Chairman of SMBC
		April 2020	Retired as Deputy Chairman of the Company
			Retired as Deputy Chairman of SMBC
Masayuki Matsumoto ⁽¹⁾ (April 14, 1944)	Director of the Company Special Advisor of Central Japan Railway Company	May 2020	Representative Director and Deputy President Executive Officer of SMBC Nikko Securities
		April 2021	Representative Director, Chairman of the Board of SMBC Nikko Securities (to present)
		June 2021	Director of the Company (to present)
		April 1967	Joined the Japanese National Railways
		April 1987	Joined Central Japan Railway Company
		June 2004	President and Representative Director of Central Japan Railway Company
		April 2010	Vice Chairman and Representative Director of Central Japan Railway Company
		January 2011	Resigned as Director of Central Japan Railway Company
		January 2011	President of Japan Broadcasting Corporation
		January 2014	Retired from Japan Broadcasting Corporation
		April 2014	Special Advisor of Central Japan Railway Company (to present)
		June 2015	Director of SMBC
		June 2017	Director of the Company (to present)
			Retired as Director of SMBC

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Arthur M. Mitchell ⁽¹⁾ (July 23, 1947)	Director of the Company	July 1976	Registered as an attorney at law, admitted in New York, the U.S.A. (to present)
		January 2003	General Counsel of the Asian Development Bank
		September 2007	Joined White & Case LLP
		January 2008	Registered as Foreign Attorney in Japan (to present)
Shozo Yamazaki ⁽¹⁾ (September 12, 1948)	Director of the Company		Registered Foreign Attorney in Japan at White & Case LLP (to present)
		June 2015	Director of the Company (to present)
		November 1970	Joined Tohmatsu Awoki & Co. (currently Deloitte Touche Tohmatsu LLC)
		September 1974	Registered as a certified public accountant (to present)
		July 1991	Representative Partner of Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)
		June 2010	Retired from Deloitte Touche Tohmatsu LLC
		July 2010	Chairman and President of The Japanese Institute of Certified Public Accountants
		July 2013	Advisor of The Japanese Institute of Certified Public Accountants (to present)
		April 2014	Professor of Tohoku University Accounting School
		June 2017	Director of the Company (to present)
Masaharu Kohno ⁽¹⁾ (December 21, 1948)	Director of the Company	April 1973	Joined Ministry of Foreign Affairs of Japan
		August 2005	Director-General of Foreign Policy Bureau in Ministry of Foreign Affairs of Japan
		January 2007	Deputy Minister for Foreign Affairs (in charge of economy) of Ministry of Foreign Affairs of Japan
		February 2009	Ambassador of Japan to Russia
		May 2009	Ambassador of Japan to Russia, Armenia, Turkmenistan and Belarus
		March 2011	Ambassador of Japan to Italy
		May 2011	Ambassador of Japan to Italy, Albania, San Marino and Malta
		September 2014	Retired from office
		June 2015	Director of the Company (to present)
		April 1977	Joined Nippon Life Insurance Company
Yoshinobu Tsutsui ⁽¹⁾ (January 30, 1954)	Director of the Company Chairman of Nippon Life Insurance Company	July 2004	Director of Nippon Life Insurance Company
		January 2007	Director and Executive Officer of Nippon Life Insurance Company
		March 2007	Director and Managing Executive Officer of Nippon Life Insurance Company
		March 2009	Director and Senior Managing Executive Officer of Nippon Life Insurance Company
		March 2010	Representative Director and Senior Managing Executive Officer of Nippon Life Insurance Company
		April 2011	President of Nippon Life Insurance Company
		June 2017	Director of the Company (to present)
		April 2018	Chairman of Nippon Life Insurance Company (to present)

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Katsuyoshi Shinbo ⁽¹⁾ (April 8, 1955)	Director of the Company	April 1984	Registered as an attorney at law (to present)
		November 1999	Attorney at law at Shinbo Law Office (currently Shinbo & Partners) (to present)
		June 2015	Corporate Auditor of SMBC
		June 2017	Director of the Company (to present)
			Resigned as Corporate Auditor of SMBC
Eriko Sakurai ⁽¹⁾ (November 16, 1960)	Director of the Company President and Representative Director of Dow Chemical Japan Limited	June 1987	Joined Dow Corning Corporation
		May 2008	Director of Dow Corning Toray Co., Ltd.
		March 2009	Chairman and CEO of Dow Corning Toray Co., Ltd.
		May 2011	Regional President -Japan/Korea of Dow Corning Corporation
		February 2015	President and Representative Director of Dow Corning Holding Japan Co., Ltd.
		June 2015	Director of the Company (to present)
		May 2018	Executor, Dow Switzerland Holding GmbH, which is a Representative Partner of Dow Silicones Holding Japan G.K.
		June 2018	Chairman and CEO of Dow Toray Co., Ltd.
		July 2020	President and Representative Director of Dow Chemical Japan Limited (to present)

(1) Messrs. and Ms. Matsumoto, Mitchell, Yamazaki, Kohno, Tsutsui, Shinbo and Sakurai satisfy the requirements for an “outside director” under the Companies Act.

Corporate Executive Officers

At June 29, 2021, the following corporate executive officers held the indicated positions with us:

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Jun Ohta (February 12, 1958)	See “Directors” under this Item 6.A.	See “Directors” under this Item 6.A.	
Masahiko Oshima (September 13, 1960)	Deputy President and Corporate Executive Officer of the Company	April 1984	Joined Mitsui Bank
	(Representative Corporate Executive Officer)	April 2012	Executive Officer of SMBC
		April 2014	Managing Executive Officer of SMBC
	Co-Head of Wholesale Business Unit	March 2017	Director and Managing Executive Officer of SMBC
	Director and Deputy President of SMBC	April 2017	Director and Senior Managing Executive Officer of SMBC
		April 2018	Senior Managing Corporate Executive Officer of the Company
			Senior Managing Executive Officer of SMBC
		March 2019	Director and Senior Managing Executive Officer of SMBC
Toshikazu Yaku (March 3, 1962)		April 2019	Deputy President and Corporate Executive Officer of the Company (to present)
			Director and Deputy President of SMBC (to present)
	Deputy President and Corporate Executive Officer of the Company (Representative Corporate Executive Officer)	April 1984	Joined Sumitomo Bank
		April 2012	Executive Officer of SMBC
	Group Chief Human Resources Officer, or CHRO	April 2014	Managing Executive Officer of SMBC
		April 2016	Managing Executive Officer of the Company
	Officer in charge of General Affairs Department, Human Resources Department, Quality Management Department and Administrative Services Department	March 2017	Director and Managing Executive Officer of SMBC
		April 2017	Senior Managing Executive Officer of the Company
	Director and Deputy President of SMBC		Director and Senior Managing Executive Officer of SMBC
		June 2017	Director Senior Managing Corporate Executive Officer of the Company
		April 2019	Director Deputy President and Corporate Executive Officer of the Company
			Director and Deputy President of SMBC (to present)
		June 2019	Deputy President and Corporate Executive Officer of the Company (to present)

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Katsunori Tanizaki (April 12, 1957)	Senior Managing Corporate Executive Officer of the Company	April 1982	Joined Sumitomo Bank
		April 2010	Executive Officer of SMBC
	Group Chief Digital Innovation Officer, or CDIO	April 2013	Managing Executive Officer of SMBC
		April 2015	Senior Managing Executive Officer of the Company
	Officer in charge of Digital Solution Division and Digital Strategy Department		Director and Senior Managing Executive Officer of SMBC
		June 2015	Director of the Company
	Senior Managing Executive Officer of SMBC	April 2017	Director and Senior Managing Executive Officer of the Company
		June 2017	Director Senior Managing Corporate Executive Officer of the Company
		April 2019	Senior Managing Executive Officer of SMBC (to present)
		June 2019	Senior Managing Corporate Executive Officer of the Company (to present)
Toru Nakashima (September 14, 1963)	See “Directors” under this Item 6.A.	See “Directors” under this Item 6.A.	
Tetsuro Imaeda (May 2, 1962)	Senior Managing Corporate Executive Officer of the Company	April 1986	Joined Sumitomo Bank
		April 2014	Executive Officer of SMBC
	Group Chief Compliance Officer, or CCO Officer in charge of Compliance Department	September 2016	Managing Executive Officer of SMBC
		April 2017	Managing Executive Officer of the Company
	Director and Senior Managing Executive Officer of SMBC	April 2020	Senior Managing Executive Officer of the Company
		May 2020	Senior Managing Executive Officer of SMBC Senior Managing Corporate Executive Officer of the Company (to present)
Fumiharu Kozuka (December 8, 1961)	Senior Managing Corporate Executive Officer of the Company	April 1986	Joined Mitsui Bank
		April 2015	Executive Officer of SMBC
	Group Chief Audit Executive, or CAE Officer in charge of Audit Department	April 2017	Managing Executive Officer of SMBC
		March 2019	Director and Managing Executive Officer of SMBC
		April 2019	Director and Senior Managing Executive Officer of SMBC
		April 2020	Senior Managing Corporate Executive Officer of the Company (to present)
Masamichi Koike (October 25, 1963)	Senior Managing Corporate Executive Officer of the Company		Resigned as Director of SMBC
		April 1987	Joined Taiyo Kobe Bank
	Head of Global Markets Business Unit	April 2015	Executive Officer of SMBC
		July 2017	Executive Officer of the Company
	Senior Managing Executive Officer of SMBC	April 2018	Managing Executive Officer of the Company Managing Executive Officer of SMBC
		April 2020	Senior Managing Corporate Executive Officer of the Company (to present)
			Senior Managing Executive Officer of SMBC (to present)

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Shoji Masuda (July 22, 1963)	Senior Managing Corporate Executive Officer of the Company	April 1987	Joined Sumitomo Bank
		April 2014	General Manager of IT Planning Department of the Company
	Group Chief Information Officer, or CIO		
	Officer in charge of IT Planning Department, System Security Planning Department, Data Management Department and Operations Planning Department	April 2016	Executive Officer of SMBC
		April 2017	Executive Officer of the Company
		April 2018	Managing Executive Officer of the Company
	Director and Senior Managing Executive Officer of SMBC		Managing Executive Officer of SMBC
		March 2019	Director and Managing Executive Officer of SMBC
		April 2019	Managing Corporate Executive Officer of the Company
		April 2020	Senior Managing Corporate Executive Officer of the Company (to present)
Ryuji Nishisaki (September 10, 1961)	Senior Managing Corporate Executive Officer of the Company		Director and Senior Managing Executive Officer of SMBC (to present)
	Co-Head of Global Business Unit	April 1985	Joined Taiyo Kobe Bank
	Senior Managing Executive Officer of SMBC	April 2013	Executive Officer of SMBC
		April 2015	Managing Executive Officer of SMBC
		April 2017	Managing Executive Officer of the Company
		April 2018	Senior Managing Executive Officer of SMBC (to present)
Akihiro Fukutome (January 1, 1963)	Senior Managing Corporate Executive Officer of the Company	April 2019	Senior Managing Executive Officer of the Company
		April 2021	Senior Managing Corporate Executive Officer of the Company (to present)
	Co-Head of Global Business Unit		
	Senior Managing Executive Officer of SMBC	April 1985	Joined Mitsui Bank
		April 2014	Executive Officer of SMBC
		April 2015	Managing Executive Officer of SMBC
		December 2017	Resigned as Managing Executive Officer of SMBC
		January 2018	Managing Officer of Toyota Motor Corporation
			President and Chief Executive Officer of Toyota Financial Services Corporation
		March 2021	Retired from Toyota Motor Corporation
			Retired from Toyota Financial Services Corporation
		April 2021	Senior Managing Corporate Executive Officer of the Company (to present)
			Senior Managing Executive Officer of SMBC (to present)

Name (Date of birth)	Current positions and principal outside positions	Business experience	
Muneo Kanamaru (April 9, 1964)	Senior Managing Corporate Executive Officer of the Company	April 1987	Joined Sumitomo Bank
	Co-Head of Wholesale Business Unit	April 2015	General Manager of Human Resources Department of the Company
	Senior Managing Executive Officer of SMBC		Executive Officer of SMBC
		April 2017	Managing Executive Officer of the Company
			Managing Executive Officer of SMBC
		April 2021	Senior Managing Corporate Executive Officer of the Company (to present)
			Senior Managing Executive Officer of SMBC (to present)
Teiko Kudo (May 22, 1964)	See “Directors” under this Item 6.A.	See “Directors” under this Item 6.A.	
Takashi Yamashita (December 7, 1964)	Senior Managing Corporate Executive Officer of the Company	April 1988	Joined Mitsui Bank
	Head of Retail Business Unit	April 2016	General Manager of Consumer Business Planning Department of the Company
	Senior Managing Executive Officer of SMBC		Executive Officer of SMBC
		April 2017	Executive Officer of the Company
		April 2018	Managing Executive Officer of the Company
			Managing Executive Officer of SMBC
		April 2021	Senior Managing Corporate Executive Officer of the Company (to present)
			Senior Managing Executive Officer of SMBC (to present)

Familial Relationships

There are no familial relationships between any of the directors and corporate executive officers listed above.

Arrangements and Understandings

There is no arrangement or understanding with any major shareholder, customer, supplier or other party, pursuant to which any of the directors and corporate executive officers listed above were selected as a director or member of corporate executive officers.

6.B. COMPENSATION

The aggregate amounts of compensation paid by us during the fiscal year ended March 31, 2021 to our directors and to our corporate executive officers were ¥617 million and ¥1,272 million, respectively.

The following table sets forth the details of individual compensation, disclosed pursuant to the provision of the Financial Instruments and Exchange Act of Japan (“FIEA”) and related ordinance, by SMFG and its subsidiaries in amounts equal to or exceeding ¥100 million during the fiscal year ended March 31, 2021:

Directors and corporate executive officers	Aggregated amount	Paid by	Compensation					
			Monetary compensation			Non-monetary compensation		
			Non-performance-linked	Performance-linked		Non-performance-linked	Non-performance-linked	
				Annual salary	Bonus		Stock compensation Plan I, PlanII	Stock compensation Plan III
(In millions) ⁽¹⁾								
Takeshi Kunibe	¥ 170	SMFG	¥	102	¥ 32	¥ 35	¥ —	—
Makoto Takashima	¥ 199	SMFG	¥	16	¥ —	¥ —	¥ —	—
		SMBC		103	38	42		—
Jun Ohta	¥ 191	SMFG	¥	110	¥ 38	¥ 43	¥ —	—
Gotaro Michihiro	¥ 101	SMFG	¥	29	¥ 10	¥ 10	¥ —	—
		SMBC		30	10	10		—
Toshikazu Yaku	¥ 101	SMFG	¥	29	¥ 11	¥ 10	¥ —	—
		SMBC		29	11	10		—
Yoshihiko Shimizu	¥ 129	SMFG	¥	12	¥ —	¥ —	¥ —	—
		SMBC Nikko Securities		42	64	11		—

(1) Amounts less than one million yen have been truncated.

In June 2017, we transitioned from a board of corporate auditors governance system to a company with three statutory committees: a nominating committee, an audit committee and a compensation committee. The compensation committee is responsible for establishing policy in regard to the determination of compensation of our directors and corporate executive officers. In addition, the committee determines the contents of the compensation of the individual directors and corporate executive officers in accordance with this policy. For more information, see “Item 6.C. Board Practices.”

In July 2017, our compensation committee resolved to revise our executive compensation policy and to introduce new stock compensation plans that utilize restricted stock, while discontinuing the issuance of new stock options. The plans allot shares of restricted stock to directors (excluding outside directors), corporate executive officers, and executive officers of SMFG, directors (excluding outside directors) and executive officers, etc. of SMBC and representative corporate executive officers of certain of our subsidiaries, in order to (a) provide more appropriate incentives for executives by strengthening linkages with SMFG’s short-, medium- and long-term performance, and (b) further align the interests of executives with those of shareholders, increase the weight of stock compensation, and enhance the shareholding of our executives.

Prior to the revision of our executive compensation policy discussed above, we had introduced compensation-type stock options to directors, corporate auditors, and executive officers of SMFG and SMBC (“SMFG Stock Acquisition Rights”), which served as an incentive for them to further contribute to the equity appreciation and achieve better corporate performance through sharing the benefits and risks of the share price performance with our shareholders.

For more information about compensation plans utilizing restricted stock and stock option plans, see “Item 6.E. Share Ownership” or Note 40 “Share-Based Payment” to our consolidated financial statements included elsewhere in this annual report.

6.C. BOARD PRACTICES

General

The Companies Act permits three types of governance systems for large public companies. The first system is for companies with a board of corporate auditors, and the second one is for companies with an audit and supervisory committee. The last one is for companies with three statutory committees: a nominating committee, an audit committee and a compensation committee.

We had previously employed a board of corporate auditors governance system. In order to further enhance our solid corporate governance system, we transitioned to a company with three statutory committees in June, 2017.

Under the Companies Act, a company with three statutory committees is required to have a nominating committee, an audit committee and a compensation committee, each of which consisting of members of the board of directors and of which the majority of the members must be outside directors. In addition to the three statutory committees, we have voluntarily established our risk committee.

“Outside director” means a director of any corporation who satisfies all of the following requirements: (a) a person who is not an executive director, corporate executive officer (*shikkoyaku*), or an employee, including a manager (“Executive Director, etc.”), and has not been an Executive Director, etc. of such corporation or any of its subsidiaries for the ten years prior to assuming his/her office; (b) if the person has been a director, accounting advisor or corporate auditor of such corporation or any of its subsidiaries (excluding a person who has been an Executive Director, etc.) at any time within the ten years prior to assuming his/her office, a person who has not been an Executive Director, etc. of such corporation or any of its subsidiaries for the ten years prior to assuming his/her office as director, accounting advisor, or corporate auditor; (c) a person who is not a parent corporation or any entity which is prescribed by the applicable Ordinance of the Ministry of Justice as a person who controls the management of the corporation (excluding entities who are juridical persons) (“parent corporation, etc.”) of such corporation (limited to a natural person) or director or corporate executive officer (*shikkoyaku*), or other employee, including a manager, of a parent corporation, etc.; (d) a person who is not an Executive Director, etc. of a subsidiary or any entity which is prescribed by the applicable Ordinance of the Ministry of Justice as the juridical person for which management is controlled by the person other than the corporation (“subsidiary, etc.”) of a parent corporation, etc. of such corporation; and (e) a person who is not a spouse or relative within the second degree of kinship of a director or corporate executive officer (*shikkoyaku*), manager, or other important employee of such corporation, or its parent corporation, etc. (limited to a natural person).

To ensure the compliance of our execution of our business operations with legal regulations and generally accepted practices, the outside directors are selected from among experts (including certified public accountants, lawyers and persons with consulting or business management experience).

Also, under the Companies Act, a company with three statutory committees must have one or more corporate executive officers elected by resolution of the board of directors. Corporate executive officers decide on the execution of the operations of the company that were delegated to them by resolution of the board of directors.

Pursuant to Article 4 of our articles of incorporation, we maintain a corporate governance system consisting of a general meeting of shareholders, individual directors, a board of directors, a nominating committee, an audit committee, a compensation committee, corporate executive officers and an accounting auditor as its primary components.

Board of directors

Our articles of incorporation provide for a board of directors consisting of not fewer than three directors. We currently have fifteen directors. All directors are elected by our shareholders at a general meeting of shareholders. The term of office of a director expires upon conclusion of the ordinary general meeting of shareholders to be held for the last fiscal year ending within one year after the election of the director. Directors may serve any number of consecutive terms.

By resolution, our board of directors elects or removes corporate executive officers and representative corporate executive officers. Our board of directors may elect directors with titles (*yakutsuki-torishimariyaku*) and corporate executive officers with titles (*yakutsuki-shikkoyaku*) and assign or change the designation of the duties of corporate executive officers by resolution. In addition, our board of directors elects or removes members of each statutory committee.

The Companies Act requires the board of directors to decide on the execution of operations of a company, including basic management policy, and supervise the execution of duties by corporate executive officers. In addition, the board of directors may, by resolution of the same, delegate decisions on the execution of the operations to corporate executive officers, to the extent permitted by the Companies Act.

Our board of directors held 10 meetings during the fiscal year ended March 31, 2021. The average attendance rate was 100%.

Nominating committee

The nominating committee determines the contents of proposals regarding the election and dismissal of directors to be submitted to a general meeting of shareholders. The committee also deliberates on matters regarding personnel decisions pertaining to officers of the Company and our major subsidiaries and the selection of successors to the presidents of the Company and SMBC.

Under the Companies Act, we are required to have a nominating committee that consists of members of our board of directors, and the majority of the members must be outside directors. Currently, the chairman of the nominating committee is Yoshinobu Tsutsui, who is an outside director. Other outside directors on the nominating committee are Masayuki Matsumoto, Arthur M. Mitchell, Masaharu Kohno and Eriko Sakurai. The other director on the nominating committee is Takeshi Kunibe, the chairman of the board.

Our nominating committee held 4 meetings during the fiscal year ended March 31, 2021. The average attendance rate was 100%.

Audit committee

The audit committee is responsible for auditing the execution of duties by corporate executive officers and directors, preparing audit reports and determining the contents of proposals regarding the election or dismissal of, or refusal to reelect, accounting auditors under the Companies Act to be submitted to a general meeting of shareholders. In addition, the committee inspects our operations and assets, and those of our major subsidiaries.

Under the Companies Act, we are required to have an audit committee that consists of members of our board of directors, and the majority of the members must be outside directors. Currently, the chairman of the audit committee is Masayuki Matsumoto, who is an outside director. Other outside directors on the audit committee are Shozo Yamazaki and Katsuyoshi Shinbo. Other directors on the audit committee are Atsuhiko Inoue and Toshihiro Isshiki.

Our audit committee held 15 meetings during the fiscal year ended March 31, 2021. The average attendance rate was 100%.

Compensation committee

The compensation committee is responsible for establishing policy in regard to the determination of compensation of our directors and corporate executive officers. In addition, the committee determines the contents of the compensation of the individual directors and corporate executive officers in accordance with this policy. The committee also deliberates on the policies for determining the compensation of directors and officers of our major subsidiaries, and the contents of compensation of individual executive officers of the Company.

Under the Companies Act, we are required to have a compensation committee that consists of members of our board of directors, and the majority of the members must be outside directors. Currently, the chairman of the compensation committee is Katsuyoshi Shinbo, who is an outside director. Other outside directors on the compensation committee are Arthur M. Mitchell, Yoshinobu Tsutsui and Eriko Sakurai. Other directors on the compensation committee are Takeshi Kunibe, the chairman of the board, and Jun Ohta, our president.

Our compensation committee held 6 meetings during the fiscal year ended March 31, 2021. The average attendance rate was 100%.

Risk committee

In addition to the three statutory committees mentioned above, we have voluntarily established our risk committee. The committee is responsible for on matters relating to environmental and risk awareness, the operation of our risk appetite framework, and the implementation of risk management systems as well as other important matters pertaining to risk management and reporting to the board of directors on these matters.

Corporate executive officers

Under the Companies Act, a company with three statutory committees must have one or more corporate executive officers. We currently have fourteen corporate executive officers. All corporate executive officers are elected by our directors at a board of directors meeting. The term of office of a corporate executive officer expires upon conclusion of the first board of directors meeting called after conclusion of the ordinary general meeting of shareholders for the last business year ending within one year from the time of their election. The board of directors shall appoint representative corporate executive officers from among the corporate executive officers.

Our President and Group Chief Executive Officer (“CEO”) executes business affairs in accordance with resolutions adopted by the board of directors. Our deputy presidents and corporate executive officers, senior managing corporate executive officers and managing corporate executive officers assist the President and Group CEO in the management of our day-to-day operations. Our chairman of the board serves as the chairman of and presides over our board of directors. This is done in order to separate the role of our president, whose responsibility is to exercise overall supervision of our business activities and SMBC Group companies, from the role of our chairman.

At the operational level, we have created the Management Committee to act as the top decision-making body with respect to business administration and management supervision of the entire SMBC Group. The committee is chaired by the President and Group CEO with other members including our corporate executive officers and other officers designated by the President and Group CEO. The President and Group CEO considers important matters relating to the execution of business in accordance with the basic policies set by the board of directors and based on discussions held by the committee members.

Corporate Governance Practices

For the purpose of protecting the interests of shareholders in general, some Japanese securities exchanges, including the Tokyo Stock Exchange, requires a listed company to have, from amongst its outside directors or

outside corporate auditors, at least one independent director or corporate auditor who does not have conflicting interests with shareholders as specified under the rule. All companies on these securities exchanges are required to report the name of such independent director or corporate auditor, which is disclosed to the public. In addition, the Japan's Corporate Governance Code ("Corporate Governance Code") formulated by the Tokyo Stock Exchange, which establishes fundamental principles for effective corporate governance at listed companies in Japan and took effect in June 2015, provides that listed companies should appoint at least two independent directors. The independence standard for such independent directors will be determined by the subject listed company taking into consideration the independence standards of the Japanese stock exchanges. In consideration of the Corporate Governance Code, we also established the SMFG Corporate Governance Guideline which provides that one-third or more of the directors, and at least two of them, will be elected as independent outside directors. We designated all seven outside directors as independent directors.

Companies listed on the NYSE, must comply with certain corporate governance standards provided under Section 303A of the NYSE Listed Company Manual. However, NYSE-listed companies that are foreign private issuers, including us, are permitted to follow home country practices in lieu of certain provisions of Section 303A if such foreign private issuers meet certain criteria. See "Item 16G. Corporate Governance" for a summary of significant ways in which our corporate governance practices differ from those required to be followed by NYSE-listed U.S. companies.

Exemption from Liability

Under the Companies Act and our articles of incorporation, we may exempt our non-executive directors, etc. from liabilities to us arising in connection with their failure to execute their duties, within the limits stipulated by applicable laws and regulations. Pursuant to such authority, we have entered into a liability limitation agreement with each outside director, etc. which limits the maximum amount of their liability to the Company arising in connection with a failure to execute their duties to the greater of either ¥10 million or the minimum liability amount prescribed in applicable laws.

Benefits upon Termination of Employment

Neither we nor our subsidiaries maintain any directors' service contracts providing for benefits upon termination of employment.

6.D. EMPLOYEES

At March 31, 2021, 2020 and 2019, on a consolidated basis, we had approximately 86,800, 86,400 and 86,700 employees, respectively, including locally hired staff in our foreign offices but excluding temporary employees. We also had an average of approximately 11,300 temporary employees during the fiscal year ended March 31, 2021.

The following tables show our full-time employees at March 31, 2021 on a consolidated basis under Japanese GAAP broken down based on business segment and geographical location:

	Percentage of full-time employees at March 31, 2021
Business segment:	
Wholesale Business Unit	11%
Retail Business Unit	36
Global Business Unit	34
Global Markets Business Unit	2
Head office account and others	17
Total	100%
	Percentage of full-time employees at March 31, 2021
Location:	
Japan	66%
Americas	4
Europe and Middle East	2
Asia and Oceania	28
Total	100%

More than half of our employees are members of workers' unions, which negotiate with management concerning remuneration and working conditions. We consider our labor relations to be good.

We consider our level of remuneration, fringe benefits (including an employee share ownership program), working conditions and other allowances, which include lump-sum payments and annuities to employees upon retirement, to be generally competitive with those offered by other large enterprises in Japan.

6.E. SHARE OWNERSHIP

Shareholdings by Directors and Senior Management

The following table shows the number of shares of our common stock owned by our directors and corporate executive officers at June 29, 2021:

	<u>Number of shares owned</u>
Directors and corporate executive officers:	
Takeshi Kunibe	81,194
Jun Ohta	52,166
Makoto Takashima	56,882
Toru Nakashima	25,211
Teiko Kudo	26,745
Atsuhiko Inoue	18,676
Toshihiro Isshiki	33,891
Yasuyuki Kawasaki	31,149
Masayuki Matsumoto	2,200
Arthur M. Mitchell	1,100
Shozo Yamazaki	1,100
Masaharu Kohno	—
Yoshinobu Tsutsui	—
Katsuyoshi Shinbo	2,200
Eriko Sakurai	3,400
Masahiko Oshima	32,313
Toshikazu Yaku	31,885
Katsunori Tanizaki	28,717
Tetsuro Imaeda	29,998
Fumiharu Kozuka	29,680
Masamichi Koike	27,647
Shoji Masuda	27,096
Ryuji Nishisaki	27,919
Akihiro Fukutome	12,704
Muneo Kanamaru	15,583
Takashi Yamashita	16,977

None of our directors or corporate executive officers is the owner of more than one percent of our common stock, and no director or corporate executive officers has voting rights with respect to our common stock that are different from any other holder of our common stock.

Stock Option Plans and Other Remuneration for Directors and Senior Management

Stock Option Plans

The following table provides an overview of the significant terms and conditions of the SMFG Stock Acquisition Rights, that we issued prior to the revision of our executive compensation policy in July 2017 (discussed below):

	<u>Date of resolution</u>	<u>Number of grantees</u>	<u>Shares granted</u>	<u>Exercise period</u>	<u>Exercise price</u>
SMFG Stock Acquisition Rights (1st series)	July 28, 2010	82 directors, corporate auditors and executive officers of SMFG and SMBC	102,600 shares of common stock of the Company	August 13, 2010 to August 12, 2040	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (2nd series) . . .	July 29, 2011	85 directors, corporate auditors and executive officers of SMFG and SMBC	268,200 shares of common stock of the Company	August 16, 2011 to August 15, 2041	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (3rd series)	July 30, 2012	85 directors, corporate auditors and executive officers of SMFG and SMBC	280,500 shares of common stock of the Company	August 15, 2012 to August 14, 2042	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (4th series)	July 29, 2013	82 directors, corporate auditors and executive officers of SMFG and SMBC	115,700 shares of common stock of the Company	August 14, 2013 to August 13, 2043	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (5th series)	July 30, 2014	82 directors, corporate auditors and executive officers of SMFG and SMBC	121,900 shares of common stock of the Company	August 15, 2014 to August 14, 2044	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted
SMFG Stock Acquisition Rights (6th series)	July 31, 2015	83 directors, corporate auditors and executive officers of SMFG and SMBC	132,400 shares of common stock of the Company	August 18, 2015 to August 17, 2045	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted

	<u>Date of resolution</u>	<u>Number of grantees</u>	<u>Shares granted</u>	<u>Exercise period</u>	<u>Exercise price</u>
SMFG Stock Acquisition Rights (7th series)	July 26, 2016	89 directors, corporate auditors and executive officers of SMFG and SMBC	201,200 shares of common stock of the Company	August 15, 2016 to August 14, 2046	¥1 per share granted upon exercise of each stock acquisition right, multiplied by the number of shares granted

Compensation Plans Utilizing Restricted Stock

In July 2017, our compensation committee resolved to revise our executive compensation policy and to introduce new stock compensation plans that utilize restricted stock, while discontinuing the issuance of new stock options.

The plans consist of Stock Compensation Plan I (“Plan I”), which determines remuneration primarily based on our medium-term performance, Stock Compensation Plan II (“Plan II”), which determines remuneration primarily based on our annual performance and Stock Compensation Plan III (“Plan III”), which determines remuneration primarily based on corporate title.

Plan I (medium-term performance share plan) has an evaluation period of three years, corresponding with our medium-term management plan. Executives are initially allotted shares of restricted stock equivalent to the monetary amount determined based on the executive’s corporate title. After the completion of the evaluation period, our compensation committee reviews the progress of our medium-term management plan, performance of our common stock, and results of customer satisfaction surveys and other factors, to determine a final amount to be released from transfer restrictions. In case the final amount falls below the initial amount, we retrieve all or part of the allotted shares at no cost.

Under Plan II (annual performance share plan), executives are allotted shares of restricted stock equivalent to a certain portion of the monetary amount determined based on the annual performance of SMFG and SMBC, as well as on the individual performance of the executives reviewed both from short-term and medium-to-long-term perspectives. The remainder is paid to the executives as a cash bonus. Transfer restrictions on these shares are released evenly over the three-year period following the year of allotment.

Under Plan III (promotion reward plan), executives are allotted shares of restricted stock equivalent to pre-determined compensation amounts per title, reflecting the increased responsibilities derived from promotions. Restrictions shall apply to the shares until the earlier of 30 years from allotment or when the executive retires from office.

The eligible executives for the plans are directors (excluding outside directors), corporate executive officers and executive officers of SMFG, directors (excluding outside directors) and executive officers etc. of SMBC and representative corporate executive officers of certain of our subsidiaries.

The allotment agreements that we enter into with executives under the plans restrict disposal of the allotted shares in any manner, including transfers of ownership or granting of security interest and, also provide that we may retrieve all or part of the allotted shares at no cost in case the our compensation committee reaches certain decisions such as the non-achievement of financial targets. The agreements also include provisions for forfeiture and claw-back of vested stock in order to restrain excessive risk-taking and foster a prudent risk culture expected of a financial institution.

The following table provides details of the issuance and allotment of new shares under our stock compensation plans:

<u>Date of issue</u>	<u>Issue price</u>	<u>Class and total number of shares issued</u>	<u>Allottees and number of shares to be allotted</u>
July 26, 2017	¥4,372 per share	387,765 shares of common stock of the Company	<p>Directors of SMFG: 7 persons 36,278 shares</p> <p>Corporate executive officers of SMFG: 4 persons 12,863 shares</p> <p>Executive officers of SMFG: 27 persons 47,077 shares</p> <p>Directors of SMBC: 10 persons 71,703 shares</p> <p>Executive officers, etc. of SMBC: 59 persons 219,844 shares</p>
August 3, 2018	¥4,287 per share	326,330 shares of common stock of the Company	<p>Directors of SMFG : 6 persons 8,388 shares</p> <p>Corporate executive officers of SMFG: 5 persons 3,852 shares</p> <p>Executive officers of SMFG: 42 persons 25,544 shares</p> <p>Directors of SMFG's subsidiaries: 16 persons 35,289 shares</p> <p>Executive officers, etc. of SMFG's subsidiaries: 85 persons 253,257 shares</p>
July 29, 2019	¥3,828 per share	272,536 shares of common stock of the Company	<p>Directors of SMFG: 7 persons 9,926 shares</p> <p>Corporate executive officers of SMFG: 6 persons 4,191 shares</p> <p>Executive officers of SMFG: 37 persons 27,419 shares</p> <p>Directors of SMFG's subsidiaries: 14 persons 25,879 shares</p> <p>Executive officers, etc. of SMFG's subsidiaries: 91 persons 205,121 shares</p>

<u>Date of issue</u>	<u>Issue price</u>	<u>Class and total number of shares issued</u>	<u>Allottees and number of shares to be allotted</u>
July 27, 2020	¥3,015 per share	868,505 shares of common stock of the Company	<p>Directors of SMFG: 6 persons 64,842 shares</p> <p>Corporate executive officers of SMFG: 13 persons 60,638 shares</p> <p>Executive officers of SMFG: 45 persons 112,719 shares</p> <p>Directors of SMFG's subsidiaries: 16 persons 150,598 shares</p> <p>Executive officers, etc. of SMFG's subsidiaries: 91 persons 479,708 shares</p>

Employee Stock Ownership Associations

We have employee stock ownership associations in Japan for our and our subsidiaries' employees. Members of the employee stock ownership associations set aside certain amounts from their monthly salary to purchase our common stock through the relevant employee stock ownership association. The administrator of each association makes open-market purchases of our common stock for the account of the association on a monthly basis. We and our subsidiaries contribute matching funds equivalent to 5% of the amount purchased by the relevant association. At March 31, 2021, none of the employee stock ownership associations held more than 1% of our common stock.

Item 7. Major Shareholders and Related Party Transactions

7.A. MAJOR SHAREHOLDERS

Major Shareholders

Our major shareholders, appearing on our register of common shareholders at March 31, 2021, were as follows:

	Number of shares held ⁽²⁾	Percentage of shares issued ⁽¹⁾⁽²⁾
Name:		
The Master Trust Bank of Japan, Ltd. (Trust Account)	121,954,600	8.89%
Custody Bank of Japan, Ltd. (Trust Account)	77,061,400	5.62%
Custody Bank of Japan, Ltd. (Trust Account 7)	28,014,500	2.04%
NATSCUMCO	27,337,632	1.99%
SSBTC CLIENT OMNIBUS ACCOUNT.	25,919,586	1.89%
STATE STREET BANK WEST CLIENT—TREATY 505234	21,261,727	1.55%
Custody Bank of Japan, Ltd. (Trust Account 5)	20,920,300	1.52%
Custody Bank of Japan, Ltd. (Trust Account 6).	18,551,800	1.35%
Barclays Securities Japan Limited	18,549,300	1.35%
JPMorgan Securities Japan Co., Ltd.	16,849,837	1.22%

- (1) Percentages are calculated based on the total number of shares of common stock then issued, excluding our treasury stock, and have been truncated to the nearest second decimal point.
- (2) On February 1, 2021, BlackRock, Inc. filed a Schedule 13G with the SEC, indicating that BlackRock, Inc. and its subsidiaries beneficially held 84,465,707 shares of our common stock, representing 6.15% of our outstanding common stock at December 31, 2020. On February 5, 2021, Sumitomo Mitsui Trust Holdings, Inc. filed a Schedule 13G with the SEC, indicating that Sumitomo Mitsui Trust Holdings, Inc. and its subsidiaries beneficially held 83,503,700 shares of our common stock, representing 6.08% of our outstanding common stock at December 31, 2020. On July 22, 2020, Nomura Securities Co., Ltd. submitted a filing to the Kanto Local Finance Bureau indicating that Nomura Securities Co., Ltd. and its affiliate held 71,289,221 shares of our common stock, representing 5.19% of our outstanding common stock at July 15, 2020. On April 5, 2021, Mitsubishi UFJ Financial Group, Inc. submitted a filing to the Kanto Local Finance Bureau indicating that Mitsubishi UFJ Financial Group, Inc. and its affiliate held 68,950,200 shares of our common stock, representing 5.02% of our outstanding common stock at March 29, 2021.

Our major shareholders do not have different voting rights.

Shareholders in the United States

Because some of our common stock was held by brokers or other nominees, the number of shares held by and the number of beneficiary holders with addresses in the United States is not fully ascertainable. At March 31, 2021, there were 247 record holders of our common stock with addresses in the United States, whose shareholdings represented approximately 17% of our outstanding common stock on that date.

Control of the Company

To our knowledge, we are not directly or indirectly owned or controlled by any another corporation(s), by any foreign government or by any other natural or legal person(s), severally or jointly.

Arrangements for Change in Control of the Company

We know of no arrangements the operation of which may at a later time result in a change of control.

7.B. RELATED PARTY TRANSACTIONS

We and our banking subsidiaries had, and expect to have in the future, banking transactions and other transactions in the ordinary course of business with our related parties. For the fiscal year ended March 31, 2021,

such transactions included, but were not limited to, loans, deposits and guarantees. Furthermore, such transactions were immaterial and were made at prevailing market rates, terms and conditions, and did not involve more than the normal risk of collectibility or present other unfavorable features.

During the fiscal year ended March 31, 2021, none of our directors or corporate executive officers, and none of the close members of their respective families, had any transactions that were material or any transactions that were unusual in their nature or conditions, involving goods, services or tangible or intangible assets, to which we were a party, and no such transactions were proposed at March 31, 2021. During the fiscal year ended March 31, 2021, we made no loans to our directors or corporate executive officers other than those that were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectibility or present other unfavorable features.

7.C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

Item 8. Financial Information

8.A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Financial Statements

All relevant financial statements are attached hereto. See “Item 18. Financial Statements.” See “Item 5.A. Operating Results—Reconciliation with Japanese GAAP” for a reconciliation of consolidated net profit and total equity for the fiscal year ended March 31, 2021 under IFRS, with those amounts under Japanese GAAP.

Export Sales

Not applicable.

Legal Proceedings

We are party to routine litigation incidental to our business, none of which is currently expected to have a material adverse effect on our financial condition or results of operations. However, there can be no assurance that an adverse decision in one or more of these lawsuits will not have a material adverse effect.

Dividend Policy and Dividends

The declaration, payment and determination of any year-end dividend are subject to the approval of shareholders of our common stock at our general meeting of shareholders and to statutory restrictions. The declaration, payment and determination of the amount of any interim dividend require a resolution of our board of directors and are subject to statutory restrictions. Dividend payments are made to shareholders or pledgees of record at the record dates for each payment. March 31 is the record date for year-end dividends and September 30 is the record date for interim dividends. The payment of year-end and interim dividends on common stock is subject to prior payment of dividends on our preferred stock, if any.

We have a basic policy of enhancing shareholder value in a sustainable manner by balancing financial soundness, return to shareholders, and investment for growth. We adopt a progressive dividend policy, which does not reduce dividends and at least maintains or increases dividends each year, supported by our sustainable earnings growth, and seek to achieve a dividend payout ratio of 40% on a consolidated net profit basis under Japanese GAAP by the end of the current medium-term management plan.

The following table shows historical aggregate dividend payments per share of our common stock for each of the fiscal years from the fiscal year ended March 31, 2019 through the fiscal year ended March 31, 2021:

	Dividend per share	
	Paid ⁽¹⁾	Declared ⁽²⁾
Fiscal year ended March 31,		
2019	¥ 180	¥ 175
2020	190	185
2021	190	195

- (1) Dividend per share based on dividends in respect of each fiscal year including dividends proposed after current fiscal year-end but not recognized in the financial statements and excluding dividends in respect of the previous fiscal year declared in current fiscal year.
(2) Dividend per share based on dividends declared and recognized in the financial statements during each fiscal year.

8.B. SIGNIFICANT CHANGES

Except as otherwise described in this annual report, no significant change in our financial position has occurred since the date of the financial statements included elsewhere in this annual report.

Item 9. The Offer and Listing

9.A. OFFER AND LISTING DETAILS

Offering Details

Not applicable.

Trading Markets for Our Shares

See “Item 9.C. Markets” for information on the stock exchanges on which our common stock is listed.

9.B. PLAN OF DISTRIBUTION

Not applicable.

9.C. MARKETS

The primary trading market for our common stock is the Tokyo Stock Exchange (First Section), and our common stock is also listed on the Nagoya Stock Exchange (First Section). Our common stock is quoted under the Securities Code “8316.” Our common stock is not listed on any stock exchange outside of Japan.

Our ADSs have been listed on the NYSE since November 1, 2010 and are quoted under the ticker symbol “SMFG.”

9.D. SELLING SHAREHOLDERS

Not applicable.

9.E. DILUTION

Not applicable.

9.F. EXPENSES OF THE ISSUE

Not applicable.

Item 10. Additional Information

10.A. SHARE CAPITAL

Not applicable.

10.B. MEMORANDUM AND ARTICLES OF INCORPORATION

Set out below is information concerning our share capital, including a summary of provisions of our articles of incorporation and share handling regulations and of the Companies Act relating to joint stock corporations (*kabushiki-kaisha*) and related legislation, each as currently in effect.

Register and Entry, Objects and Purposes of the Company

The Company is a joint stock corporation (*kabushiki-kaisha*) incorporated in Japan under the Companies Act (*kaishaho*) of Japan. It is registered in the commercial register (*shogyo-tokibo*) maintained by the Chiyoda Branch Office of the Tokyo Bureau of Legal Affairs.

Article 2 of our articles of incorporation provides that our purpose is to engage in the following business activities:

- management of banks and other corporations which are permitted to become, or to be established as, subsidiaries under the Banking Act and any business incidental thereto; and
- in addition to the businesses provided in the foregoing item, any business in which a bank holding company is permitted to engage under the Banking Act.

Provisions Relating to Directors

We have adopted a company with three statutory committees system of corporate governance. The Companies Act requires the board of directors to decide on the execution of operations of a company, including basic management policy, and supervise the execution of duties by corporate executive officers. In addition, the board of directors may delegate decisions on the execution of the operations to corporate executive officers, to the extent permitted by the Companies Act. The Companies Act and our articles of incorporation, bylaws and associated internal rules issued pursuant to the articles provide in summary as follows:

- a director is not entitled to vote on a proposal or arrangement or contract in which the director has a special interest;
- the amount of compensation to each of our directors is determined by the compensation committee, which consists of members of our board of directors, the majority of whom must be outside directors;
- the board of directors has authority to approve transactions between the directors and us;
- there are no provisions requiring the mandatory retirement of directors at a specified age; and
- share ownership is not required in order to be eligible to serve as a director.

Rights, Preferences and Restrictions of the Shares

A joint stock corporation is a legal entity incorporated under the Companies Act. The rights of shareholders of a joint stock corporation are represented by shares of stock in the corporation, and shareholders' liability is limited to the amount of the subscription for the shares.

We may issue shares within our authorized but unissued share capital following a resolution by our board of directors. An increase in our authorized share capital requires an amendment of our articles of incorporation, which generally requires approval of our common and preferred shareholders, if any.

Common Stock

General

Under the Act Concerning Book-Entry Transfer of Corporate Bonds, Shares and Other Securities (“Book-Entry Transfer Act”), the shares of all Japanese companies listed on any Japanese stock exchange, including our shares, are subject to a central clearing system of shares of Japanese listed companies.

Under the clearing system, a person must have an account at an account managing institution or at Japan Securities Depository Center, Inc. (“JASDEC”) in order to purchase, hold, sell or otherwise dispose of listed shares. Account managing institutions include financial instruments traders (i.e., securities companies), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Transfer Act, and only those financial institutions that meet further stringent requirements of the Book-Entry Transfer Act can open accounts directly at JASDEC. Under the Book-Entry Transfer Act, any transfer of shares is effected through book entry, and title to the shares passes to the transferee at the time when the transferred number of the shares is recorded in the transferee’s account at an account managing institution. The holder of an account at an account managing institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act and the Book-Entry Transfer Act, in order to assert shareholders’ rights against us, a shareholder’s name and address must be registered in our register of shareholders, except in limited circumstances. Under the clearing system, such registration is made upon our receipt of the necessary information from JASDEC. Nonresidents of Japan or non-Japanese corporations without a permanent establishment in Japan (“Nonresident Shareholders”) are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each Nonresident Shareholder must give notice of a standing proxy or a mailing address to the relevant account managing institution. That notice will be forwarded to us through JASDEC. Japanese securities companies and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from us to Nonresident Shareholders are delivered to standing proxies or their mailing addresses in Japan.

Our transfer agent is Sumitomo Mitsui Trust Bank, Limited.

Distributions of Surplus

As a holding company, we expect that most of our cash flow will come from dividends that SMBC pays us. Under some circumstances, various statutory or contractual provisions may restrict the dividends SMBC can pay us. For example, if SMBC does not have sufficient distributable amounts, it will be unable to pay dividends and we, in turn, may be unable to pay dividends on shares of our common stock. Therefore, our ability to pay dividends mainly depends on the financial performance of our principal operating subsidiary, SMBC.

Under the Companies Act, distribution of cash or other assets by a joint stock corporation to its shareholders, including dividends, takes the form of distributions of surplus (as described in “—Restriction on Distributions of Surplus”). We are permitted to make distributions of surplus to our shareholders any number of times per fiscal year, subject to limitations described in “—Restriction on Distributions of Surplus.” Distributions of surplus are required in principle to be authorized by a resolution of a general meeting of shareholders. Distributions of surplus are, however, permitted pursuant to a resolution of the board of directors if:

- (1) our articles of incorporation so provide (our current articles of incorporation do not have a provision to that effect);
- (2) the normal term of office of our directors is no longer than one year (our current articles of incorporation provide that the normal term of office of our directors expires upon the close of the general meeting of shareholders to be held for the last fiscal year ending within one year after the election); and

- (3) our nonconsolidated annual financial statements and certain documents for the latest fiscal year fairly present our assets and profit or loss, as required by an ordinance of the Ministry of Justice.

In an exception to the above rule, even if the requirements described in (1) through (3) are not met, we are permitted to make distributions of surplus in cash to our shareholders by resolutions of the board of directors once per fiscal year if our articles of incorporation so provide. Our current articles of incorporation provide for distributions of surplus as interim dividends, the record date for which is September 30 of each year.

Distributions of surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a general meeting of shareholders or by the board of directors authorizing a distribution of surplus must specify the kind and aggregate book value of assets to be distributed, the manner of allocation of the assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, we may, pursuant to a resolution of a general meeting of shareholders or by the board of directors, grant the right to our shareholders to require us to make the distribution in cash instead of in kind. If that right is not granted to shareholders, then the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders.

Under our articles of incorporation, the record dates for annual dividends and interim dividends are March 31 and September 30, respectively, in each year. In Japan, both “ex-dividend” date (the date from which purchasers at shares through Japanese stock exchanges will not be entitled to the dividends to be paid to registered shareholders as any record date) and the record date for dividends precede the date of determination of the amount of the dividend to be paid. The ex-dividend date of the shares of common stock is generally the first business day prior to the record date. Under our articles of incorporation, we are not obligated to pay any distributions of surplus to be made in cash which have not been received after five years from the commencement date of those distributions.

Restriction on Distributions of Surplus

Payment of dividends on shares of common stock is also subject to the prior payment of dividends on shares of preferred stock, if any. In the event we pay an interim dividend on shares of our common stock, the interim dividend payment is also subject to the prior payment of interim dividends on the shares of preferred stock, if any.

When we make a distribution of surplus, we must set aside in our capital reserve or retained earnings reserve an amount equal to one-tenth of the amount of surplus so distributed as required by an ordinance of the Ministry of Justice.

The amount of surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- “A” = the total amount of other capital surplus and other retained earnings, each being the amount that appears on our nonconsolidated balance sheet as of the end of the last fiscal year;
- “B” = if we have disposed of treasury stock after the end of the last fiscal year, the amount of the consideration for that treasury stock received by us less the book value thereof;
- “C” = if we have reduced our stated capital after the end of the last fiscal year, the amount of that reduction less the portion thereof that has been transferred to capital reserve or retained earnings reserve, if any;
- “D” = if we have reduced our capital reserve or retained earnings reserve after the end of the last fiscal year, the amount of that reduction less the portion thereof that has been transferred to stated capital, if any;
- “E” = if we have cancelled treasury stock after the end of the last fiscal year, the book value of that treasury stock;
- “F” = if we have distributed surplus to our shareholders after the end of the last fiscal year, the total book value of the surplus so distributed; and
- “G” = other amounts set forth in an ordinance of the Ministry of Justice, including:
- if we have reduced surplus and increased our stated capital, capital reserve or retained earnings reserve after the end of the last fiscal year, the amount of that reduction; and
 - if we have distributed surplus to shareholders after the end of the last fiscal year, the amount set aside in our capital reserve or retained earnings reserve, if any, as required by ordinances of the Ministry of Justice.

The aggregate book value of surplus distributed by us may not exceed a prescribed distributable amount as calculated on the effective date of the distribution. Our prescribed distributable amount at any given time shall be the amount of surplus less the aggregate of (a) the book value of our treasury stock, (b) the amount of consideration for any treasury stock we disposed of after the end of the last fiscal year, (c) the sum of net unrealized losses on other securities and unrealized losses on land valuation, and (d) other amounts set forth in an ordinance of the Ministry of Justice, including (if the sum of one-half of our goodwill and deferred assets exceeds the total of the stated capital, capital reserve and retained earnings reserve, each being the amount in our nonconsolidated balance sheet at the end of the last fiscal year) all or a certain part of the exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice. If we have prepared interim financial statements in accordance with the ordinances of the Ministry of Justice as described below, and if the interim financial statements have been approved by the board of directors or (if so required) by a general meeting of shareholders, then the prescribed distributable amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for any of our treasury stock disposed of by us, during the period for which the interim financial statements have been prepared. We will be permitted to prepare nonconsolidated interim financial statements consisting of a balance sheet at any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of the balance sheet. Interim financial statements so prepared by us must be audited by our audit committee and accounting auditors, as required by an ordinance of the Ministry of Justice.

Voting Rights

Holders of shares of common stock have one voting right for each unit of shares held by them. Except as otherwise provided by law or by our articles of incorporation, a resolution can be adopted at a general meeting of shareholders by the holder of a majority of the total number of the voting rights represented at the meeting. In our articles of incorporation the quorum to elect directors is one-third of the total number of voting rights. Our shareholders are not entitled to cumulative voting in the election of directors. Our shareholders may cast their votes by mail or via the internet. Our shareholders may also exercise their voting rights through proxies, provided that the proxies are also holders of shares with voting rights.

The Companies Act provides that certain important matters shall be approved by a special resolution of a general meeting of shareholders. Under our articles of incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution. Important matters include:

- amending the articles of incorporation (except for amendments that may be authorized by the board of directors under the Companies Act);
- reducing stated capital which meets certain requirements, with some exceptions;
- dissolving, merging or consolidating requiring shareholders' approval;
- establishing a parent and a wholly owned subsidiary relationship by way of a share transfer (*kabushiki-iten*) or share exchange (*kabushiki-kokan*), or establishing of a parent and subsidiary relationship by way of a partial share exchange (*kabushiki-kofu*), requiring shareholders' approval;
- transferring the whole or a substantial part of our business;
- transferring all or part of the shares of a subsidiary which meets certain requirements;
- taking over the whole business of another company requiring shareholders' approval;
- corporate split requiring shareholders' approval;
- consolidating shares of common stock;
- acquiring shares of common stock from a specific shareholder other than one of our subsidiaries;
- issuing or transferring new shares or existing shares held by us as treasury stock to persons other than the shareholders at a specially favorable price;
- issuing stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under specially favorable conditions;
- exempting some liability of a director or corporate executive officer; and
- distributing surplus in-kind if shareholders are not granted the right to require us to make a distribution in cash instead of in-kind.

Capital and Reserves

When we issue new shares, the amount of the cash or assets paid or contributed by subscribers for new shares (with some exceptions) is required to be accounted for as stated capital, although we may account for an amount not exceeding one-half of the cash or assets as capital reserve by resolutions of the board of directors.

We may reduce our capital reserve or retained earnings reserve generally by resolution of a general meeting of shareholders. We may account for the whole or any part of the reduction as stated capital if we so decide by the same resolution. On the other hand, we may reduce our stated capital generally by special resolution of a general meeting of shareholders and may account for the whole or any part of the reduction as capital reserve if we so decide by the same resolution. We may reduce our surplus and increase either (1) stated capital or (2) capital reserve and/or retained earnings reserve by the same amount, in either case by resolution of a general meeting of shareholders.

Stock Splits

We may at any time split our outstanding shares of common stock into a greater number of shares of common stock by resolution of the board of directors. When a stock split is to be made, so long as our only class of outstanding stock is the common stock, we may increase the number of authorized shares in the same ratio as that of the stock split by amending our articles of incorporation. We may effect such an amendment by resolution of the board of directors without shareholder approval.

We must give public notice of a stock split, specifying the record date therefore, not less than two weeks prior to the record date.

Unit Share System

We have a unit share system, under which 100 shares of our common stock constitute one unit. Under the unit share system, shareholders have one voting right for each unit of shares held by them at a general meeting of shareholders, and shares constituting a fractional unit carry no voting rights. Under our articles of incorporation, the holders of shares constituting a fractional unit do not have shareholder rights except for those specified in the Companies Act or an ordinance of the Ministry of Justice, which include the rights (1) to receive dividends, (2) to receive cash or other assets in case of consolidation or split of shares, share exchange or share transfer, or merger, or (3) to be allotted rights to subscribe for free new shares and stock acquisition rights when those rights are granted to shareholders. We may cease to use the unit share system by amendment to the articles of incorporation without shareholders' approval even though amendments to the articles of incorporation generally require a special resolution of the general meeting of shareholders.

A holder of shares of our common stock constituting less than one unit may at any time request us to purchase those shares. In addition, a holder of shares of our common stock constituting less than one unit may at any time request us to sell to it the number of shares necessary to raise its share ownership to a whole unit. Under the clearing system operated by JASDEC, such request must be made through the financial institution where the shareholder has opened its account.

The price at which shares of our common stock constituting less than one unit will be purchased or sold by us pursuant to such request will be equal to either (a) the closing price of shares of our common stock reported by the Tokyo Stock Exchange on the day when such request is received by our transfer agent, or (b) if no sale takes place on the Tokyo Stock Exchange on that day, the price at which sale of such shares is executed on the Tokyo Stock Exchange immediately thereafter. Pursuant to our share handling regulations, an amount equal to the applicable brokerage commission will be deducted from the price so determined.

Under the new clearing system, shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly, may not be sold on the Japanese stock exchanges.

Liquidation Rights

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and required distribution payments to preferred shareholders, if any, will be distributed among shareholders of common stock in proportion to the respective number of shares which they hold. For liquidation preference for residual assets to the holders of preferred stock, see “—Preferred Stock—Liquidation Rights.”

Redemption Provisions and Sinking Fund Provisions

Our common stock has no redemption provisions or sinking fund provisions.

Liability to Further Calls or Assessments

Our shares of common stock outstanding, including shares represented by the ADSs, are fully paid and nonassessable.

Legal Restrictions on Acquisitions of Shares

The FIEA and its related regulations require any person who has become solely or jointly a beneficial holder of more than 5% of the total issued shares of capital stock of a company listed on any Japanese stock exchange, to file with the director of an appropriate local finance bureau of the Ministry of Finance within five business

days a report concerning the shareholdings. With some exceptions, a similar report must also be filed in respect of any subsequent change of 1% or more in those holdings or any change in material matters set out in reports previously filed. For this purpose, shares issuable to a holder upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Copies of each report must also be furnished to all the Japanese stock exchanges on which the shares are listed.

Under the Banking Act, a person who desires to hold 20% (in some exceptional cases, 15%) or more of the voting rights of a bank is required to obtain advance approval of the FSA Commissioner. In addition, any person who becomes a holder of more than 5% of the voting rights of a bank holding company or a bank must report the ownership of the voting rights to the director of an appropriate local finance bureau within five business days. This requirement is separate from the significant shareholdings report required under the FIEA. See "Item 4.B. Business Overview—Regulations in Japan—Regulations for Stabilizing the Financial System—Examination and Reporting Applicable to Shareholders of a Bank."

Subscription Rights

Holders of shares of our common stock have no preemptive rights. Authorized but unissued shares of common stock may be issued at the times, and upon the terms the board of directors determines, subject to the limitations as to the issuance of new shares of common stock at a specially favorable price mentioned in "—Voting Rights" above. The board of directors may, however, determine that the holders of shares of common stock be given subscription rights to new shares of common stock, in which case they must be given on uniform terms to all holders of shares of common stock at a record date of which not less than two weeks' prior public notice must be given. Each of the shareholders to whom subscription rights is given must also be given at least two weeks' prior notice of the date on which the rights expire.

Stock Acquisition Rights

We may issue stock acquisition rights (*shinkabu-yoyakuken*). Holders of stock acquisition rights are entitled to acquire shares from us upon payment of the applicable exercise price and subject to other terms and conditions thereof. We may also issue bonds with stock acquisition rights (*shinkabu-yoyakuken-tsuki-shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorized by the board of directors unless it is made under specially favorable conditions, as described in "—Voting Rights."

Record Date

March 31 is the record date for the payment of year-end dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders. September 30 is the record date for payment of interim dividends. In addition, by determination by corporate executive officers under the authority delegated by the board of directors and after giving at least two weeks' prior public notice, we may at any time set a record date in order to determine the shareholders who are entitled to certain rights pertaining to the common stock.

Under the Book-Entry Transfer Act, we are required to give notice of each record date to JASDEC at least two weeks prior to such record date. JASDEC is required to give us notice of the names and addresses of our shareholders, the numbers of shares held by them, and other relevant information at a record date promptly after we set it.

Our Acquisition of Our Own Shares of Common Stock

We may acquire shares of our common stock (1) by way of purchase on any Japanese stock exchange on which shares of our common stock are listed, or by way of tender offer (in either case, pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the board of directors), (2) from a specific

shareholder other than any of our subsidiaries (pursuant to a special resolution of a general meeting of shareholders), or (3) from any of our subsidiaries (pursuant to a resolution of the board of directors). In the case of (2) above, any other shareholder may make a request to a director, at least five days prior to the relevant general meeting of shareholders, to include the shareholder as a seller in the proposed purchase. However, that right is not available if the purchase price or any other consideration to be received by the relevant specific shareholder does not exceed the then market price of the shares to be purchased from the shareholder.

The total amount of the purchase price of shares of common stock may not exceed the prescribed distributable amount, as described in “—Common Stock—Restriction on Distributions of Surplus.”

We may hold the shares of common stock acquired, and may generally dispose of or cancel those shares by resolution of the board of directors.

Disposal of Shares of Our Common Stock Held by Shareholders Whose Location Is Unknown

We are not required to send notices to a shareholder if notices have failed to arrive for five consecutive years or more at his or her address in our register of shareholders unless we are notified of a new address. If the shareholder also fails to receive distributions of surplus on the shares for five or more consecutive years at his or her address in our register of shareholders or otherwise as specified, then we may in general dispose of those shares at their then-market price and hold or deposit the proceeds of that disposal on behalf of that shareholder.

Preferred Stock

The following is a summary of information concerning provisions of our articles of incorporation.

General

At the date of this annual report, under our articles of incorporation, we are authorized to issue 167,000 shares of Type 5 preferred stock, 167,000 shares of Type 7 preferred stock, 115,000 shares of Type 8 preferred stock and 115,000 shares of Type 9 preferred stock. In June 2013, our articles of incorporation were amended to delete the provisions regarding Type 6 preferred stock, as these provisions have become unnecessary.

In March 2005, we issued 70,001 shares of our 1st series Type 6 preferred stock for an aggregate issue price of ¥210 billion. The Type 6 preferred stock was allocated using a third-party allocation of shares at a price of ¥3,000,000 per share, ¥1,500,000 of which was accounted for as stated capital. Sumitomo Life Insurance Company acquired 23,334 shares, Nippon Life Insurance Company acquired 20,000 shares, Mitsui Life Insurance Company, Limited, which was renamed Taiju Life Insurance Company Limited on April 1, 2019, acquired 16,667 shares and Mitsui Sumitomo Insurance Company, Limited acquired 10,000 shares. On April 1, 2011, we acquired and cancelled all of the outstanding 1st series Type 6 preferred stock.

At the date of this annual report, we have no preferred stock outstanding. The following is a summary of the relevant provisions of our articles of incorporation regarding preferred stock.

Preferred Dividends

Our articles of incorporation provide that, if we pay dividends, we must pay cash dividends to holders of shares of our preferred stock in preference to the holders of our common stock. If preferred interim dividends stipulated in our articles of incorporation were paid during the relevant fiscal year, the amount of the preferred interim dividends shall be subtracted from the amount of annual preferred dividends.

Our failure to declare annual preferred dividends in full in respect of any fiscal year on a series of preferred stock gives the holders of that preferred stock certain voting rights.

Liquidation Rights

In the event of our voluntary or involuntary liquidation, holders of our preferred stock will be entitled, equally in rank as among themselves and in preference over shares of our common stock, to receive out of our residual assets upon liquidation a distribution of ¥3,000,000 per share.

Preferred stockholders are not entitled to any further dividends or other participation or distribution of our residual assets upon our liquidation.

Voting Rights

Our articles of incorporation provide that holders of preferred stock are only entitled to receive notice of, and to vote at, a general meeting of shareholders;

- from the commencement of our ordinary general meeting of shareholders if an agenda for approval to declare a preferred dividend is not submitted to the meeting; or
- from the close of our ordinary general meeting of shareholders if a proposed resolution to declare a preferred dividend is not approved at the meeting.

In both cases, these rights of our preferred stockholders lapse when a resolution of a general meeting of shareholders declaring a preferred dividend is approved.

The Companies Act provides that a separate resolution of a meeting of the holders of the preferred stock is required in order to approve certain matters which would prejudice their interests, including;

- amendments to the articles of incorporation to add new classes of shares to be issued, alter the terms of the shares or increase the number of shares or authorized number of any class of shares, with certain exceptions;
- consolidations or splits of shares;
- dividends of shares or stock acquisition rights to shareholders without any consideration;
- grants of preemptive rights for new shares or stock acquisition rights;
- amalgamations or mergers;
- certain corporate splits;
- share exchanges;
- share transfers; and
- other matters set forth in the articles of incorporation.

Except for the amendments described above, the articles of incorporation may expressly permit certain of the above matters to be approved without a separate resolution. Our articles of incorporation do not include that express permission.

Ranking

If issued, the outstanding shares of our preferred stock would rank *pari passu* with each other as to participation in our profits or assets, including dividends and distributions of residual assets upon our liquidation.

Unless holders of our preferred stock give approval, we may not create or issue any other shares ranking in priority in terms of the right to receive distributions of surplus or the right to receive distributions of residual assets or otherwise in priority to the preferred stock already issued. However, without obtaining the consent of holders of the preferred stock, we may issue other preferred stock ranking *pari passu* with the preferred stock

already issued as to the order of participation in our profits or assets, carrying rights to preferred dividends, or terms of conversion that our board of directors may determine, subject to limitations set forth in our articles of incorporation and the Companies Act.

Purchase or Redemption of Preferred Stock

Subject to the requirements of the Companies Act, we may purchase out of our prescribed distributable amounts any shares of our preferred stock outstanding at any time and cancel that preferred stock. In June 2013, we amended our articles of incorporation in order to qualify our preferred stock for inclusion in our regulatory capital in accordance with the new FSA capital adequacy guidelines based on the Basel III framework. Under the amended articles of incorporation, we will acquire our outstanding preferred stock without consideration or in exchange for common stock if we become non-viable.

Mandatory Redemption Provisions and Sinking Fund Provisions

Our articles of incorporation do not provide any mandatory redemption provisions and sinking fund provisions.

Stock Splits

Our articles of incorporation provide that no stock split shall be made to the preferred stock unless otherwise provided for in any law or regulation.

Subscription Rights

Our articles of incorporation provide that we shall not grant holders of preferred stock any right to subscribe for new shares or stock acquisition rights.

Conditions to Change Shareholders' Rights

Our articles of incorporation do not specify what actions or quorums are required to change the rights of holders of our stock.

General Meeting of Shareholders

Our ordinary general meeting of shareholders is held within three months after the end of each fiscal year. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a general meeting of shareholders stating the place, the time and the purpose thereof, and certain matters set forth in the Companies Act and in ordinances of the Ministry of Justice, must be given to each holder of shares of common stock with voting rights (or to the standing proxy or mailing address in Japan of a nonresident shareholder) at least two weeks prior to the date set for the meeting. The record date for an ordinary general meeting of shareholders is March 31 of each year.

Any shareholder or group of shareholders holding at least three percent of the total outstanding voting rights, for a continuous period of six months or longer, may require the convocation of a general meeting of shareholders for a particular purpose. Unless such a general meeting of shareholders is convened promptly, or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such demand is dispatched, the requiring shareholders may, upon obtaining court approval, convene such general meeting of shareholders.

Any shareholder holding at least 300 voting rights or one percent of our total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders, and request to include the proposal (the number of which may be limited to 10) in a notice of a general meeting of shareholders, by submitting a written request to a director at least eight weeks prior to the date of the meeting. Any of the

minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened if our articles of incorporation so provide. Our articles of incorporation currently do not include any of those provisions.

To attend a general meeting of shareholders in person or by proxy, shareholders must provide proof of identity upon request. Shareholders may appoint a proxy by a written power of attorney for the meeting. Such proxy must be one of our shareholders with voting rights.

Limitations on the Rights to Hold Our Common Stock by Foreign Investors

There are no specific limitations imposed by the laws of Japan, our articles of incorporation, or our other constituent documents, on the rights of nonresidents or foreign shareholders to hold or exercise voting rights on our shares of common stock or preferred stock. For more information, See “Common Stock—Voting Rights.”

Anti-Change in Control Provisions

There is no provision in our articles of incorporation that would have the effect of delaying, deferring or preventing a change in control of us, and that would operate only with respect to a merger, consolidation, acquisition or corporate restructuring involving us.

Provisions Governing Changes in the Company’s Capital

We have no conditions more stringent than are required by law imposed by our articles of incorporation governing changes in capital.

10.C. MATERIAL CONTRACTS

All contracts that we are currently a party to, or were a party to during our two most recently completed fiscal years up to the date of this annual report, were entered into in the ordinary course of business or were otherwise immaterial.

10.D. EXCHANGE CONTROLS

Japanese Foreign Exchange Regulations

The following is a general summary of major Japanese foreign exchange controls regulations applicable to holders of shares of our common stock or voting rights thereunder who are “Foreign investors,” as described below. The statements regarding Japanese foreign exchange controls regulations set forth below are based on the laws and regulations in force and as interpreted by the Japanese authorities as of the date of this registration statement and are subject to subsequent changes in the applicable Japanese laws or interpretations thereof. This summary is not exhaustive of all possible foreign exchange controls considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall foreign exchange controls consequences of the acquisition, ownership and disposition of shares of our common stock or voting rights thereunder by consulting their own advisors.

The Foreign Exchange and Foreign Trade Act of Japan, (the “FEFTA”), and the cabinet orders and ministerial ordinances, collectively known as the Foreign Exchange Act, set forth, among other things, the regulations relating to the receipt by nonresidents of Japan of payment with respect to our shares, and the acquisition and holding of our shares by nonresidents of Japan and foreign investors, both as defined below.

Nonresidents of Japan are individuals who are not residents in Japan and corporations whose principal offices are located outside Japan. Generally, branches and offices of nonresident corporations located in Japan are regarded as residents of Japan while the branches and offices of Japanese corporations located outside Japan are regarded as nonresidents of Japan.

“Foreign investors” are defined as:

- (i) individuals not residing in Japan;
- (ii) corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan;
- (iii) corporations of which 50% or more of the voting rights are held, directly or indirectly, by individuals not residing in Japan and/or corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan; and
- (iv) partnerships under the Civil Code of Japan (Act No. 89 of 1896, as amended) established to invest in corporations, limited partnerships for investment under the Limited Partnership Act for Investment of Japan (Act No. 90 of 1998, as amended), or any other similar partnerships under foreign law, of which
 - (a) 50% or more of the total contributions are made by individuals and/or corporations falling within (i), (ii), (iii) above and/or (v) below or any other persons prescribed under the Foreign Exchange Act or
 - (b) a majority of the general partners are individuals and/or corporations falling within (i), (ii), (iii) above and/or (v) below or any other persons prescribed under the Foreign Exchange Act; and
- (v) corporations, a majority of officers (or a majority of officers having the power of representation) of which are individuals not residing in Japan.

Acquisition of Shares

In general, a nonresident who acquires our shares from a resident of Japan is not subject to any prior filing requirement, although the Foreign Exchange Act authorizes the Minister of Finance of Japan and the Ministers responsible for the business to require a prior submission for any such acquisition in certain limited circumstances.

Except for the general limitation under Japanese antitrust and antimonopoly regulations against shareholdings in the capital stock of a Japanese corporation, which lead or may lead to a restraint of trade or monopoly, and general limitations under the Companies Act or our articles of incorporation on the rights of shareholders applicable, regardless of residence or nationality, there is no limitation under Japanese law and regulations applicable to us, or under our articles of incorporation on the rights of nonresident or foreign shareholders to hold or exercise voting rights on our shares.

Inward Direct Investment in Shares of Listed Companies

For the purpose of the regulations in connection with the “inward direct investment” under the Foreign Exchange Act, Japanese listed companies are classified into the following categories:

- (i) companies engaged only in the businesses other than certain businesses (the “Designated Businesses”) designated by the Foreign Exchange Act as Designated Businesses;
- (ii) companies engaged in the Designated Businesses other than the certain Designated Businesses designated by the Foreign Exchange Act as core sector businesses (the “Core Sector Designated Businesses”); and
- (iii) companies engaged in the Core Sector Designated Businesses.

For reference purposes only, the Minister of Finance publishes, and may update from time to time, a list that classifies Japanese listed companies into the above categories, and according to the list published by the Minister of Finance as of July 10, 2020, businesses which are currently engaged by the Company is classified as category (iii) i.e., the Core Sector Designated Businesses above.

Definition of Inward Direct Investment

If a foreign investor acquires shares or voting rights of a Japanese company that is listed on a Japanese stock exchange and, as a result of the acquisition, the foreign investor, in combination with any existing holdings,

directly or indirectly holds 1% or more of the issued shares or the total number of voting rights of the relevant company, such acquisition constitutes an “inward direct investment.” In addition, acquisition of the authority to exercise, or instruct to exercise, voting rights held by other shareholders that results in the foreign investor, in combination with any existing shareholding, directly or indirectly holding 1% or more of the total number of voting rights of the relevant company, constitutes an “inward direct investment.”

In addition to the acquisitions of shares or voting rights described above, if a foreign investor (i) is granted the authority to exercise proxy voting rights on behalf of other shareholders of the relevant company regarding certain matters which may control substantially or have material influence on the management of such company such as the election or removal of directors or (ii) obtains consent from another foreign investor holding the voting rights of the relevant company to exercise the voting rights of such company jointly, and, in each case, as a result of these arrangements, the number of the voting rights directly or indirectly held by the foreign investor, including the total number of the voting rights subject to such proxy, or the sum of the number of the voting rights directly or indirectly held by the foreign investor and such other foreign investors subject to such joint voting agreement, as the case may be, is 10% or more of the total number of voting rights of the relevant company, each such arrangement regarding voting rights (“voting arrangement”) constitutes an “inward direct investment.” Additionally, if a foreign investor who directly or indirectly holds 1% or more of the total voting rights of a Japanese listed company, at the general meeting of shareholders, consents to certain proposals having material influence on the management of such company such as (i) election of such foreign investor or its related persons (as defined in the Foreign Exchange Act) as directors or corporate auditors of the relevant company or (ii) transfer or discontinuation of its business, such consent will also constitute an “inward direct investment.”

Prior Notification Requirements

If a foreign investor intends to consummate an acquisition of shares or voting rights of a Japanese listed company that constitutes an “inward direct investment” as described above, in certain circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Act or where that Japanese company is engaged in the Designated Businesses, prior notification of the relevant inward direct investment must be filed with the Minister of Finance and any other competent Ministers.

However, a foreign investor seeking to acquire shares or voting rights of a Japanese listed company or the authority to exercise, either directly or through instructions, voting rights held by other shareholders that constitutes an “inward direct investment” may be eligible for the exemptions, if certain conditions are met.

In the case of an acquisition of shares or voting rights or the authority to exercise, voting rights of a Japanese listed company that is engaged in the Core Sector Designated Businesses, which are currently engaged by the Company, the foreign investor may be exempted from the prior notification requirement, if, as a result of such acquisition, the foreign investor directly or indirectly holds less than 10% of the total number of issued shares or voting rights of the relevant company, and such foreign investor complies with the following conditions:

- (i) the foreign investor or its closely-related persons (as defined in the Foreign Exchange Act) will not become directors or corporate auditors of the relevant company;
- (ii) the foreign investor will not make certain proposals (as prescribed in the Foreign Exchange Act) at the general meeting of shareholders, including transfer or discontinuation of the Designated Businesses of the relevant company;
- (iii) the foreign investor will not access non-public technical information in relation to the Designated Businesses of the relevant company, or take certain other actions that may lead to the leak of such non-public technical information (as prescribed in the Foreign Exchange Act);
- (iv) the foreign investor will not attend, or not cause any persons designated by it to attend, meetings of the relevant company’s board of directors, or meetings of committees having authority to make important decisions, in respect of the Core Sector Designated Businesses of the relevant company; and

- (v) the foreign investor will not make, or not cause any persons designated by it to make, proposals to such board or committees or their members in writing or electronic form requesting any response or actions by certain deadlines in respect of the Core Sector Designated Businesses of the relevant company.

Notwithstanding the above, if a foreign investor falls under a category of disqualified investors designated by the Foreign Exchange Act (including (a) investors who have records of certain sanctions due to violations of the FEFTA and (b) certain investors who are state-owned enterprises or other related entities excluding those who are accredited by the Minister of Finance), in no event may such foreign investor be eligible for the exemptions described above. On the other hand, if a foreign investor, excluding the disqualified investors described in the foregoing sentence, falls under a category of certain foreign financial institutions (as prescribed in the Foreign Exchange Act) and complies with the conditions for the exemption (i) through (iii) above, such foreign investor may be eligible for the exemptions, even if the acquisition results in such foreign investor's directly or indirectly holding 10% or more of the total number of issued shares or voting rights of the corporation engaged in the Core Sector Designated Businesses.

In addition, if a foreign investor intends to make a voting arrangement with respect to a Japanese listed company engaged in the Designated Businesses or consents to a proposal at the general meeting of shareholders of such company, in each case, that constitutes an "inward direct investment" as described above, in certain circumstances, prior notification of the relevant inward direct investment must be filed with the Minister of Finance and any other competent Ministers. However, the exemptions from the prior notification requirements may be available in the cases where the relevant voting arrangement is regarding matters other than certain matters which may control substantially or have material influence on the management of the relevant company, such as the election or removal of directors, which would have required prior notification.

Procedures for Prior Notification

If such prior notification is filed, the proposed inward direct investment may not be consummated until after 30 days have passed from the date of filing, although this screening period may be shortened to two weeks unless such Ministers deem it necessary to review the proposed inward direct investment. The Ministers may extend the screening period up to five months if they deem it necessary to review the proposed inward direct investment and may recommend any modification or abandonment of the proposed inward direct investment and, if the foreign investor does not accept such recommendation, the Ministers may order the modification or abandonment of such inward direct investment. In addition, if the Ministers consider the proposed inward direct investment to be an inward direct investment that is likely to cause damage to the national security of Japan and, if a foreign investor (i) consummates such inward direct investment without filing the prior notification described above; (ii) consummates such inward direct investment before the expiration of the screening period described above; (iii) in connection with such inward direct investment, makes false statements in the prior notification described above; or (iv) does not follow the recommendation or order issued by the Ministers to modify or abandon such inward direct investment, the Ministers may order such foreign investor to dispose of all or part of the shares acquired or take other measures.

Post Facto Reporting Requirements

A foreign investor who consummates an inward direct investment as described above through an acquisition of shares or voting rights or the authority to exercise, directly or through instructions, voting rights of a Japanese listed company that is engaged in the Designated Businesses, but is not subject to the prior notification requirements described above due to the exemptions from such prior notification requirements, in general, must file a report of the relevant inward direct investment with the Minister of Finance and any other competent Ministers having jurisdiction over such Japanese company within 45 days of such inward direct investment when, as a result of such acquisition, the foreign investor (excluding, in the cases of (i) and (ii) below, a foreign investor who falls under a category of certain foreign financial institutions (as prescribed in the Foreign Exchange Act)) directly or indirectly holds (i) 1% or more but less than 3% of the total number of issued shares

or voting rights, for the first time, (ii) 3% or more but less than 10% of the total number of issued shares or voting rights, for the first time, or (iii) 10% or more of the total number of issued shares or voting rights.

Dividends and Proceeds of Sale

Under the Foreign Exchange Act, dividends paid on, and the proceeds of sales in Japan of, shares held by nonresidents of Japan, may, in general, be converted into any foreign currency and repatriated abroad. The acquisition of our shares by nonresidents by way of a stock split is not, in general, subject to any notification or reporting requirements.

10.E. TAXATION

Japanese Taxation

The following is a summary of the principal Japanese national tax consequences to owners of shares of our common stock or ADSs representing shares of our common stock who are Nonresident Shareholders. The statements regarding Japanese tax laws set forth below are based on the laws and treaties currently in force and as interpreted by the Japanese tax authorities at the date of this annual report and are subject to changes in the applicable Japanese law or tax treaties, conventions or agreements, or in the interpretation thereof, occurring after that date. This summary does not include all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of shares of our common stock or ADSs, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty, convention or agreement between Japan and their country of residence, by consulting their own tax advisors.

For the purpose of Japanese taxation, a Nonresident Shareholder of ADSs will generally be treated as the owner of the shares underlying the ADSs, which may be evidenced by one or more American Depositary Receipts (“ADRs”).

Generally, a Nonresident Shareholder of shares of our common stock or ADSs will be subject to Japanese income tax collected by way of withholding on dividends we pay. Stock splits are, in general, not subject to Japanese income tax or corporation tax.

In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by a Japanese corporation to Nonresident Shareholders is generally 20.42%. However, with respect to dividends paid on listed shares issued by a Japanese corporation (including shares of our common stock or ADSs) to Nonresident Shareholders, except for any individual shareholder who owns 3% or more of the total number of shares issued by the relevant Japanese corporation, the aforementioned 20.42% withholding tax rate is reduced to 15.315% for dividends due and payable on or before December 31, 2037. Due to the imposition of a special additional withholding tax (2.1% of the original withholding tax amount) to secure funds for reconstruction from the Great East Japan Earthquake, the original withholding tax rate of 15% and 20%, as applicable, has been effectively increased, respectively, to 15.315% and 20.42%, during the period beginning on January 1, 2013 and ending on December 31, 2037.

At the date of this annual report, Japan has income tax treaties in force, whereby the above-mentioned withholding tax rate is reduced, generally, to 15% for portfolio investors, with, among others, Canada, Denmark, Finland, Germany, Iceland, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore and Spain (for dividends due and payable on or before December 31, 2021), while the income tax treaties with, among others, Australia, Austria, Belgium, France, Hong Kong, the Netherlands, Portugal, Sweden, Switzerland, the United Kingdom and the United States generally reduce the withholding tax rate to 10% for portfolio investors and the income tax treaties with, among others, Spain (for dividends due and payable on or after January 1, 2022)

generally reduce the withholding tax rate to 5% for portfolio investors. In addition, under the income tax treaty between Japan and the United States, dividends paid to pension funds which are qualified U.S. residents eligible to enjoy treaty benefits are exempt from Japanese income taxation by way of withholding or otherwise unless the dividends are derived from the carrying on of a business, directly or indirectly, by those pension funds. Under the income tax treaties with Austria, Belgium, Denmark, Iceland, the Netherlands, Spain (for dividends due and payable on or after January 1, 2022), Switzerland and the United Kingdom, similar treatment will be applied to dividends. Under Japanese tax law, any reduced maximum rate applicable under a tax treaty will be available when the maximum rate is below the rate otherwise applicable under Japanese tax law referred to in the preceding paragraph with respect to the dividends to be paid by us on shares of common stock or ADSs. A Nonresident Shareholder of shares of our common stock who is entitled, under any tax treaty, to a reduced rate of Japanese withholding tax, or exemption therefrom, as the case may be, is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends (together with any other required forms and documents) in advance, through the withholding agent, to the relevant tax authority before payment of dividends. A standing proxy for a Nonresident Shareholder may provide the application services. See “Item 10.B. Memorandum and Articles of Incorporation—Rights, Preferences and Restrictions of the Shares—Common Stock—General.” In addition, a simplified special filing procedure is available for Nonresident Shareholders to claim treaty benefits of exemption from or reduction of Japanese withholding tax by submitting a Special Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends of Listed Stocks (together with any other required forms and documents). With respect to ADSs, this reduced rate or exemption will be applicable to Nonresident Shareholders of ADSs if the depositary or its agent submits two Application Forms (one before payment of dividends and the other within eight months after the record date concerning such payment of dividends), together with certain other documents. To claim this reduced rate or exemption, Nonresident Shareholders of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership, as applicable, and to provide other information or documents as may be required by the depositary. A Nonresident Shareholder who is entitled, under any applicable tax treaty, to a reduced rate of Japanese withholding tax below the rate otherwise applicable under Japanese tax law mentioned above, or exemption therefrom, as the case may be, but fails to submit the required application in advance may nevertheless be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate under an applicable tax treaty (if the Nonresident Shareholder is entitled to a reduced treaty rate under the applicable tax treaty) or the full amount of tax withheld (if the Nonresident Shareholder is entitled to an exemption under the applicable tax treaty), as the case may be, by complying with certain subsequent filing procedures. We do not assume any responsibility to ensure withholding at the reduced treaty rate, or exemption therefrom, for shareholders who would be so eligible under an applicable tax treaty but where the required procedures as stated above are not followed.

Gains derived from the sale outside Japan of shares of our common stock or ADSs by a Nonresident Shareholder who is a portfolio investor are, in general, not subject to Japanese income tax or corporation tax.

Any deposits or withdrawals of shares of our common stock by a Nonresident Shareholder in exchange for ADSs are, in general, not subject to Japanese income or corporation tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of our common stock or ADSs from another individual as a legatee, heir or donee, even if none of the acquiring individual, the decedent or the donor is a Japanese resident.

Potential investors should consult with their own tax advisors regarding the Japanese tax consequences of the ownership and disposition of shares of common stock or ADSs in light of their particular situations.

United States Federal Income Taxation

The following is a discussion of material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of shares or ADSs, but it does not purport to be a comprehensive

description of all the tax considerations that may be relevant to a particular person's decision to hold the shares or ADSs. This discussion does not address U.S. state, local or non-U.S. tax consequences. As used herein, a U.S. Holder is a person that, for U.S. federal income tax purposes, is a beneficial owner of shares or ADSs and is: (1) a citizen or individual resident of the United States; (2) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or (3) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

The discussion applies only to U.S. Holders who hold the shares or ADSs as capital assets for U.S. federal income tax purposes. The discussion does not address any alternative minimum or Medicare contribution tax consequences, nor does it address all of the tax consequences which may be applicable to special classes of holders, such as:

- certain financial institutions;
- insurance companies;
- dealers and certain traders in securities;
- persons holding shares or ADSs as part of a hedge, straddle, conversion or other integrated transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- regulated investment companies;
- real estate investment trusts;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, "individual retirement accounts" or "Roth IRAs";
- persons who acquired our shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation;
- persons holding shares or ADSs that own or are deemed to own 10% or more of our stock (by vote or value); or
- persons holding shares or ADSs in connection with a trade or business conducted outside the United States.

If a partnership holds shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding shares or ADSs, and partners in such partnerships, should consult their own tax advisors.

This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed United States Treasury regulations, as well as the double taxation treaty between Japan and the United States ("Treaty") all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement or undertaking will be performed in accordance with its terms.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concern that parties to whom ADSs are released before shares are delivered to the depositary, or intermediaries in the chain of ownership between holders and the issuer of the security underlying the ADSs, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of ADSs. These actions would also be inconsistent with the claiming of the reduced rate of tax,

described below, applicable to dividends received by certain noncorporate holders. Accordingly, the creditability of Japanese taxes, and the availability of the reduced tax rate for dividends received by certain noncorporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their own tax advisors concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of shares or ADSs in their particular circumstances.

This discussion assumes that we are not, and will not become, a passive foreign investment company (a “PFIC”), as described below.

Taxation of Distributions

Distributions received by a U.S. Holder on shares or ADSs, including the amount of any Japanese taxes withheld, other than certain pro rata distributions of shares, will constitute foreign-source dividend income to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions generally will be reported to a U.S. Holder as dividends. The amount of the dividend a U.S. Holder will be required to include in income will equal the U.S. dollar value of the yen dividend, calculated by reference to the exchange rate in effect on the date the payment is received by the holder, or in the case of ADSs, by the depository, regardless of whether the payment is converted into U.S. dollars on the date of receipt. If the dividend is converted into U.S. dollars on the date of receipt, the U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend payment. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Any foreign currency gain or loss realized by a U.S. Holder on a sale or other disposition of yen will be U.S.-source ordinary income or loss. Corporate U.S. Holders will not be entitled to claim a dividends-received deduction with respect to our dividends. Subject to applicable limitations, and the discussion above regarding concerns expressed by the U.S. Treasury, dividends received from us by certain noncorporate U.S. Holders may be taxable at favorable rates. Noncorporate U.S. Holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at these favorable rates.

Subject to applicable restrictions and limitations that vary depending upon the U.S. Holder’s circumstances and the discussion above regarding concerns expressed by the U.S. Treasury Japanese taxes withheld from dividends on shares or ADSs (at a rate not exceeding the applicable rate provided by the Treaty in the case of a U.S. Holder who is eligible for the Treaty’s benefits) will be creditable against the U.S. Holder’s U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to different categories of income, such as passive income and general income. The rules governing foreign tax credits are complex. Instead of claiming a credit, a U.S. Holder may elect to deduct such Japanese taxes in computing its taxable income, subject to generally applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year. U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits and deductions in their particular circumstances.

Sale and Other Disposition of the Shares or ADSs

A U.S. Holder will generally recognize capital gain or loss on the sale or other disposition of shares or ADSs, which will be long-term capital gain or loss if the U.S. Holder has held the shares or ADSs for more than one year. The amount of the U.S. Holder’s gain or loss will equal the difference between the amount realized on the sale or other disposition and the U.S. Holder’s tax basis in the shares or ADSs, each as determined in U.S. dollars. The deductibility of capital losses is subject to limitations. Any gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

PFIC Rules

Based upon certain proposed Treasury regulations that are not yet in effect, but are generally proposed to become effective for taxable years beginning after December 31, 1994, we believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended March 31, 2021. However, since proposed Treasury regulations may not be finalized in their current form, and since PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, there can be no assurance that we will not be a PFIC for any taxable year. If we were a PFIC for any taxable year during which a U.S. Holder held shares, certain adverse U.S. federal income tax consequences could apply to the U.S. Holder.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding unless the U.S. Holder is an exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals (or entities closely held by individuals) may be required to report information relating to their ownership of an interest in certain foreign financial assets, including stock of a non-U.S. person, generally on Form 8938, subject to exceptions (including an exception for stock held in a financial account, in which case the account may be reportable if maintained by a non-U.S. financial institution). U.S. Holders should consult their tax advisors regarding their reporting obligations with respect to the shares or ADSs.

10.F. DIVIDENDS AND PAYING AGENTS

Not applicable.

10.G. STATEMENT BY EXPERTS

Not applicable.

10.H. DOCUMENTS ON DISPLAY

We are subject to the reporting requirements of the Securities Exchange Act of 1934. In accordance with these requirements, we file annual reports on Form 20-F and furnish periodic reports on Form 6-K with the SEC.

These materials, including this annual report and the exhibits thereto, may be inspected at a website maintained by the SEC at <https://www.sec.gov>. Some of the information may also be found on our website at <https://www.smfg.co.jp/english/>.

10.I. SUBSIDIARY INFORMATION

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Quantitative and Qualitative Information about Risk Management

Risk Culture

In order for us to realize and maintain a sustainable growth in corporate value, each one of our directors, officers and other employees should think and judge on their own if their actions meet the expectations and

requirements of customers, markets, and other stakeholders, not just if they are compliant with laws and regulations. We have established “Principles of Action on Compliance and Risk” in order for all our directors, officers and other employees to hold onto as a “keystone” of their daily business. The principle includes “Business based on the Risk Appetite Framework” and “Business operations which give a high priority to the management of risks such as credit risk, market risk, liquidity risk and operational risk.” Concrete measures include internal surveys for monitoring the compliance awareness and risk sensitivity of our directors, officers and other employees as well as internal training for fostering a sound risk culture.

Risk Appetite Framework

We have introduced a Risk Appetite Framework (“RAF”) for controlling SMBC Group-wide risks, that clarifies the types and levels of risk that we are willing to take on or are prepared to tolerate (risk appetite) in order to grow profits. RAF is one of two pivots of our business management alongside business strategies. It functions as a management framework for sharing information on the operating environment and risks facing us among management and for facilitating appropriate risk taking based thereon. Individual risk appetites have been established for specific business units or strategies as necessary based on our overall risk appetite.

We have a Risk Appetite Statement that provides a qualitative explanation of our approach to risk taking and risk management for each category: soundness, profitability, liquidity, credit, market, operational and conduct. We also have quantitative measures (i.e., Risk Appetite Measures) that function as benchmarks for risks that we are considering taking and for risk / return.

Risk appetites are decided during the process of formulating business strategies and management policies. These risk appetites are set based on Top Risks that threaten to significantly impact management and on risk analyses (stress testing) that illustrate the impact if a risk should materialize. In addition, risk register and Key Risk Events (“KRE”) are utilized in verifying the adequacy of Top Risks, risk appetites, and business strategies.

The outlooks for the operating environment and risks and the risk appetite situation are monitored throughout the course of the fiscal year. Risk Appetite Measures and business strategies are revised as necessary. For example, overall risk capital has been selected as an indicator for risk appetite, which displays the soundness of the SMBC Group. Risk capital is the amount of capital required to cover the theoretical maximum potential loss arising from risks of business operations. Overall risk capital is the aggregate of the risk capital amounts for each risk category. Management standards have been set for the upper limit for overall risk capital based on group-wide management strength. Overall risk capital levels are thus monitored throughout the course of each fiscal year to clearly indicate risk-taking capacity and promote the sound taking of risks.

In addition, specific risk appetite indicators have been set for credit risk, market risk, liquidity risk, and other risk categories to facilitate appropriate management based on a quantitative understanding of risk appetite.

Risk Management Categories

We classify risk into the following categories:

Credit Risk. Credit risk is the possibility of a loss arising from a credit event, such as deterioration in the financial condition of a borrower, that causes an asset (including off-balance sheet transactions) to lose value or become worthless.

Market Risk. Market risk is the possibility that fluctuations in interest rates, foreign exchange rates, stock prices or other market prices will change the market value of financial products, leading to a loss.

Liquidity Risk. Liquidity risk is the risk that there may be difficulties in raising funds needed for settlements, as a result of the mismatching of uses of funds and sources of funds or unexpected outflows of funds, which may make it necessary to raise funds at higher rates than normal.

Operational Risk. Operational risk is the possibility of losses arising from inadequate or failed internal processes, people, and systems or from external events.

Conduct Risk. Conduct risk is the risk that our conduct negatively affects customers, market integrity, effective competition, public interest, and the SMBC Group's stakeholders through acts that violate laws and regulations or social norms.

Top Risks

We identify risks that threaten to significantly impact management as Top Risks.

The selection of Top Risks involves comprehensive screening of risk factors, evaluation of each risk scenario's possibility of occurrence and potential impact on management, and discussion by the Risk Management Committee and the Management Committee. Top Risks are utilized to enhance risk management by being incorporated into discussions of RAF and the formulation of business strategies and into the creation of risk scenarios for stress testing.

Stress Testing

We use stress testing to analyze and comprehend the impact on our businesses of changes in economic or market conditions, in order to plan and execute forward-looking business strategies.

In our stress testing, we prepare multiple risk scenarios including macroeconomic variables such as GDP, stock prices, interest rates, and foreign exchange rates based on the aforementioned Top Risks, discussions with experts and related departments.

When developing business strategies, we set out scenarios assuming stressed business environments such as serious economic recessions and market disruption for the sake of assessing risk-taking capabilities at the SMBC Group and verifying whether adequate soundness can be maintained under stress.

During a fiscal year, we undertake stress testing on a flexible basis to assess the potential impact on our business and to take the appropriate response in case a serious risk event occurs. For example, stress test was conducted with regard to the COVID-19 pandemic during the fiscal year ended March 31, 2021.

In addition, we conduct detailed stress testing for individual risks such as credit risk, market risk, and liquidity risk, so as to decide and review risk-taking strategies.

We are also in line with the recommendations of the Task Force on Climate-related Financial Disclosures. As part of our efforts in this regard, we have included climate-related risk, such as natural disasters resulting from extreme weather (physical risks) and carbon-related stranded assets due to the transition to a decarbonized society (transition risks), in our Top Risks, and scenario analyses on physical and transition risks have been conducted to estimate the potential impacts on our financial position.

Risk Register

A risk register is formulated by each business unit for the purpose of realizing more sophisticated risk governance and enhancing business units' risk ownership. In formulating these registers, business units communicate with risk management departments to identify the risks present in their business, and these risks are reflected in business strategies after they have been evaluated and the adequacy of measures for controlling them has been verified.

Key Risk Events

KRE, external events that indicate the increased threat of risks, have been identified to ascertain the symptoms of the potential risks. KRE are utilized to analyze and assess how likely similar cases will occur in our businesses and what effects such similar cases will have on us, and to enhance our risk management system.

Risk Management System

Based on the recognition of the importance of risk management, the SMBC Group-wide basic policies for risk management are determined by the Management Committee before being authorized by the board of directors in order to have top management play an active role in the risk management process.

In accordance with these basic policies for risk management, three lines of defense have been defined, and we have clarified related roles and responsibilities. Risk management systems have been established based on the characteristics of particular businesses, and measures are being put in place to strengthen and improve the effectiveness of these systems.

Furthermore, we are strengthening SMBC Group-wide risk management systems through the Group Chief Risk Officer (“CRO”) Committee and the Global CRO Committee.

Three Lines of Defense

The Basel Committee on Banking Supervision’s “Corporate governance principles for banks” recommends “three lines of defense” as a framework for risk management and governance. Based on this framework, we have defined our three lines of defense with the aim of achieving more effective and stronger risk management and compliance systems through the clarification of roles and responsibilities.

Our three lines of defense are as follows:

First Line. The business units shall be risk owners concerning their operations and shall be responsible for the following in accordance with the basic principles provided by Second Line.

- Identification and evaluation of risks encountered in the business activities
- Implementation of measures for minimizing and controlling risks
- Monitoring of risks and reporting within First Line and to Second Line
- Creation and fostering of a sound risk culture

Second Line. The Risk Management and Compliance Departments shall assume the following functions and responsibilities in order to manage the risk management and compliance systems.

- Drafting and development of basic principles and frameworks concerning risk management and compliance
- Oversight, monitoring, and development of training programs for First Line

Third Line. Independent from First Line and Second Line, the Audit Dept. shall assess and verify the effectiveness and appropriateness of risk management and compliance systems managed and operated by First Line and Second Line, and report these results to the Audit Committee and the Management Committee. The Department shall provide recommendations regarding identified issues or problems.

Implementation of Basel Regulation

Basel III is an international agreement on minimum capital, leverage, liquidity and other requirements applicable to internationally active banks. The Basel III capital framework was implemented in Japan from March 31, 2013 pursuant to revised capital adequacy guidelines adopted by the FSA, subject to the phase-in of some requirements, as contemplated by Basel III.

The framework of Basel III is a continuation of Basel II, with multiple approaches to calculating capital requirements; we adopted the advanced IRB approach for credit risk from March 31, 2009, and the AMA for operational risk from March 31, 2008.

Detailed information on our capital ratios is included in “Item 4.B. Business Overview—Regulations in Japan—Regulations Regarding Capital Adequacy and Liquidity” and “Item 5.B. Liquidity and Capital Resources—Capital Management.”

Credit Risk

Credit risk is the risk of incurring losses from decline or loss of the value of an asset (including off-balance sheet items) that is caused by a credit event including but not limited to the deterioration of financial condition of a borrower. Overseas credits transactions also entail country risk, which is closely related to credit risk. Country risk is the risk of incurring losses caused by changes in political or economic conditions. Credit exposures arise primarily from lending activities such as loans and advances, acquiring investment securities, derivative transactions, and off-balance sheet transactions such as unused portion of loan commitments.

Credit Risk Management System

Credit risk is the most significant risk to which we are exposed. The purpose of credit risk management is to keep the credit risk exposure to a permissible level relative to capital, to maintain the quality of assets and to ensure returns commensurate with risk.

At the SMBC Group, the Group CRO formulates credit risk management policies each year on the basis of SMBC Group-wide basic policies for risk management. The Credit & Investment Planning Department, responsible for the comprehensive management of credit risk, drafts and administers credit risk regulations including the SMBC Group credit policies, manages non-performing loans (“NPLs”), and performs other aspects of credit portfolio management. Also, the Credit Risk Committee deliberates on matters related to SMBC Group-wide credit portfolios. SMBC Group companies follow the fundamental principles established by us to assess and manage credit risk. Each of SMBC Group companies manages credit risk according to the nature of its business, and assesses and manages the credit risks of individual loans and credit portfolios quantitatively, using consistent standards.

At SMBC, our significant banking subsidiary, the Credit & Investment Planning Department within the Risk Management Unit is responsible for the comprehensive management of credit risk. This department drafts and administers credit policies, the internal rating system, credit authority guidelines, and credit application guidelines, and manages NPLs, including impaired loans, and other aspects of credit portfolio management. The department also cooperates with the Corporate Risk Management Department in quantifying credit risk (risk capital and risk-weighted assets) and controls SMBC’s entire credit risk. Further, the Credit Portfolio Management Department within the Credit & Investment Planning Department strives to stabilize the credit portfolio and manage the risk through credit derivatives, loan asset sales and other instruments.

The credit departments of SMBC, in cooperation with branches, conduct credit risk management for loans and manage portfolios. The credit limits they use are based on the baseline amounts that the Credit & Investment Planning Department establishes for each grading category, with particular attention paid to evaluating and managing customers or loans perceived to have particularly high credit risk. The Corporate Research Department engages in research on industries and analyzes the business and financial conditions of borrower enterprises to detect early signs of problems or growth potential. The Credit Administration Department is responsible for handling NPLs of borrowers classified as potentially bankrupt or lower, and formulates plans for workouts, including write-offs, and corporate rehabilitation. The department closely liaises with SMBC Servicer Co., Ltd., an SMBC Group company, which engages in related services to efficiently reduce the amount of NPLs, including through the sale of loans.

The Internal Audit Unit of SMBC, operating independently of the business units, audits asset quality, accuracy of grading and state of credit risk management, and reports the results directly to the board of directors, the Management Committee and Audit & Supervisory Committee.

SMBC has established the Credit Risk Committee to undertake control of credit risk and to ensure the overall soundness of the loan operations.

Credit Risk Management Methods

To effectively manage the risk involved in individual loans as well as the credit portfolio as a whole, we first acknowledge that every loan entails credit risk, assess the credit risk posed by each borrower and loan using an internal rating system, and quantify that risk for control purposes.

Credit Risk Evaluation

At SMBC, the Credit & Investment Planning Department manages an internal rating system for each asset control category set according to portfolio characteristics. For example, credits to commercial and industrial (“C&I”) companies, individuals for business purposes (domestic only), sovereigns, public sector entities, and financial institutions are assigned an “obligor grade,” which indicates the borrower’s creditworthiness, and/or “facility grade,” which indicates the collectability of assets taking into account the transaction conditions such as guarantee/collateral, and tenor. The business units determine an obligor grade by first assigning a financial grade using a financial strength grading model and data obtained from the obligor’s financial statements, including net worth and cash flows. The financial grade is then adjusted taking into account the actual state of the obligor’s financial position and qualitative factors to derive the obligor grade. The qualitative factors mainly include the expected future cash flows taking into account factors such as historical loss information, the appropriateness of the borrower’s business plan or operational improvement plan, the status of progress of its plan, and the overall support from financial institutions. In the event that the borrower is domiciled overseas, internal ratings for credit are made after taking into consideration the country rank, which represents an assessment of the credit quality of each country based on its political and economic situation, as well as its current account balance and external debt. Obligor grades and facility grades are reviewed once a year and as otherwise necessary, such as when there are changes in the credit situation. Our subsidiaries carry out credit risk evaluations in line with SMBC.

There are also grading systems for loans to individuals such as housing loans and structured finance including project finance, where the repayment source is limited to the cash flows generated by a particular business or asset. For example, the obligor grade of housing loans is determined taking into account various relevant factors such as proportion of the repayment to revenue, proportion of down payment to the value and past due information.

The Credit & Investment Planning Department of SMBC centrally manages the internal rating systems, and designs, operates, supervises and validates the grading models. It validates the grading models (including statistical validation) of main assets following the procedure manual once a year to ensure their effectiveness and suitability.

Quantification of Credit Risk

At SMBC, credit risk quantification refers to the process of estimating the degree of credit risk of a portfolio or individual loan taking into account not just the obligor’s probability of default (“PD”), but also the concentration of risk in a specific customer or industry and the loss impact of fluctuations in the value of collateral, such as real estate and securities.

Specifically, the PD by grade, loss given default (“LGD”), credit quality correlation among obligors, and other parameter values are estimated using the historical data of obligors and facilities stored in a database to

calculate the credit risk. Then, based on these parameters, SMBC runs a simulation of simultaneous default using the Monte Carlo Simulation to calculate SMBC's maximum loss exposure to the estimated amount of the maximum losses that may be incurred. Based on these quantitative results, SMBC allocates risk capital.

Risk quantification is also executed for purposes such as to determine the portfolio's risk concentration or to simulate economic movements (stress tests), and the results are used for making optimal decisions across the whole range of business operations, including formulating business plans and providing a standard against which individual credit applications are assessed.

Credit Assessment

At SMBC, the credit assessment of corporate loans involves a variety of financial analyses, including cash flows, to predict an enterprise's capability of loan repayment and its growth prospects. These quantitative measures, when combined with qualitative analyses of industrial trends, the enterprise's research and development capabilities, the competitiveness of its products or services, and its management caliber, result in a comprehensive credit assessment. The loan application is analyzed in terms of the intended utilization of the funds and the repayment schedule. In the assessment of housing loans for individuals, SMBC employs a credit assessment model based on credit data amassed and analyzed by SMBC over many years, taking into account various relevant factors including proportion of the repayment to revenue, proportion of down payment to the value and past due information.

Credit Monitoring

At SMBC, in addition to analyzing loans at the application stage, the Credit Monitoring System is utilized to reassess obligor grades, and review credit policies for each obligor so that problems can be detected at an early stage, and quick and effective action can be taken. The system includes annual monitoring that is carried out each time the financial results of the obligor enterprise are obtained, as well as ad-hoc monitoring that is performed each time credit conditions change.

Credit Portfolio Management

Risk-Taking Within the Scope of Capital

To keep the credit risk exposure to a permissible level relative to capital, the Corporate Risk Management Department of the Company sets a credit risk capital limit for internal control purposes. Under this limit, sub-limits are set for each business unit. The Corporate Risk Management Department conducts monthly monitoring to make sure that these limits are being followed.

Controlling Concentration Risk

As our equity capital may be materially impaired in the event that the credit concentration risk becomes apparent, the Credit & Investment Planning Department of the Company therefore takes measures to manage concentration risks, such as introducing large exposure limits and conducting intensive loan reviews for obligors with large exposures, with an increased focus on industrial sectors with an excessive concentration of credit risk. Further, to manage country risk, SMBC's Global Credit Department has credit limit guidelines based on each country's creditworthiness.

Toward Active Portfolio Management

SMBC's Credit Portfolio Management Department makes use of credit derivatives, loan asset sales, and other instruments to proactively and flexibly manage its portfolio to stabilize credit risk.

Market Risk and Liquidity Risk

Market risk is the possibility that fluctuations in interest rates, foreign exchange rates, stock prices or other market prices will change the market value of financial products, leading to a loss. The purpose of market risk management is to keep the market risk exposure to a permissible level relative to capital.

Liquidity risk is defined as the uncertainty around our ability to meet our debt obligations without incurring unacceptably large losses. An example of such risk is the possible inability to meet our current and future cash flow/collateral needs, both expected and unexpected. In such cases, we may be required to raise funds at less than favorable rates or be unable to raise sufficient funds for settlement. The purpose of liquidity risk management is to ensure that we are in a position to address our liquidity obligations through monitoring the liquidity gap between assets and liabilities, and by maintaining highly liquid supplementary funding resources.

On the basis of the SMBC Group-wide basic policies for risk management, we have a quantitative management process to control market and liquidity risks on an SMBC Group-wide basis. We at least annually review and identify which companies primarily carry the market and liquidity risks within us. We set permissible levels and upper limits of risk for each identified company in consideration of those companies' business plans. We ensure that each identified company establishes a risk management system that is appropriate to the risks it faces, and has built-in transparent risk management processes which clearly separate front, middle and back office operations, and establishes a control system of mutual checks and balances.

Framework for Market and Liquidity Risk Management

The board of directors authorizes important matters relating to the management of market and liquidity risks, such as the basic policies and risk appetite, which are decided by the Management Committee. The Corporate Risk Management Department, which is independent of the business units that directly handle market transactions, manages market and liquidity risks in an integrated manner. The Corporate Risk Management Department not only monitors the current risk situations but also reports regularly to the Management Committee and the board of directors.

Additionally, the Asset Liability Management ("ALM") Committee meets on a quarterly basis to examine reports on the state of market and liquidity risk management and to discuss our ALM operation policies. Furthermore, SMBC's ALM Committee meets on a monthly basis to examine reports on the state of market and liquidity risks and to discuss SMBC's ALM operations.

Under our internal audit system, internal audits are also periodically performed to verify that the risk management framework is functioning properly.

Market Risk Management Methods

Market Risk Management Process

We manage market risk capital derived from trading activities and non-trading activities, including strategic shareholding investments and other transactions in the RAF by taking into account our shareholders' equity and other principal indicators of our financial position. We also establish an upper limit on value at risk ("VaR") and losses as Risk Appetite Measures.

Our market risk can be divided into various factors: interest rates, foreign exchange rates, equity prices and option risks. We manage each of these risks by employing the VaR method as well as supplemental indicators suitable for managing each risk, such as the basis point value ("BPV").

VaR is the largest predicted loss that is possible given a fixed confidence interval. For example, our VaR indicates the largest loss that is possible for a holding period of one day and a confidence interval of 99.0%. BPV is the amount of change in assessed value as a result of a one-basis-point (0.01%) movement in interest rates.

Market Risk Measurement Techniques—Value at Risk

The principal SMBC Group companies' internal VaR model makes use of historical data to prepare scenarios for market fluctuations and, by conducting simulations of gains and losses on a net position basis, the model estimates the maximum losses that may occur. The VaR calculation method we employ for both trading and non-trading activities is based mainly on the following:

- the historical simulation method;
- a one-sided confidence interval of 99.0%;
- a one-day holding period (a one-year holding period for the strategic shareholding investment portfolio); and
- an observation period of four years (ten years for the strategic shareholding investment portfolio).

This method is reviewed periodically and refined, if necessary.

The relationship between the VaR calculated by the model and the actual profit and loss data is back-tested periodically. There were no significant excess losses in the back-testing results including the trading accounts. The back-testing results are reviewed by management, which also monitors the ongoing suitability of the VaR model.

Trading Activities

Most of our trading activity is undertaken to accommodate the needs of commercial banking customers for interest rate and foreign exchange transactions. However, some interest rate and foreign exchange rate positions are taken using derivatives and other on-balance sheet instruments with the objective of earning a profit from favorable movements in market rates. The overall objective of managing market risk is to avoid unexpected losses due to changes in market prices.

Non-trading Activities

The market risk for non-trading activity arises principally from the interest rate risk of our ALM operations, or banking, including loans, debt investment securities, deposits, and long- and short-term borrowings, and from the equity risk of our strategic shareholding investments. ALM operations are regularly reviewed and discussed by the ALM Committee so as not to be heavily exposed to market fluctuations. Strategic shareholding investment is a portfolio that consists principally of publicly traded Japanese equities. This portfolio, like that of other financial institutions in Japan, has historically included shares of our customers.

VaR Summary for the Fiscal Years Ended March 31, 2021 and 2020

The following tables show our VaR by risk category and these figures are prepared based on the internal reporting provided to management.

Our material market risk exposure categories consist of interest rate risk, foreign exchange risk, equities and commodities risk and others. The section headed "VaR for Trading Activity" shows our VaR for instruments entered into for trading purposes and the VaR model for the trading book includes principal consolidated subsidiaries. The section headed "VaR for Non-Trading Activity" shows our VaR for instruments entered into for purposes other than trading purposes. "Strategic Shareholding Investment" in the "VaR for Non-Trading Activity" section is a portfolio that consists principally of publicly traded Japanese equities. This portfolio, like that of other financial institutions in Japan, has historically included shares of our customers.

VaR for Trading Activity

	Interest rate risk	Foreign exchange risk	Equities and commodities risk (In billions)	Others	Total ⁽¹⁾
For the fiscal year ended March 31, 2021:					
SMBC Consolidated					
Maximum	¥ 6.1	¥ 8.8	¥ 1.7	¥ 3.9	¥ 8.1
Minimum	3.7	6.1	0.0	2.5	5.5
Daily average	5.1	7.3	0.5	3.2	6.5
At March 31, 2021	5.5	8.1	0.1	3.5	6.2
SMFG Consolidated					
Maximum	¥ 15.1	¥ 9.9	¥ 8.8	¥ 3.9	¥ 24.4
Minimum	11.7	6.6	1.9	2.5	15.6
Daily average	13.2	8.4	4.7	3.2	19.5
At March 31, 2021	14.6	8.8	5.1	3.5	20.7
	Interest rate risk	Foreign exchange risk	Equities and commodities risk (In billions)	Others	Total ⁽¹⁾
For the fiscal year ended March 31, 2020:					
SMBC Consolidated					
Maximum	¥ 6.0	¥ 9.6	¥ 2.9	¥ 4.7	¥ 10.2
Minimum	3.7	4.0	0.0	2.6	6.2
Daily average	4.5	5.6	0.7	4.0	7.3
At March 31, 2020	5.4	8.9	0.0	2.6	6.4
SMFG Consolidated					
Maximum	¥ 13.7	¥ 10.6	¥ 9.4	¥ 4.7	¥ 22.4
Minimum	9.2	4.4	1.6	2.6	13.8
Daily average	10.6	6.2	3.7	4.0	16.7
At March 31, 2020	12.6	9.5	2.4	2.6	16.2

- (1) Total for “Maximum,” “Minimum,” and “Daily average” represent the maximum, minimum and daily average of the total of the trading book. For certain subsidiaries, we employ the standardized method and/or the historical simulation method for the VaR calculation method.

VaR for Non-trading Activity

- *Banking*

	Interest rate risk	Foreign exchange risk	Equities and commodities risk (In billions)	Others	Total ⁽¹⁾
For the fiscal year ended March 31, 2021:					
SMBC Consolidated					
Maximum	¥ 55.5	¥ 0.6	¥ 27.1	¥ 0.0	¥ 58.5
Minimum	43.1	0.0	7.5	0.0	45.5
Daily average	49.3	0.3	15.0	0.0	51.7
At March 31, 2021	50.3	0.0	17.4	0.0	54.5
SMFG Consolidated					
Maximum	¥ 56.1	¥ 0.6	¥ 27.1	¥ 0.0	¥ 59.0
Minimum	43.9	0.0	7.5	0.0	46.2
Daily average	49.9	0.3	15.0	0.0	52.3
At March 31, 2021	50.8	0.0	17.4	0.0	55.0
	Interest rate risk	Foreign exchange risk	Equities and commodities risk (In billions)	Others	Total ⁽¹⁾
For the fiscal year ended March 31, 2020:					
SMBC Consolidated					
Maximum	¥ 46.8	¥ 0.0	¥ 30.2	¥ 0.0	¥ 51.5
Minimum	32.7	0.0	10.8	0.0	35.6
Daily average	40.6	0.0	20.4	0.0	44.3
At March 31, 2020	45.4	0.0	15.4	0.0	49.6
SMFG Consolidated					
Maximum	¥ 47.6	¥ 0.0	¥ 30.2	¥ 0.0	¥ 52.4
Minimum	33.6	0.0	10.8	0.0	36.5
Daily average	41.5	0.0	20.4	0.0	45.1
At March 31, 2020	46.2	0.0	15.4	0.0	50.5

(1) Total for “Maximum,” “Minimum,” and “Daily average” represent the maximum, minimum and daily average of the total of the banking book.

- *Strategic Shareholding Investment*

	<u>Equities risk</u> (In billions)
For the fiscal year ended March 31, 2021:	
SMBC Consolidated	
Maximum	¥ 1,161.7
Minimum	784.1
Daily average	966.1
At March 31, 2021	1,111.2
SMFG Consolidated	
Maximum	¥ 1,337.5
Minimum	911.2
Daily average	1,122.2
At March 31, 2021	1,284.1
	<u>Equities risk</u> (In billions)
For the fiscal year ended March 31, 2020:	
SMBC Consolidated	
Maximum	¥ 1,030.0
Minimum	717.4
Daily average	941.3
At March 31, 2020	808.2
SMFG Consolidated	
Maximum	¥ 1,180.6
Minimum	840.5
Daily average	1,092.7
At March 31, 2020	942.4

Stress Tests

The market occasionally undergoes extreme fluctuations that exceed projections. Therefore, to manage market risk, it is important to run simulations of situations that may occur only once in many years, or so-called stress tests. To prepare for unexpected market swings, we perform stress tests on a monthly basis based on various scenarios.

The limitations of the VaR methodology include the following:

- The use of historical data as a proxy for estimating future events may underestimate the probability of extreme market movements. Past market movement is not necessarily a good indicator of future events;
- The use of a holding period assumes that all positions can be liquidated or hedged in that period of time. This assumption does not fully capture the market risk arising during periods of illiquidity, when liquidation or hedging in that period of time may not be possible;
- The use of a confidence level neither takes account of, nor makes any statement about, any losses that might occur beyond this level of confidence; and
- VaR does not capture all of the complex effects of the risk factors on the value of positions and portfolios and could underestimate potential losses.

Additional Information for Certain Risks

Interest Rate Risk

To supplement the above limitations of VaR methodologies, the SMBC Group adopts various indices to measure and monitor the sensitivity of interest rates, including delta, gamma and vega risks. The SMBC Group considers BPV as one of the most significant indices to manage interest rate risk. BPV is the amount of change in the value to the banking and trading book as a result of a one-basis-point (0.01%) movement in interest rates. The principal SMBC Group companies use BPV to monitor interest rate risk, not only on a net basis, but also by term to prevent the concentration of interest rate risk in a specific period. In addition, as previously addressed, the SMBC Group enhances the risk management methods of VaR and BPV by using them in combination with back-testing and stress tests.

Interest rate risk substantially changes depending on the method used for recognizing the expected maturity dates of demand deposits that can be withdrawn at any time or the method used for estimating the timing of cancellation prior to maturity of time deposits and consumer housing loans. At SMBC, the maturity of demand deposits that are expected to be left with SMBC for a prolonged period is regarded to be at the longest five years (2.5 years on average), and the cancellation prior to maturity of time deposits and consumer housing loans is estimated based on historical data.

Based on the standards for interest rate risk in the banking book issued by the BCBS in April 2016, the FSA revised the related regulatory guidelines pertaining to monitoring of interest rate risks in the banking book in December 2017. The revised disclosure requirements with respect to the changes in economic value of equity (“ Δ EVE”) and changes in net interest income (“ Δ NII”) in the banking book as a result of interest rate shocks have been applied from March 31, 2018. The tables below present Δ EVE and Δ NII of SMBC and SMFG on a consolidated basis at March 31, 2021 and 2020, respectively.

Δ EVE is defined as a decline in economic value as a result of an interest rate shock. It is calculated by multiplying the interest rate sensitivity (excluding credit spread) and interest rate change. The FSA implements a “materiality test” to identify banks taking excessive interest rate risks. Under the materiality test, the FSA monitors the ratio of Δ EVE to Tier 1 capital based on a set of prescribed interest rate shock scenarios. The threshold applied by the FSA is 15% and the ratios for SMBC on a consolidated basis at March 31, 2021 and 2020 were 9.6% and 11.1%, respectively and those for SMFG on a consolidated basis at March 31, 2021 and 2020 were 8.1% and 9.6%, respectively.

Δ NII is defined as a decline in interest income over a rolling 12-month period as a result of an interest rate shock. It is calculated assuming a constant balance sheet over a forward-looking rolling 12-month period.

	At March 31, 2021		At March 31, 2020	
	<u>ΔEVE</u>	<u>ΔNII</u>	<u>ΔEVE</u>	<u>ΔNII</u>
	(In billions)			
SMBC Consolidated				
Parallel shock up	¥ 909.0	¥ (305.4)	¥ 982.1	¥ (242.6)
Parallel shock down	0.0	495.3	0.0	415.0
Steeper shock	279.1	—	284.9	—
Flattener shock	137.0	—	164.0	—
Short rate shock up	339.6	—	329.6	—
Short rate shock down	5.3	—	6.6	—
Maximum	909.0	495.3	982.1	415.0
	At March 31, 2021		At March 31, 2020	
	(In billions)			
Tier 1 Capital	¥ 9,518.0	¥		8,842.3

		At March 31, 2021		At March 31, 2020	
		ΔEVE	ΔNII	ΔEVE	ΔNII
		(In billions)			
SMFG Consolidated					
Parallel shock up	¥	909.0	¥ (305.4)	¥ 982.1	¥ (242.6)
Parallel shock down		0.0	495.3	0.0	415.0
Steeper shock		279.1	—	284.9	—
Flattener shock		137.0	—	164.0	—
Short rate shock up		339.6	—	329.6	—
Short rate shock down		5.3	—	6.6	—
Maximum		909.0	495.3	982.1	415.0

	At March 31, 2021		At March 31, 2020	
	(In billions)			
Tier 1 Capital	¥	11,199.3	¥	10,249.9

Note: ΔEVE and ΔNII are calculated by currency and the results are aggregated across the various currencies. For ΔNII, only Japanese yen and U.S. dollars are included in the calculation. These are the material currencies where interest rate sensitive assets and liabilities are more than 5% of total assets and liabilities.

Foreign Exchange Risk

The principal SMBC Group companies set risk limits for each currency to manage the concentration of the foreign currency position. The foreign exchange risk is immaterial as shown above in VaR by risk category.

Strategic Shareholding Investment Risk

We establish limits on allowable risk for strategic shareholding investments, and monitor the observance of those limits to keep stock price fluctuation risk within acceptable parameters. We have been reducing our strategic shareholding investments, and the balance is within a permitted level, which is less than 100% of our consolidated Tier 1 Capital. See “Item 4.B. Business Overview—Regulations in Japan—Regulations for Stabilizing the Financial System—Restriction on Aggregate Shareholdings by a Bank.”

Liquidity Risk Management Methods

We regard liquidity risk as one of the major risks. Our liquidity risk management is based on a framework consisting of setting Risk Appetite Measures and establishing contingency plans.

The Risk Appetite Measures are measures for selecting the types and levels of risk that we are willing to take on or tolerate. As the level of liquidity risk is evaluated based on cash flow and balance sheet conditions, Risk Appetite Measures have been set for both of these areas. These measures include the Liquidity Coverage Ratio, a liquidity regulation, as well as a measure of the periods for which it will be possible to maintain funding levels even under stress due to deposit outflows or other factors, and the ratio which shows how much the stable funding covers the funding for loans and other assets.

The tolerated levels of risk are set based on account funding status, cash management planning, economic environments and other factors, and measures are monitored on a daily or monthly basis in order to limit reliance on short-term funding and appropriately manage liquidity.

As a framework to complement the Risk Appetite Measures, upper limits are set in place on both an SMBC Group company basis and individual branch basis with regard to funding gaps, which is defined as a maturity mismatch between the source of funds and use of funds.

Furthermore, contingency plans are established in preparation for emergency situations. These plans contain information on chains of command and lines of reporting as well as detailed action plans depending on the existing situation (i.e., normal, concerned, or crisis). Meanwhile, SMBC carries out quantitative management of alert indications based on early warning indicators established to assist the bank in promptly and systematically detecting liquidity risks.

Operational Risk

Operational risk is the possibility of losses arising from inadequate or failed internal processes, people and systems or from external events. Specifically, it covers processing risk, system risk, legal risk, human resources risk, reputational risk, tangible asset risk and third party risk. We have prepared operational risk management regulations to define the basic rules to be observed across SMBC Group. Under these regulations, we are working to raise the level of sophistication of our management of operational risk across the SMBC Group by providing an effective framework for the identification, assessment, control and monitoring of significant risk factors and by establishing a system for executing contingency and business continuity plans.

Processing risk is the possibility of losses arising from negligent processing by directors and employees, and from accidents or misconducts. We have clarified the divisions responsible for the oversight functions for processing risk management, and we are working to raise the level of sophistication of our management of processing risk across the whole SMBC Group by establishing systems for managing the processing risks faced by SMBC Group companies, ensuring in-office inspection, minimizing losses in the event of processing risk materialization by drafting exhaustive contingency plans, and carrying out thorough quantification of the risk under management as basic principles.

System risk is the risk arising from nonconformity to the management strategy, inappropriate technologies applied, changes to the development plan and delay in development when building an information system, and the risk of loss incurred due to system failure, malfunction, deficiency or unauthorized use (unauthorized alteration, destruction, duplication and leakage of the information), including those caused by cyber-attack. We have set the following as basic principles: recognizing information systems as an essential part of management strategy taking into account advances in IT, minimizing system risk by drafting regulations and specific management standards, (including a security policy) and establishing contingency plans to minimize losses if a system risk materializes.

Conduct Risk

Conduct risk is the risk that our conduct negatively affects customers, market integrity, effective competition, public interests, and the SMBC Group's stakeholders, through acts that violate laws and regulations or social norms. SMBC Group's fundamental stance is that its business is not to negatively affect customers, market integrity, effective competition, public interests, and stakeholders. Efforts are being made to improve group-wide conduct risk management. Focuses of these efforts include preemptively identifying phenomena with the potential to cause significant deterioration in the trust of the SMBC Group and preventing the materialization of serious management risks by being keenly responsive to environmental changes.

Item 12. Description of Securities other than Equity Securities

12.A. DEBT SECURITIES

Not applicable.

12.B. WARRANTS AND RIGHTS

Not applicable.

12.C. OTHER SECURITIES

Not applicable.

12.D. AMERICAN DEPOSITARY SHARES

Under the terms of the deposit agreement, an ADS holder may have to pay the following service fees to the depositary:

Service	Fees
Issuance of ADSs	Up to U.S. 5¢ per ADS issued
Cancellation of ADSs	Up to U.S. 5¢ per ADS canceled
Distribution of cash dividends or other cash distributions	Up to U.S. 5¢ per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercises of rights	Up to U.S. 5¢ per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to U.S. 5¢ per ADS held
Depositary services	Up to U.S. 5¢ per ADS held on the applicable record date(s) established by the depositary

An ADS holder will also be responsible for paying certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

- taxes (including applicable interest and penalties) and other governmental charges;
- the registration fees applicable to transfers of shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits or withdrawals, respectively;
- the cable, telex and facsimile transmission and delivery expenses expressly provided in the deposit agreement to be at the expense of the person depositing or withdrawing shares or holders and beneficial owners of ADSs;

- the expenses and charges incurred by the depositary in the conversion of foreign currency;
- the fees and expenses incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to shares, deposited securities, ADSs and ADRs; and
- the fees and expenses incurred by the depositary, the custodian or any nominee in connection with the servicing or delivery of deposited securities.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients.

Citibank, N.A., as depositary, has agreed to reimburse the Company for certain expenses the Company incurs in connection with its ADR program, subject to certain ceilings. During the fiscal year ended March 31, 2021, we received \$2,275,000.00 as reimbursement for such expenses, which includes additional reimbursement upon the renewal of our depositary appointment.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including Jun Ohta, our President and Group Chief Executive Officer, and Toru Nakashima, our Senior Managing Corporate Executive Officer and Group Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) at March 31, 2021. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based upon the evaluation referred to above, Mr. Ohta and Mr. Nakashima concluded that the design and operation of our disclosure controls and procedures at March 31, 2021 were effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management evaluated the effectiveness of our internal control over financial reporting at March 31, 2021 based on the criteria established in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management has concluded that we maintained effective internal control over financial reporting at March 31, 2021.

The effectiveness of our internal control over financial reporting at March 31, 2021 has been audited by KPMG AZSA, our independent registered public accounting firm, as stated in the “Report of Independent Registered Public Accounting Firm” included in this annual report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Although we have implemented various initiatives for continuous business operation in response to the COVID-19 pandemic, including enabling most of our employees to telework, apart from those who need to work at their office for smooth operations, we believe these initiatives have not had a significant impact on our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Shozo Yamazaki is an “audit committee financial expert” as defined in Item 16A of Form 20-F and is “independent” as defined in the listing standards of the NYSE.

Item 16B. Code of Ethics

We have adopted a code of ethics, which is comprised of internal rules included in our business ethics and compliance manual, each of which applies to all our directors, officers and other employees.

A copy of the sections of our business ethics and compliance manual equivalent to the “code of ethics” (as defined in paragraph (b) of Item 16B of Form 20-F) is attached as Exhibit 11 to this annual report.

There were no material changes to our internal compliance rules during the fiscal year ended March 31, 2021. No waivers of the business ethics and compliance manual have been granted to any of our directors, officers or other employees, during the fiscal year ended March 31, 2021.

Item 16C. Principal Accountant Fees and Services

Fees for Services Provided by KPMG AZSA and its Affiliates

The aggregate fees billed by KPMG AZSA, our independent registered public accounting firm, and its affiliates, for the fiscal years ended March 31, 2021 and 2020 are presented in the following table:

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
Audit fees ⁽¹⁾	¥ 5,736	¥ 5,352
Audit-related fees ⁽²⁾	281	292
Tax fees ⁽³⁾	40	57
All other fees ⁽⁴⁾	27	35
Total	¥ 6,084	¥ 5,736

(1) Audit fees primarily include fees for the audit of our and our subsidiaries’ annual financial statements and fees for the services that are normally provided in connection with our statutory and regulatory filings.

(2) Audit-related fees primarily include fees for attestation and related services that are not reported under audit fees.

(3) Tax fees primarily include fees for tax compliance, assistance with preparation of tax return filings and tax advisory services.

(4) All other fees include fees for a gap analysis on regulatory requirements and industry practices in relation to foreign securities markets.

Pre-Approval Policies and Procedures

Pursuant to Rule 2-01(c)(7) of Regulation S-X, our audit committee pre-approves all engagements with KPMG AZSA and its affiliates. Under the policies and procedures established by our audit committee, the Company and its subsidiaries must apply to our audit committee for pre-approval on either a periodic basis twice a year for services expected to be performed in the coming months or case-by-case basis before entering into the engagement with KPMG AZSA and its affiliates to perform audit and permitted non-audit services.

Pre-approval is granted by our audit committee prior to entering into the engagement. Additionally, if necessary, full-time audit committee members may consider any case-by-case application for pre-approval on behalf of our audit committee prior to the next scheduled audit committee meeting. Such pre-approvals made by full-time audit committee members are reported to our audit committee at the next scheduled audit committee meeting.

Fees approved pursuant to the procedures described in paragraph 2-01(c)(7)(i)(C) of Regulation S-X, which provides for an exception to the general requirement for pre-approval in certain circumstances, were none for the fiscal years ended March 31, 2021 and 2020.

Item 16D. Exemptions from the Listing Standards for the Audit Committee

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth purchases of our common stock by us and our affiliated purchasers during the fiscal year ended March 31, 2021:

	<u>Total number of shares purchased⁽¹⁾⁽²⁾</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Maximum number of shares that may yet be purchased under the plans or programs</u>
April 1 to April 30, 2020	914	¥ 2,649	—	—
May 1 to May 31, 2020	450	2,808	—	—
June 1 to June 30, 2020	754	3,147	—	—
July 1 to July 31, 2020	1,739	3,043	—	—
August 1 to August 31, 2020	1,474	2,963	—	—
September 1 to September 30, 2020	1,702	3,107	—	—
October 1 to October 31, 2020	1,337	2,988	—	—
November 1 to November 30, 2020	955	3,059	—	—
December 1 to December 31, 2020	2,380	3,122	—	—
January 1 to January 31, 2021	2,141	3,346	—	—
February 1 to February 28, 2021	2,187	3,528	—	—
March 1 to March 31, 2021	2,932	3,970	—	—
Total	<u>18,965</u>	<u>¥ 3,262</u>	<u>—</u>	<u>—</u>

- (1) A total of 18,965 shares were purchased other than through a publicly announced plan or program during the fiscal year ended March 31, 2021, due to our purchases of shares constituting less than one unit from registered holders of such shares at the current market prices of those shares.
- (2) Pursuant to our stock compensation plans utilizing restricted stock for executives, after the expiration of applicable time periods, a certain amount of the shares initially allotted to executives are released from transfer restrictions. We retrieve the allotted but unreleased shares from the executives at nil cost. See “Item 6.E. Share Ownership.” A total of 38,953 shares were retrieved from executives at nil cost during the fiscal year ended March 31, 2021, and are excluded from total number of shares purchased in this table.

Item 16F. Change in Registrant’s Certifying Accountant

None.

Item 16G. Corporate Governance

Companies listed on the NYSE must comply with certain corporate governance standards provided under Section 303A of the NYSE Listed Company Manual. However, NYSE-listed companies that are foreign private issuers, including us, are permitted to follow home country practices in lieu of certain provisions of Section 303A if such foreign private issuers meet certain criteria. We rely on the exemption for home country practices concerning the listing of our ADSs on the NYSE.

Under the Companies Act, we are required to have a corporate governance system with (i) a board of corporate auditors, (ii) an audit and supervisory committee, or (iii) three statutory committees: a nominating committee, an audit committee and a compensation committee. We have adopted a company with three statutory committees system of corporate governance.

Foreign private issuers listed on the NYSE are required to provide to their U.S. investors a brief, general summary of the significant differences of corporate governance practices that differ from U.S. companies under NYSE listing standards. The following is a summary of the significant ways in which our corporate governance practices differ from NYSE standards followed by U.S. companies:

- U.S. companies listed on the NYSE are required to have a majority of directors that meet the independence requirements under Section 303A of the NYSE's Listed Company Manual. Under the Companies Act, we are required to have three statutory committees consisting of members of our board of directors, of which the majority must be outside directors. Currently, seven of our fifteen directors are outside directors who meet the requirements under the Companies Act.
- U.S. companies listed on the NYSE are required to have an audit committee composed entirely of independent directors. Under the Companies Act, we are required to have an audit committee that consists of three or more members of our board of directors, of which the majority must be outside directors. Currently, three of the five members of our audit committee are outside directors that meet the requirements under the Companies Act. Our audit committee satisfies the requirements of Rule 10A-3 under the Exchange Act, including the independence requirements thereunder.
- A NYSE-listed U.S. company is required to have a nominating/corporate governance committee and a compensation committee, all of which must be composed entirely of independent directors. The members of the compensation committee must satisfy additional requirements set forth in Section 303A.02(a)(ii) of the NYSE Listed Company Manual. A compensation committee must also have the authority to, in its sole discretion, retain or obtain the advice of a compensation consultant, independent legal counsel or other adviser. This authority is subject to the committee's consideration of certain criteria set forth in Section 303A.05(c) of the NYSE Listed Company Manual regarding the independence of the adviser. Under the Companies Act, we are required to establish a nominating committee and a compensation committee, each of which consisting of at least three directors and of which the majority of the members must be outside directors. Currently, five of the six members of our nominating committee and four of the six members of compensation committee are outside directors who meet the requirements under the Companies Act.
- A NYSE-listed U.S. company must adopt a code of business conduct and ethics and must post the code on its website. While we are not required to adopt such code under Japanese law or the rules of stock exchanges in Japan on which we are listed, we maintain our code of conduct and ethics as our standard for corporate conduct to be observed by our directors, officers and employees.
- A NYSE-listed U.S. company must adopt corporate governance guidelines and must post the guidelines on its website. While we are not required to adopt such guidelines under Japanese law, the rules of the stock exchanges in Japan on which we are listed, including the Tokyo Stock Exchange, require listed companies, including us, to comply with the principles of the Corporate Governance Code established by those stock exchanges and, in cases of noncompliance with some or all of the principles, to disclose the reasons for such noncompliance. We established the SMFG Corporate

Governance Guideline, in consideration of the Corporate Governance Code, to present our basic views and guidelines on corporate governance and improve our corporate governance system. The SMFG Corporate Governance Guideline is available on our website (the contents of which are not incorporated by reference in this annual report).

- A NYSE-listed U.S. company must hold regularly scheduled executive sessions where participants are limited to non-management directors. While we are not required to hold such sessions under the Companies Act, the SMFG Corporate Governance Guideline provides that our outside directors, who are neither executive directors, executive corporate officers nor employees, will endeavor to exchange information and develop a shared awareness among them regarding matters relating to the corporate governance and business of SMBC Group from an independent and objective standpoint. The SMFG Corporate Governance Guideline further provides, as a concrete way of exchanging information and developing this shared awareness, that outside directors may hold meetings that only outside directors may attend, as necessary.
- A NYSE-listed U.S. company must generally obtain shareholder approval with respect to any equity compensation plan, subject to limited exemptions. Under the Companies Act, companies with three statutory committees such as us are not required to obtain shareholder approval with respect to equity compensation plans. In this case, the compensation committee is required to establish policies in regard to the determination of the compensation of the directors and corporate executive officers, including stock compensation plans that utilize restricted stock, and determines the compensation of the individual directors and corporate executive officers in accordance with such policies. For details of the equity compensation plan introduced by us, see “Item 6.E. Share Ownership.”

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

We have responded to Item 18 in lieu of this item.

Item 18. Financial Statements

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this annual report.

Item 19. Exhibits

We have filed the following documents as exhibits to this document:

Exhibit 1.1	Articles of Incorporation of Sumitomo Mitsui Financial Group, Inc., as amended on June 29, 2017, incorporated by reference from our annual report on Form 20-F (Commission file number 001-34919) filed on June 29, 2017
Exhibit 1.2	Regulations of the Board of Directors of Sumitomo Mitsui Financial Group, Inc., as amended on March 1, 2021
Exhibit 1.3	Share Handling Regulations of Sumitomo Mitsui Financial Group, Inc., as amended on June 29, 2017, incorporated by reference from our annual report on Form 20-F (Commission file number 001-34919) filed on June 29, 2017
Exhibit 2.1	Form of Deposit Agreement among the registrant, Citibank, N.A., as Depositary, and all owners and holders from time to time of American Depositary Shares issued thereunder, incorporated by reference from our registration statement on Form 20-F (Commission file number 001-34919) filed on October 20, 2010
Exhibit 2.2	Description of our common stock, incorporated by reference from “Item 10.B Memorandum and Articles of Incorporation” of this annual report
Exhibit 2.3	Description of our American Depositary Shares, incorporated by reference from “Item 12.D American Depositary Shares” of our registration statement on Form 20-F (Commission file number 001-34919) filed on October 20, 2010
Exhibit 8	List of subsidiaries of Sumitomo Mitsui Financial Group, Inc., at March 31, 2021
Exhibit 11	Code of Ethics of Sumitomo Mitsui Financial Group, Inc., as amended on April 1, 2020, incorporated by reference from our annual report on Form 20-F (Commission file number 001-34919) filed on June 26, 2020
Exhibit 12.1	CEO Certification Required by Rule 13a-14(a) (17 CFR 240.13a-14(a))
Exhibit 12.2	CFO Certification Required by Rule 13a-14(a) (17 CFR 240.13a-14(a))
Exhibit 13.1	Certification Required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
Exhibit 13.2	Certification Required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
Exhibit 15.1	Consent of Independent Registered Public Accounting Firm
Exhibit 101. INS	XBRL Instance Document
Exhibit 101. SCH	XBRL Taxonomy Extension Schema

Exhibit 101. CAL	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101. DEF	XBRL Taxonomy Extension Definition Linkbase
Exhibit 101. LAB	XBRL Taxonomy Extension Label Linkbase
Exhibit 101. PRE	XBRL Taxonomy Extension Presentation Linkbase

We have not included as exhibits certain instruments with respect to our long-term debt. The total amount of our long-term debt securities or that of our subsidiaries, authorized under any instrument does not exceed 10% of our total assets. We hereby agree to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of our long-term debt or that of our subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Sumitomo Mitsui Financial Group, Inc.

By: /s/ Jun Ohta

Name: Jun Ohta

Title: President and Group Chief Executive Officer

Date: June 29, 2021

SELECTED STATISTICAL DATA

I. Distribution of Assets, Liabilities and Equity; Interest Rates and Interest Differential

Average Statements of Financial Positions, Interest and Average Rates

The following tables show the average balances of our statement of financial positions items and related interest and average interest rates for the fiscal years ended March 31, 2021, 2020 and 2019. Average balances are generally based on a daily average. Weekly, month-end or quarter-end averages are used for certain average balances where it is not practical to obtain the applicable daily averages. The average balances determined by such methods are considered to be representative of our operations. The allocation of amounts between domestic and foreign is based on the location of the office.

For the fiscal year ended March 31,									
	2021			2020			2019		
	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate
(In millions, except percentages)									
Interest-earning assets:									
Interest-earning deposits with other banks:									
Domestic offices	¥ 881,007	¥ 2,260	0.26%	¥ 1,061,849	¥ 3,099	0.29%	¥ 997,310	¥ 3,573	0.36%
Foreign offices	4,701,633	15,151	0.32%	3,994,229	78,493	1.97%	4,696,278	100,225	2.13%
Total	5,582,640	17,411	0.31%	5,056,078	81,592	1.61%	5,693,588	103,798	1.82%
Call loans and bills bought, reverse repurchase agreements and cash collateral on securities borrowed:									
Domestic offices	9,256,043	(687)	(0.01%)	9,167,833	17,540	0.19%	8,829,374	14,879	0.17%
Foreign offices	3,224,164	25,926	0.80%	3,032,754	51,881	1.71%	3,138,663	39,908	1.27%
Total	12,480,207	25,239	0.20%	12,200,587	69,421	0.57%	11,968,037	54,787	0.46%
Trading assets ⁽¹⁾ and financial assets at fair value through profit or loss ⁽²⁾ :									
Domestic offices	2,486,686	8,450	0.34%	3,724,806	14,737	0.40%	4,110,955	20,240	0.49%
Foreign offices	258,547	3,863	1.49%	352,514	6,641	1.88%	367,638	6,178	1.68%
Total	2,745,233	12,313	0.45%	4,077,320	21,378	0.52%	4,478,593	26,418	0.59%
Investment securities ⁽³⁾ :									
Domestic offices	16,642,148	46,384	0.28%	11,245,654	75,026	0.67%	8,977,937	65,854	0.73%
Foreign offices	5,385,436	80,255	1.49%	4,832,026	103,804	2.15%	4,258,283	87,061	2.04%
Total	22,027,584	126,639	0.57%	16,077,680	178,830	1.11%	13,236,220	152,915	1.16%
Loans and advances ⁽⁴⁾ :									
Domestic offices	64,651,076	846,911	1.31%	60,498,334	937,419	1.55%	60,973,779	1,007,977	1.65%
Foreign offices	32,230,777	764,170	2.37%	31,467,410	1,139,783	3.62%	29,646,844	1,086,873	3.67%
Total	96,881,853	1,611,081	1.66%	91,965,744	2,077,202	2.26%	90,620,623	2,094,850	2.31%
Total interest-earning assets:									
Domestic offices	93,916,960	903,318	0.96%	85,698,476	1,047,821	1.22%	83,889,355	1,112,523	1.33%
Foreign offices	45,800,557	889,365	1.94%	43,678,933	1,380,602	3.16%	42,107,706	1,320,245	3.14%
Total	139,717,517	¥1,792,683	1.28%	129,377,409	¥2,428,423	1.88%	125,997,061	¥2,432,768	1.93%
Non-interest-earning assets:									
Cash and due from banks	60,043,692			54,559,835			49,068,465		
Other non-interest-earning assets	19,995,576			18,351,183			19,893,981		
Allowance for loan losses	(764,695)			(616,134)			(644,019)		
Total non-interest-earning assets	79,274,573			72,294,884			68,318,427		
Total assets	¥218,992,090			¥201,672,293			¥194,315,488		
Total assets attributable to foreign offices	25.0%			25.8%			25.5%		

For the fiscal year ended March 31,									
	2021			2020			2019		
	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate
(In millions, except percentages)									
Interest-bearing liabilities:									
Deposits:									
Domestic offices	¥ 91,029,016	¥ 16,601	0.02%	¥ 85,668,767	¥ 51,976	0.06%	¥ 83,791,727	¥ 59,234	0.07%
Foreign offices	28,285,386	163,309	0.58%	27,197,901	530,823	1.95%	27,283,476	542,131	1.99%
Total	119,314,402	179,910	0.15%	112,866,668	582,799	0.52%	111,075,203	601,365	0.54%
Call money and bills sold, repurchase agreements and cash collateral on securities lent and other interest-bearing liabilities:									
Domestic offices	11,074,484	(5,172)	(0.05%)	11,218,806	33,745	0.30%	8,115,332	39,636	0.49%
Foreign offices	4,524,797	14,865	0.33%	5,063,872	112,479	2.22%	4,610,162	97,606	2.12%
Total	15,599,281	9,693	0.06%	16,282,678	146,224	0.90%	12,725,494	137,242	1.08%
Trading liabilities ⁽¹⁾ :									
Domestic offices	1,719,417	13,617	0.79%	2,018,747	20,532	1.02%	1,764,784	23,772	1.35%
Foreign offices	99,055	1,044	1.05%	96,575	2,810	2.91%	106,563	2,770	2.60%
Total	1,818,472	14,661	0.81%	2,115,322	23,342	1.10%	1,871,347	26,542	1.42%
Financial liabilities designated at fair value through profit or loss ⁽²⁾ :									
Domestic offices	8,630	(293)	(3.40%)	—	—	—	—	—	—
Foreign offices	64,547	6,364	9.86%	—	—	—	—	—	—
Total	73,177	6,071	8.30%	—	—	—	—	—	—
Borrowings:									
Domestic offices	17,075,586	40,483	0.24%	11,958,700	61,238	0.51%	10,787,234	73,299	0.68%
Foreign offices	599,476	22,141	3.69%	600,321	31,187	5.20%	977,662	33,934	3.47%
Total	17,675,062	62,624	0.35%	12,559,021	92,425	0.74%	11,764,896	107,233	0.91%
Debt securities in issue:									
Domestic offices	9,764,667	100,987	1.03%	9,419,223	197,749	2.10%	9,880,220	203,423	2.06%
Foreign offices	1,678,663	8,218	0.49%	1,883,920	34,724	1.84%	2,698,608	52,612	1.95%
Total	11,443,330	109,205	0.95%	11,303,143	232,473	2.06%	12,578,828	256,035	2.04%
Premiums for deposit insurance:									
Domestic offices	—	34,192	—	—	34,866	—	—	34,387	—
Foreign offices	—	1,621	—	—	1,943	—	—	1,168	—
Total	—	35,813	—	—	36,809	—	—	35,555	—
Total interest-bearing liabilities:									
Domestic offices	130,671,800	200,415	0.15%	120,284,243	400,106	0.33%	114,339,297	433,751	0.38%
Foreign offices	35,251,924	217,562	0.62%	34,842,589	713,966	2.05%	35,676,471	730,221	2.05%
Total	165,923,724	¥ 417,977	0.25%	155,126,832	¥1,114,072	0.72%	150,015,768	¥1,163,972	0.78%
Non-interest-bearing liabilities:									
Non-interest-bearing demand deposits	27,006,450			22,833,077			21,058,921		
Other non-interest-bearing liabilities	14,142,331			12,095,455			11,429,942		
Total non-interest-bearing liabilities	41,148,781			34,928,532			32,488,863		
Total equity	11,919,585			11,616,929			11,810,857		
Total equity and liabilities	¥218,992,090			¥201,672,293			¥194,315,488		
Total liabilities attributable to foreign offices	19.8%			20.8%			21.8%		
Net interest income and interest rate spread	¥1,374,706	1.03%		¥1,314,351	1.16%		¥1,268,796	1.15%	
Net interest income as a percentage of total interest-earning assets		0.98%			1.02%			1.01%	

- (1) The net amount of interest income on trading assets and interest expense on trading liabilities is reported as net trading income in our consolidated income statement.
- (2) Interest income and expense on financial assets and liabilities at fair value through profit or loss are reported in net income (loss) from financial assets and liabilities at fair value through profit or loss in our consolidated income statement.
- (3) Taxable investment securities and non-taxable investment securities are not disclosed separately because the aggregate effect of these average balances and interest income would not be material. In addition, the yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
- (4) Loans and advances include impaired loans and advances. The amortized portion of net loan origination fees is included in interest income on loans and advances.

Analysis of Net Interest Income

The following tables show the changes to our net interest income attributable to changes in the volume and changes in the rates for the fiscal year ended March 31, 2021 compared to the fiscal year ended March 31, 2020 and for the fiscal year ended March 31, 2020 compared to the fiscal year ended March 31, 2019.

Changes attributable to the combined impact of changes in the rates and the volume have been allocated proportionately to the changes in the volume and changes in the rates.

	Fiscal year ended March 31, 2021 compared to fiscal year ended March 31, 2020 Increase / (decrease)			Fiscal year ended March 31, 2020 compared to fiscal year ended March 31, 2019 Increase / (decrease)		
	Volume	Rate	Net change	Volume	Rate	Net change
	(In millions)					
Interest income:						
Interest-earning deposits with other banks:						
Domestic offices	¥ (491)	¥ (348)	¥ (839)	¥ 221	¥ (695)	¥ (474)
Foreign offices	11,899	(75,241)	(63,342)	(14,206)	(7,526)	(21,732)
Total	11,408	(75,589)	(64,181)	(13,985)	(8,221)	(22,206)
Call loans and bills bought, reverse repurchase agreements and cash collateral on securities borrowed:						
Domestic offices	166	(18,393)	(18,227)	592	2,069	2,661
Foreign offices	3,088	(29,043)	(25,955)	(1,386)	13,359	11,973
Total	3,254	(47,436)	(44,182)	(794)	15,428	14,634
Trading assets ⁽¹⁾ and financial assets at fair value through profit or loss ⁽²⁾ :						
Domestic offices	(4,441)	(1,846)	(6,287)	(1,775)	(3,728)	(5,503)
Foreign offices	(1,560)	(1,218)	(2,778)	(262)	725	463
Total	(6,001)	(3,064)	(9,065)	(2,037)	(3,003)	(5,040)
Investment securities:						
Domestic offices	26,646	(55,288)	(28,642)	15,528	(6,356)	9,172
Foreign offices	10,906	(34,455)	(23,549)	12,155	4,588	16,743
Total	37,552	(89,743)	(52,191)	27,683	(1,768)	25,915
Loans and advances:						
Domestic offices	61,306	(151,814)	(90,508)	(7,791)	(62,767)	(70,558)
Foreign offices	27,008	(402,621)	(375,613)	66,070	(13,160)	52,910
Total	88,314	(554,435)	(466,121)	58,279	(75,927)	(17,648)
Total interest income:						
Domestic offices	83,186	(227,689)	(144,503)	6,775	(71,477)	(64,702)
Foreign offices	51,341	(542,578)	(491,237)	62,371	(2,014)	60,357
Total	¥134,527	¥(770,267)	¥(635,740)	¥ 69,146	¥(73,491)	¥ (4,345)

	Fiscal year ended March 31, 2021 compared to fiscal year ended March 31, 2020 Increase / (decrease)			Fiscal year ended March 31, 2020 compared to fiscal year ended March 31, 2019 Increase / (decrease)		
	Volume	Rate	Net change	Volume	Rate	Net change
(In millions)						
Interest expense:						
Deposits:						
Domestic offices	¥ 3,032	¥ (38,407)	¥ (35,375)	¥ 1,288	¥ (8,546)	¥ (7,258)
Foreign offices	20,404	(387,918)	(367,514)	(1,698)	(9,610)	(11,308)
Total	23,436	(426,325)	(402,889)	(410)	(18,156)	(18,566)
Call money and bills sold, repurchase agreements and cash collateral on securities lent and other interest-bearing liabilities:						
Domestic offices	(427)	(38,490)	(38,917)	12,279	(18,170)	(5,891)
Foreign offices	(10,835)	(86,779)	(97,614)	9,925	4,948	14,873
Total	(11,262)	(125,269)	(136,531)	22,204	(13,222)	8,982
Trading liabilities ⁽¹⁾ :						
Domestic offices	(2,780)	(4,135)	(6,915)	3,118	(6,358)	(3,240)
Foreign offices	70	(1,836)	(1,766)	(273)	313	40
Total	(2,710)	(5,971)	(8,681)	2,845	(6,045)	(3,200)
Financial liabilities designated at fair value through profit or loss ⁽²⁾ :						
Domestic offices	(293)	—	(293)	—	—	—
Foreign offices	6,364	—	6,364	—	—	—
Total	6,071	—	6,071	—	—	—
Borrowings:						
Domestic offices	19,921	(40,676)	(20,755)	7,363	(19,424)	(12,061)
Foreign offices	(44)	(9,002)	(9,046)	(15,942)	13,195	(2,747)
Total	19,877	(49,678)	(29,801)	(8,579)	(6,229)	(14,808)
Debt securities in issue:						
Domestic offices	7,006	(103,768)	(96,762)	(9,627)	3,953	(5,674)
Foreign offices	(3,418)	(23,088)	(26,506)	(15,131)	(2,757)	(17,888)
Total	3,588	(126,856)	(123,268)	(24,758)	1,196	(23,562)
Premiums for deposit insurance:						
Domestic offices	(674)	—	(674)	479	—	479
Foreign offices	(322)	—	(322)	775	—	775
Total	(996)	—	(996)	1,254	—	1,254
Total interest expense:						
Domestic offices	25,785	(225,476)	(199,691)	14,900	(48,545)	(33,645)
Foreign offices	12,219	(508,623)	(496,404)	(22,344)	6,089	(16,255)
Total	¥ 38,004	¥(734,099)	¥(696,095)	¥ (7,444)	¥(42,456)	¥(49,900)
Net interest income:						
Domestic offices	¥ 57,401	¥ (2,213)	¥ 55,188	¥ (8,125)	¥(22,932)	¥(31,057)
Foreign offices	39,122	(33,955)	5,167	84,715	(8,103)	76,612
Total	¥ 96,523	¥ (36,168)	¥ 60,355	¥ 76,590	¥(31,035)	¥ 45,555

- (1) The net amount of interest income on trading assets and interest expense on trading liabilities is reported as net trading income in our consolidated income statement.
- (2) Interest income and expense on financial assets and liabilities at fair value through profit or loss are reported in net income (loss) from financial assets and liabilities at fair value through profit or loss in our consolidated income statement.

II. Investment Portfolio

The information as to the value of debt instruments at amortized cost and debt instruments at fair value through other comprehensive income at March 31, 2021, 2020 and 2019 is presented on “Item 5.A. Operating Results—Financial Condition—Investment Securities.”

The following table shows the book values, maturities and weighted average yields of debt instruments at amortized cost and debt instruments at fair value through other comprehensive income at March 31, 2021. Weighted average yields are calculated based on amortized cost. Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such a calculation would not be material.

	Not later than one year		Later than one year and not later than five years		Later than five years and not later than ten years		Later than ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(In millions, except percentages)										
Debt instruments at amortized cost:										
Domestic:										
Japanese government bonds	¥ —	—	¥ —	—	¥ —	—	¥ —	—	¥ —	—
Japanese municipal bonds	—	—	—	—	22,300	0.09%	—	—	22,300	0.09%
Japanese corporate bonds	—	—	—	—	—	—	—	—	—	—
Total domestic	—	—	—	—	22,300	0.09%	—	—	22,300	0.09%
Foreign:										
U.S. Treasury and other U.S. government agency bonds	—	—	—	—	—	—	—	—	—	—
Bonds issued by other governments and official institutions	34,996	3.94%	12,050	5.92%	83	5.68%	—	—	47,129	4.45%
Other debt instruments	1,137	7.06%	1,449	5.30%	—	—	—	—	2,586	6.07%
Total foreign	36,133	4.04%	13,499	5.85%	83	5.68%	—	—	49,715	4.53%
Total	¥ 36,133	4.04%	¥ 13,499	5.85%	¥ 22,383	0.11%	¥ —	—	¥ 72,015	3.16%
Debt instruments at fair value through other comprehensive income:										
Domestic:										
Japanese government bonds	¥5,901,804	(0.15%)	¥ 6,671,473	(0.12%)	¥1,418,521	(0.08%)	¥ 301,813	0.15%	¥14,293,611	(0.12%)
Japanese municipal bonds	7,169	0.00%	206,678	0.01%	506,594	0.11%	12,181	0.17%	732,622	0.09%
Japanese corporate bonds	45,803	0.02%	150,694	0.06%	128,650	0.14%	400,748	0.38%	725,895	0.25%
Other debt instruments	310	0.00%	—	—	—	—	—	—	310	0.00%
Total domestic	5,955,086	(0.15%)	7,028,845	(0.12%)	2,053,765	(0.02%)	714,742	0.28%	15,752,438	(0.09%)
Foreign:										
U.S. Treasury and other U.S. government agency bonds	505,543	1.50%	3,853,514	0.89%	1,205,887	0.60%	—	—	5,564,944	0.88%
Bonds issued by other governments and official institutions	1,534,842	0.56%	816,902	1.99%	353,866	0.43%	288,422	0.01%	2,994,032	0.88%
Mortgage-backed securities	—	—	2	2.06%	216	0.75%	1,658,514	2.53%	1,658,732	2.53%
Other debt instruments	252,182	1.48%	116,151	1.88%	28,756	0.90%	25,400	1.26%	422,489	1.54%
Total foreign	2,292,567	0.87%	4,786,569	1.11%	1,588,725	0.57%	1,972,336	2.13%	10,640,197	1.14%
Total	¥8,247,653	0.13%	¥11,815,414	0.38%	¥3,642,490	0.24%	¥2,687,078	1.63%	¥26,392,635	0.39%

Excluding securities of the U.S. government and U.S. government agencies and corporations and Japanese government bonds, there are no investments in any individual issuers held in our investment portfolio which exceeded 10% of shareholders' equity in the consolidated statement of financial position at March 31, 2021.

III. Loan Portfolio

The following table shows our outstanding loans and advances by the domicile and industry type of the borrowers at March 31, 2021, 2020, 2019, 2018 and 2017. The classification of loans and advances by industry is based on the industry segment loan classification as defined by the Bank of Japan (“BOJ”) for regulatory reporting purposes.

	At March 31,				
	2021	2020	2019	2018	2017
	(In millions)				
Domestic:					
Manufacturing	¥10,174,683	¥ 8,787,566	¥ 8,522,451	¥ 7,961,620	¥ 9,578,147
Agriculture, forestry, fisheries and mining	277,471	280,233	288,099	145,957	174,021
Construction	886,539	919,043	918,617	947,765	1,151,989
Transportation, communications and public enterprises	5,878,522	5,637,560	5,596,935	5,424,054	5,365,225
Wholesale and retail	6,014,746	5,375,802	5,281,596	5,288,767	5,721,005
Finance and insurance	3,423,625	3,217,545	3,129,666	2,777,862	2,844,546
Real estate and goods rental and leasing	11,760,698	10,666,446	10,126,531	9,017,664	10,101,846
Services	4,831,938	4,452,195	4,328,173	4,255,228	4,885,247
Municipalities	625,639	839,878	866,373	1,000,286	1,216,211
Lease financing	24,678	8,380	9,030	14,629	2,706,641
Consumer ⁽¹⁾	15,274,719	15,691,638	16,187,195	16,363,489	19,096,755
Others	4,133,900	4,308,469	4,601,499	4,633,306	5,178,461
Total domestic	<u>63,307,158</u>	<u>60,184,755</u>	<u>59,856,165</u>	<u>57,830,627</u>	<u>68,020,094</u>
Foreign:					
Public sector	309,372	335,071	360,875	372,008	299,746
Financial institutions	7,241,844	6,220,956	5,382,130	4,496,646	4,588,001
Commerce and industry	24,659,663	25,597,599	23,285,374	21,023,885	21,041,905
Lease financing	306,988	309,531	344,958	357,660	404,658
Others	3,000,530	2,994,838	2,316,816	1,779,101	1,836,322
Total foreign	<u>35,518,397</u>	<u>35,457,995</u>	<u>31,690,153</u>	<u>28,029,300</u>	<u>28,170,632</u>
Gross loans and advances	98,825,555	95,642,750	91,546,318	85,859,927	96,190,726
Adjust: Unearned income, unamortized premiums-net and deferred loan fees-net	(261,330)	(264,527)	(258,392)	(239,181)	(236,425)
Less: Allowance for loan losses	(849,287)	(706,405)	(604,988)	(491,676)	(680,456)
Carrying amount	<u>¥97,714,938</u>	<u>¥94,671,818</u>	<u>¥90,682,938</u>	<u>¥85,129,070</u>	<u>¥95,273,845</u>

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥10,736,709 million, ¥10,913,869 million, ¥11,216,711 million, ¥11,482,678 million and ¥13,766,771 million at March 31, 2021, 2020, 2019, 2018 and 2017, respectively.

Maturities and Sensitivities of Loans and Advances to Changes in Interest Rates

The following table shows the maturities of loans and advances by the domicile and industry type of the borrower at March 31, 2021.

	Maturity			Total
	Not later than one year	Later than one year and not later than five years	Later than five years	
	(In millions)			
Domestic:				
Manufacturing	¥ 4,663,355	¥ 3,779,062	¥ 1,732,266	¥10,174,683
Agriculture, forestry, fisheries and mining	40,810	189,020	47,641	277,471
Construction	438,378	315,032	133,129	886,539
Transportation, communications and public enterprises	1,863,748	2,229,788	1,784,986	5,878,522
Wholesale and retail	3,730,302	1,616,319	668,125	6,014,746
Finance and insurance	1,810,408	1,266,445	346,772	3,423,625
Real estate and goods rental and leasing	2,862,997	5,123,801	3,773,900	11,760,698
Services	1,565,938	1,907,499	1,358,501	4,831,938
Municipalities	142,579	301,767	181,293	625,639
Lease financing	5,871	14,517	4,290	24,678
Consumer	3,537,904	4,099,651	7,637,164	15,274,719
Others	1,675,124	1,083,057	1,375,719	4,133,900
Total domestic	22,337,414	21,925,958	19,043,786	63,307,158
Foreign:				
Public sector	36,503	202,780	70,089	309,372
Financial institutions	3,391,625	3,174,820	675,399	7,241,844
Commerce and industry	9,053,089	10,597,075	5,009,499	24,659,663
Lease financing	35,359	145,933	125,696	306,988
Others	1,130,114	1,460,923	409,493	3,000,530
Total foreign	13,646,690	15,581,531	6,290,176	35,518,397
Total	¥35,984,104	¥37,507,489	¥25,333,962	¥98,825,555

The above loans and advances due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2021 are shown below:

	Domestic	Foreign	Total
	(In millions)		
Predetermined rate	¥13,308,350	¥ 2,895,815	¥16,204,165
Floating or adjustable rate	27,661,394	18,975,892	46,637,286
Total	¥40,969,744	¥21,871,707	¥62,841,451

Impaired Loans and Advances

Our credit risk elements analyzed by categories for loans and advances differ from those required by the U.S. Securities and Exchange Commission. Our impaired loans and advances are comprised of “potentially bankrupt, virtually bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” “restructured (loans)” and “other impaired (loans and advances).” “Potentially bankrupt, virtually bankrupt and bankrupt (loans and advances)” comprises of loans and advances to the borrowers that are perceived to have a

high risk of falling into bankruptcy, may not have been legally or formally declared bankrupt but are essentially bankrupt, or have been legally or formally declared bankrupt. Loans classified as “past due three months or more (loans)” represent those loans that are three months or more past due as to principal or interest, which are not included in “potentially bankrupt, virtually bankrupt and bankrupt (loans and advances).” The category “restructured (loans)” comprises of loans not included above for which the terms of the loans have been modified to grant concessions because of problems with the borrower. Examples of modifications to grant concessions include reductions of the original interest rate, deferrals of interest payments, deductions of the contractual repayment amounts and extensions of principal repayments such as the extension of the repayment date and the suspension of contracted repayments. “Other impaired (loans and advances)” represents impaired loans and advances, which are not included in “potentially bankrupt, virtually bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” or “restructured (loans),” but for which information about credit problems cause management to classify them as impaired loans and advances. All loans and advances for which management has serious doubts about the ability of the borrowers to comply in the near future with the repayment terms are included in impaired loans and advances.

An allowance is recorded if there is objective evidence of impairment and the carrying value of the loans and advances exceeds the present value of their estimated future cash flows discounted at the original effective interest rate. Cash receipts on impaired loans and advances are recorded as a credit to the balance of loans and advances on the statement of financial position. To the extent that cash receipts are different from expectations built into the calculation of the recoverable amount of the loans and advances, the amount of allowance for loan losses is revised. In accordance with IFRS, the accrual of interest as per the contractual terms is discontinued when loans and advances are determined to be impaired. Interest income recognized in the consolidated income statement on impaired loans and advances represents the accretion of the net present value of the written down amount due to the passage of time based on the original effective interest rate of the loans and advances.

The following table shows the distribution of impaired loans and advances by “potentially bankrupt, virtually bankrupt and bankrupt (loans and advances),” “past due three months or more (loans),” “restructured (loans),” and “other impaired (loans and advances)” at March 31, 2021, 2020, 2019, 2018 and 2017 by the domicile and industry type of the borrowers.

	At March 31,				
	2021	2020	2019	2018	2017
	(In millions)				
Potentially bankrupt, virtually bankrupt and bankrupt (loans and advances):					
Domestic:					
Manufacturing	¥ 63,894	¥ 44,640	¥ 98,260	¥ 62,322	¥ 106,178
Agriculture, forestry, fisheries and mining	7,836	7,648	6,229	6,369	2,250
Construction	8,086	10,008	15,762	10,439	24,430
Transportation, communications and public enterprises	36,177	35,562	30,691	15,494	23,692
Wholesale and retail	75,040	67,810	74,865	74,332	104,472
Finance and insurance	6,842	5,556	8,266	3,021	4,135
Real estate and goods rental and leasing	26,658	28,189	29,999	32,634	126,179
Services	64,574	44,040	56,861	50,858	91,943
Lease financing	—	—	—	—	7,513
Consumer	156,133	162,881	159,375	157,221	194,721
Others	23,474	19,475	21,120	23,081	25,059
Total domestic	468,714	425,809	501,428	435,771	710,572
Foreign:					
Financial institutions	11,632	29	180	30	29
Commerce and industry	179,199	137,438	109,453	144,975	157,227
Lease financing	—	—	—	—	11,892
Others	23,012	9,118	24,409	22,383	23,890
Total foreign	213,843	146,585	134,042	167,388	193,038
Total	682,557	572,394	635,470	603,159	903,610
Past due three months or more (loans):					
Domestic	37,297	27,923	24,781	21,649	20,808
Foreign	—	—	2,525	—	11,449
Total	37,297	27,923	27,306	21,649	32,257
Restructured (loans):					
Domestic	228,631	144,034	127,316	136,582	155,100
Foreign	146,324	42,123	18,624	17,567	25,741
Total	374,955	186,157	145,940	154,149	180,841
Other impaired (loans and advances):					
Domestic	36,343	52,020	66,285	93,175	103,777
Foreign	40,424	6,835	7,017	6,736	8,203
Total	76,767	58,855	73,302	99,911	111,980
Gross impaired loans and advances	1,171,576	845,329	882,018	878,868	1,228,688
Less: Allowance for loan losses for impaired loans and advances	(423,222)	(355,737)	(354,448)	(369,386)	(532,451)
Net impaired loans and advances	¥ 748,354	¥ 489,592	¥ 527,570	¥ 509,482	¥ 696,237

Interest Foregone on Impaired Loans and Advances

Interest income which would have been accrued at the original terms on domestic impaired loans and advances during the fiscal year ended March 31, 2021 was ¥18.8 billion, of which ¥9.4 billion was included in profit or loss for the fiscal year then ended. Interest income which would have been accrued at the original terms on foreign impaired loans and advances during the fiscal year ended March 31, 2021 was ¥7.3 billion, of which ¥4.0 billion was included in profit or loss for the fiscal year then ended.

Cross-border Outstanding

Cross-border outstandings are defined as loans, acceptances, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets denominated in Japanese yen or other non-local currencies. Local currency outstandings are netted out from cross-border outstandings. This cross-border disclosure is based on the reports to the BOJ required under Japanese foreign exchange-related laws. The following tables list the countries for which cross-border outstandings exceeded 0.75% of consolidated total assets at March 31, 2021, 2020 and 2019.

At March 31, 2021						
	Public institutions	Banks	Others	Total	% of total assets	Undrawn commitments
	(In millions, except percentages)					
United Kingdom	¥ 17,973	¥384,742	¥1,579,049	¥1,981,764	0.84%	¥977,799
United States	¥435,558	¥225,955	¥1,524,933	¥2,186,446	0.93%	¥385,301
At March 31, 2020						
	Public institutions	Banks	Others	Total	% of total assets	Undrawn commitments
	(In millions, except percentages)					
United Kingdom	¥ 7,403	¥361,505	¥1,356,994	¥1,725,902	0.81%	¥872,223
United States	¥374,289	¥236,470	¥1,783,450	¥2,394,209	1.13%	¥417,552
At March 31, 2019						
	Public institutions	Banks	Others	Total	% of total assets	Undrawn commitments
	(In millions, except percentages)					
United Kingdom	¥ 9,498	¥238,794	¥1,449,225	¥1,697,517	0.87%	¥975,850
United States	¥406,416	¥215,237	¥1,317,859	¥1,939,512	0.99%	¥343,973

Loan Concentrations

At March 31, 2021, there were no concentrations of loans and advances to a single industry group of borrowers, as defined by the BOJ industry segment loan and advance classifications, which exceeded 10% of our consolidated total loans and advances, except for loans and advances in a category disclosed in the table of outstanding loans and advances above.

IV. Summary of Loan Loss Experience

The following table shows an analysis of our loan loss experience by the borrowers' domicile and industry type for the fiscal years ended March 31, 2021, 2020, 2019, 2018 and 2017.

	For the fiscal year ended March 31,				
	2021	2020	2019	2018	2017
	(In millions, except percentages)				
Allowance for loan losses at beginning of period	¥ 706,405	¥ 604,988	¥ 651,620	¥ 680,456	¥ 722,717
Provision for loan losses	277,085	249,478	122,927	126,623	141,457
Charge-offs:					
Domestic:					
Manufacturing	2,276	7,374	9,642	6,439	9,712
Agriculture, forestry, fisheries and mining	—	22	282	1,772	388
Construction	377	845	1,159	1,478	1,810
Transportation, communications and public enterprises	492	579	1,556	1,609	9,731
Wholesale and retail	3,515	6,435	10,315	10,998	13,293
Finance and insurance	9	2,236	96	121	16
Real estate and goods rental and leasing	174	923	4,291	12,947	6,246
Services	2,110	9,795	4,784	9,548	5,731
Lease financing	—	—	637	511	454
Consumer	87,740	97,655	104,748	112,265	102,383
Others	244	464	1,986	3,838	7,609
Total domestic	96,937	126,328	139,496	161,526	157,373
Foreign	64,666	27,664	40,758	23,534	33,135
Total	161,603	153,992	180,254	185,060	190,508
Recoveries:					
Domestic:					
Manufacturing	19	2	1	27	61
Agriculture, forestry, fisheries and mining	—	—	2	—	5
Construction	—	—	5	5	6
Transportation, communications and public enterprises	—	—	—	1	62
Wholesale and retail	—	4	—	28	86
Finance and insurance	—	—	—	1	—
Real estate and goods rental and leasing	—	16	—	2	1
Services	1	—	12	38	40
Consumer	10,800	10,074	9,739	9,535	9,571
Others	16	—	8	21	20
Total domestic	10,836	10,096	9,767	9,658	9,852
Foreign	1,965	2,317	1,275	574	445
Total	12,801	12,413	11,042	10,232	10,297
Net charge-offs	148,802	141,579	169,212	174,828	180,211
Others ⁽¹⁾	14,599	(6,482)	(347)	(140,575)	(3,507)
Allowance for loan losses at end of period	¥ 849,287	¥ 706,405	¥ 604,988	¥ 491,676	¥ 680,456
Ratio of net charge-offs to average loans outstanding during the period	0.15%	0.15%	0.19%	0.18%	0.20%
Allowance for loan losses applicable to foreign activities:					
Balance at beginning of period	¥ 258,143	¥ 155,114	¥ 153,167	¥ 128,347	¥ 134,664
Balance at end of period	¥ 284,381	¥ 258,143	¥ 155,114	¥ 114,306	¥ 128,347
Provision for loan losses	¥ 74,471	¥ 134,657	¥ 46,597	¥ 19,872	¥ 29,699

- (1) Others mainly include foreign exchange translations for the fiscal years ended March 31, 2021, 2020 and 2017. The amount for the fiscal year ended March 31, 2018 mainly includes the exclusion of the allowance for loans and advances made by Kansai Urban Banking Corporation and The MINATO BANK, LTD, both of which had been our subsidiaries but became our equity-method associates, and the exclusion of the allowance for loans and advances made by SMFL which was reclassified as assets held for sale.

The following table shows an allocation of the allowance for loan losses by the borrower's domicile and industry type at March 31, 2021, 2020, 2019, 2018 and 2017.

At March 31,										
	2021		2020		2019		2018		2017	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
(In millions, except percentages)										
Domestic:										
Manufacturing	¥ 94,518	10.30%	¥ 36,263	9.19%	¥ 35,358	9.31%	¥ 67,511	9.27%	¥101,936	9.96%
Agriculture, forestry, fisheries and mining	7,287	0.28%	7,132	0.29%	6,335	0.31%	6,047	0.17%	2,251	0.18%
Construction	4,252	0.90%	5,346	0.96%	7,888	1.00%	4,171	1.10%	14,142	1.20%
Transportation, communications and public enterprises	37,631	5.95%	29,631	5.89%	24,133	6.11%	8,431	6.32%	16,237	5.58%
Wholesale and retail	51,965	6.09%	52,874	5.62%	48,883	5.77%	45,321	6.16%	54,896	5.95%
Finance and insurance	2,884	3.46%	2,319	3.36%	5,134	3.42%	3,183	3.24%	3,982	2.96%
Real estate and goods rental and leasing	25,789	11.90%	22,638	11.15%	25,635	11.06%	14,650	10.50%	85,813	10.50%
Services	99,603	4.89%	35,386	4.66%	42,172	4.73%	32,690	4.96%	52,282	5.08%
Municipalities	—	0.63%	—	0.88%	—	0.95%	—	1.17%	—	1.26%
Lease financing	—	0.02%	—	0.01%	—	0.01%	—	0.02%	4,114	2.81%
Consumer	225,091	15.46%	240,047	16.41%	233,287	17.68%	177,013	19.06%	194,964	19.85%
Others	15,886	4.18%	16,626	4.51%	21,049	5.03%	18,353	5.38%	21,492	5.38%
Total domestic	564,906	64.06%	448,262	62.93%	449,874	65.38%	377,370	67.35%	552,109	70.71%
Foreign:										
Public sector	456	0.31%	898	0.35%	522	0.39%	75	0.43%	88	0.31%
Financial institutions	23,456	7.33%	23,610	6.50%	10,660	5.88%	2,386	5.24%	3,186	4.77%
Commerce and industry	229,983	24.95%	207,723	26.76%	120,748	25.44%	92,255	24.49%	108,076	21.88%
Lease financing	1,072	0.31%	502	0.32%	1,342	0.38%	1,828	0.42%	6,713	0.42%
Others	29,414	3.04%	25,410	3.14%	21,842	2.53%	17,762	2.07%	10,284	1.91%
Total foreign	284,381	35.94%	258,143	37.07%	155,114	34.62%	114,306	32.65%	128,347	29.29%
Total	¥849,287	100.00%	¥706,405	100.00%	¥604,988	100.00%	¥491,676	100.00%	¥680,456	100.00%

V. Deposits

The following table shows the average amount of, and the average rate paid on, the following deposit categories for the fiscal years ended March 31, 2021, 2020 and 2019.

For the fiscal year ended March 31						
2021		2020		2019		
Average amount	Average rate	Average amount	Average rate	Average amount	Average rate	
(In millions, except percentages)						
Domestic offices:						
Non-interest-bearing demand deposits	¥ 25,395,340	—	¥ 21,526,454	—	¥ 19,831,261	—
Interest-bearing demand deposits	61,285,196	0.00%	54,861,069	0.00%	51,984,345	0.00%
Deposits at notice	803,286	0.00%	816,445	0.00%	935,063	0.00%
Time deposits	17,806,212	0.04%	17,871,438	0.04%	18,129,683	0.04%
Negotiable certificates of deposit	3,630,478	0.01%	5,259,480	0.01%	5,526,250	0.01%
Others	7,503,844	0.12%	6,860,335	0.65%	7,216,386	0.70%
Total domestic offices	116,424,356		107,195,221		103,622,988	
Foreign offices:						
Non-interest-bearing demand deposits	1,611,110	—	1,306,623	—	1,227,660	—
Interest-bearing demand deposits	3,456,953	0.30%	3,010,904	1.24%	2,852,999	1.27%
Deposits at notice	10,794,516	0.23%	9,900,813	1.52%	10,390,633	1.60%
Time deposits	8,056,423	1.18%	7,540,045	2.77%	7,818,323	2.59%
Negotiable certificates of deposit	5,833,985	0.58%	6,572,168	2.02%	6,086,906	2.24%
Others	143,509	0.08%	173,971	1.15%	134,615	0.98%
Total foreign offices	29,896,496		28,504,524		28,511,136	
Total	¥146,320,852		¥135,699,745		¥132,134,124	

Deposits at notice represent interest-bearing demand deposits which require the depositor to give two or more days' notice in advance of withdrawal.

The total amount of deposits by foreign depositors included in domestic offices for the fiscal years ended March 31, 2021, 2020 and 2019 were ¥2,518,291 million, ¥2,206,185 million and ¥2,460,264 million, respectively.

At March 31, 2021, the balances and remaining maturities of time deposits and negotiable certificates of deposit issued by domestic offices in amounts of ¥10 million (approximately \$90,326 at the median exchange rate for buying and selling spot dollars for yen by telegraphic transfer as determined by SMBC at the end of the current fiscal year) or more and total foreign deposits issued in amounts of \$100,000 or more are shown in the following table.

	Time deposits	Negotiable certificates of deposit	Total
		(In millions)	
Domestic offices:			
Not later than three months	¥ 2,533,055	¥ 4,717,667	¥ 7,250,722
Later than three months and not later than six months	1,233,656	712,289	1,945,945
Later than six months and not later than one year	4,195,152	103,198	4,298,350
Later than one year	1,667,606	70,000	1,737,606
Total	¥ 9,629,469	¥ 5,603,154	¥15,232,623
Foreign offices:	¥ 7,845,893	¥ 6,967,464	¥14,813,357

VI. Return on Equity and Assets

The following table shows the ratio of return on equity and assets for the fiscal years ended March 31, 2021, 2020 and 2019.

	For the fiscal year ended March 31,		
	2021	2020	2019
Return on average total assets	0.3%	0.1%	0.3%
Return on average shareholders' equity	6.2%	1.9%	5.3%
Dividends payout ratio ⁽¹⁾ :			
Basic	38.9%	127.2%	45.1%
Diluted	38.9%	127.2%	45.2%
Average shareholders' equity to average total assets	5.1%	5.3%	5.2%

(1) Dividends declared per common share as a percentage of net profit per share.

VII. Short-Term Borrowings

The following table shows certain additional information with respect to our short-term borrowings for the fiscal years ended March 31, 2021, 2020 and 2019.

	For the fiscal year ended March 31,		
	2021	2020	2019
(In millions, except percentages)			
Call money, and payables under repurchase agreements and securities lending transactions:			
Average balance outstanding during the period	¥15,464,319	¥16,147,869	¥12,591,665
Maximum balance outstanding at any month-end during the period	19,878,421	19,745,293	15,706,407
Balance at end of period	19,878,421	19,196,322	14,195,028
Weighted average interest rate during the period	0.06%	0.88%	1.07%
Weighted average interest rate on balance at end of period	0.09%	0.17%	1.05%
Commercial paper:			
Average balance outstanding during the period	2,288,920	2,160,939	3,590,252
Maximum balance outstanding at any month-end during the period	2,666,002	2,476,441	2,934,756
Balance at end of period	2,325,290	1,736,702	2,440,515
Weighted average interest rate during the period	0.27%	1.46%	1.27%
Weighted average interest rate on balance at end of period	0.08%	1.01%	1.85%
Short-term borrowings:			
Average balance outstanding during the period	8,811,054	6,755,141	4,093,115
Maximum balance outstanding at any month-end during the period	10,029,347	10,184,282	5,591,581
Balance at end of period	7,244,998	10,184,282	5,591,581
Weighted average interest rate during the period	0.07%	0.12%	0.26%
Weighted average interest rate on balance at end of period	0.04%	0.18%	0.18%

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Sumitomo Mitsui Financial Group, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Sumitomo Mitsui Financial Group, Inc. and subsidiaries (the Group) as of March 31, 2021 and 2020, the related consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2021 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2021, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group's internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 28 2021 expressed an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the allowance for loan losses for SMBC's corporate loans

As discussed in Notes 2, 3, 10 and 46 to the consolidated financial statements, the Group's allowance for loan losses (ALL) was ¥ 849,287 million on gross loans and advances of ¥ 98,825,555 million as of March 31, 2021. Included in such balances are corporate loans of Sumitomo Mitsui Banking Corporation (SMBC), a commercial banking subsidiary. The ALL for SMBC's corporate loans is estimated based on the expected credit loss (ECL), utilizing internal credit ratings (obligor grades), and incorporating forward-looking information into the ECL measurement by obligor grading through a qualitative assessment, macroeconomic factors, and additional ALL adjustments to capture portfolio-specific risk factors. For individually significant credit-impaired financial assets, a discounted cash flow (DCF) method is used to estimate the ALL, where cash flow streams of multiple scenarios are probability-weighted.

We identified the assessment of the ALL for SMBC's corporate loans as a critical audit matter because of the significant measurement uncertainty and complex judgment involved which required a high degree of audit effort, including specialized skills and knowledge. Specifically, complex and subjective auditor judgment was required to evaluate:

- the qualitative assessment of the obligor grading, including the assessment of obligor-specific forward-looking information
- the methodologies and key assumptions and inputs underlying the adjustments to incorporate macroeconomic factors and portfolio-specific risk factors
- the projection of multiple cash flow scenarios and probability-weighting for the DCF method.

In the assessment of these elements, the uncertainty of the COVID-19 pandemic was considered, including the adverse impact on individual customers' liquidity positions, and also the credit risk implications from the observed trends in bankruptcy cases which reflected the effects of government support programs, and those from the economic environment affected by the voluntary restrictions on social and economic activities.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the assessment of SMBC's ALL for its corporate loans, considering the uncertainty of the pandemic. This included controls to:

- approve the ALL methodologies and assess the obligor grading methods
- evaluate the individual obligor grading, including the qualitative assessment of obligor-specific forward-looking information
- determine the methodologies and key assumptions and inputs underlying the adjustments to incorporate macroeconomic factors and portfolio-specific risk factors
- evaluate the projection of multiple cash flow scenarios and probability-weighting for the DCF method.

We assessed the reasonableness of the ALL methodologies by (i) evaluating for compliance with IFRSs the methodologies used in the ALL estimate and (ii) involving credit risk professionals with specialized industry skills and knowledge, who assisted in evaluating the obligor grading methods through the assessment of the consistency of the obligor grades with external ratings, and also through re-performing the retrospective review of the methods' performance to distinguish defaulting from non-defaulting borrowers.

We evaluated the qualitative assessment of the obligor grading, specifically the assessment of obligor-specific forward-looking information including the impacts of the ongoing pandemic, for a selection of SMBC's corporate customers by:

- analyzing the customers' current business performance and liquidity positions

- assessing the feasibility of the customers' business performance projections, through (i) comparing the underlying assumptions with available external information regarding the industry outlook, (ii) evaluating the reasonableness of the stress cases considered, and (iii) reviewing the current progress against the projections
- analyzing the liquidity position forecasts, for which we considered the business performance projections and also the effects of the government and bank support programs including loan modifications.

We evaluated the adjustments to the ALL to incorporate macroeconomic factors and portfolio-specific risk factors including the economic uncertainty arising from the pandemic through (i) assessing the reasonableness of the methodologies by reviewing macroeconomic scenario analysis and portfolio-specific credit cost estimation and (ii) assessing the key assumptions and inputs underlying the adjustments by reviewing available external data on relevant macroeconomic scenarios such as GDP outlook, and industry-specific economic trends, and also by analyzing the impact of the restrictions on economic activities and the effects of the government and bank support programs in relation to the observed trends in bankruptcy cases.

We evaluated, for a selection of obligors, the multiple cash flow scenarios and probability-weighting for the DCF method through the assessment of obligors' restructuring plans which incorporated the impacts of the pandemic, the schedule and underlying sources of the repayments based on the plans, and the current progress against the plans.

/s/ KPMG AZSA LLC

We have served as the Group's auditor since 1976.

Tokyo, Japan
June 28, 2021

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Sumitomo Mitsui Financial Group, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Sumitomo Mitsui Financial Group, Inc. and subsidiaries' (the Group) internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Group as of March 31, 2021 and 2020, and the related consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended March 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated June 28, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG AZSA LLC

Tokyo, Japan
June 28, 2021

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Financial Position

		At March 31,	
	Note	2021	2020
		(In millions)	
Assets:			
Cash and deposits with banks	5	¥ 73,090,816	¥ 62,471,453
Call loans and bills bought		2,553,468	898,256
Reverse repurchase agreements and cash collateral on securities borrowed		11,738,072	13,745,996
Trading assets	6	3,140,736	2,785,016
Derivative financial instruments	7	5,521,617	6,279,801
Financial assets at fair value through profit or loss	8	1,744,848	1,478,356
Investment securities	9	31,051,461	21,864,386
Loans and advances	10	97,714,938	94,671,818
Investments in associates and joint ventures	11	886,685	826,736
Property, plant and equipment	12	1,754,661	1,764,611
Intangible assets	14	819,720	835,477
Other assets	15	4,945,631	4,272,630
Current tax assets		33,376	161,729
Deferred tax assets	23	28,958	102,198
Total assets		<u>¥235,024,987</u>	<u>¥212,158,463</u>
Liabilities:			
Deposits	16	¥155,493,654	¥138,431,418
Call money and bills sold		1,368,515	3,740,540
Repurchase agreements and cash collateral on securities lent		18,509,906	15,455,782
Trading liabilities	17	2,080,826	2,018,484
Derivative financial instruments	7	4,949,433	5,555,201
Financial liabilities designated at fair value through profit or loss . . .	18	239,519	—
Borrowings	19	19,423,355	17,121,362
Debt securities in issue	20	11,228,600	10,985,048
Provisions	21	224,274	200,053
Other liabilities	22	8,777,502	7,601,355
Current tax liabilities		53,718	48,159
Deferred tax liabilities	23	399,535	66,183
Total liabilities		<u>222,748,837</u>	<u>201,223,585</u>
Equity:			
Capital stock	25	2,341,274	2,339,965
Capital surplus	25	722,595	728,551
Retained earnings	25	6,078,208	5,609,854
Treasury stock	25	(13,699)	(13,984)
Equity excluding other reserves		9,128,378	8,664,386
Other reserves	25	2,430,857	1,525,720
Equity attributable to shareholders of Sumitomo Mitsui Financial Group, Inc.		11,559,235	10,190,106
Non-controlling interests		68,379	60,296
Equity attributable to other equity instruments holders	26	648,536	684,476
Total equity		<u>12,276,150</u>	<u>10,934,878</u>
Total equity and liabilities		<u>¥235,024,987</u>	<u>¥212,158,463</u>

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Income Statements

	Note	For the fiscal year ended March 31,		
		2021	2020	2019
		(In millions, except per share data)		
Interest income		¥1,780,370	¥2,407,045	¥2,406,350
Interest expense		397,245	1,090,730	1,137,430
Net interest income	27	1,383,125	1,316,315	1,268,920
Fee and commission income		1,174,382	1,147,132	1,101,777
Fee and commission expense		201,723	203,822	178,351
Net fee and commission income	28	972,659	943,310	923,426
Net trading income	29	237,746	134,069	320,302
Net income (loss) from financial assets and liabilities at fair value through profit or loss	30	280,012	(21,939)	54,655
Net investment income	31	153,820	176,464	93,922
Other income	32	138,223	155,631	505,666
Total operating income		3,165,585	2,703,850	3,166,891
Impairment charges on financial assets	33	282,486	259,938	119,686
Net operating income		2,883,099	2,443,912	3,047,205
General and administrative expenses	34	1,679,115	1,696,386	1,679,813
Other expenses	35	283,879	488,806	575,657
Operating expenses		1,962,994	2,185,192	2,255,470
Share of post-tax profit of associates and joint ventures		36,373	24,031	40,157
Profit before tax		956,478	282,751	831,892
Income tax expense	36	251,402	51,768	184,306
Net profit		¥ 705,076	¥ 230,983	¥ 647,586
Profit attributable to:				
Shareholders of Sumitomo Mitsui Financial Group, Inc.		¥ 687,483	¥ 200,052	¥ 541,932
Non-controlling interests		4,471	18,567	93,779
Other equity instruments holders		13,122	12,364	11,875
Earnings per share:				
Basic	37	¥ 501.73	¥ 145.48	¥ 387.76
Diluted	37	501.49	145.39	387.49

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Net profit	¥ 705,076	¥ 230,983	¥ 647,586
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans:			
Gains (losses) arising during the period, before tax	327,681	(88,950)	(40,329)
Equity instruments at fair value through other comprehensive income:			
Gains (losses) arising during the period, before tax	1,183,628	(507,362)	(128,138)
Own credit on financial liabilities designated at fair value through profit or loss:			
Gains (losses) arising during the period, before tax	(4,981)	—	—
Share of other comprehensive income (loss) of associates and joint ventures	6,375	(3,746)	3,711
Income tax relating to items that will not be reclassified	<u>(465,333)</u>	<u>181,202</u>	<u>61,453</u>
Total items that will not be reclassified to profit or loss, net of tax	1,047,370	(418,856)	(103,303)
Items that may be reclassified subsequently to profit or loss:			
Debt instruments at fair value through other comprehensive income:			
Gains (losses) arising during the period, before tax	(186,656)	329,196	150,074
Reclassification adjustments for (gains) losses included in net profit, before tax	(79,711)	(96,624)	(6,071)
Exchange differences on translating foreign operations:			
Gains (losses) arising during the period, before tax	86,842	(78,742)	22,517
Reclassification adjustments for (gains) losses included in net profit, before tax	446	204	(37,247)
Share of other comprehensive income (loss) of associates and joint ventures	2,960	(7,859)	(4,410)
Income tax relating to items that may be reclassified	<u>82,405</u>	<u>(68,152)</u>	<u>(43,746)</u>
Total items that may be reclassified subsequently to profit or loss, net of tax	<u>(93,714)</u>	<u>78,023</u>	<u>81,117</u>
Other comprehensive income (loss), net of tax	<u>953,656</u>	<u>(340,833)</u>	<u>(22,186)</u>
Total comprehensive income (loss)	<u>¥1,658,732</u>	<u>¥(109,850)</u>	<u>¥ 625,400</u>
Total comprehensive income (loss) attributable to:			
Shareholders of Sumitomo Mitsui Financial Group, Inc.	¥1,640,700	¥(138,071)	¥ 577,998
Non-controlling interests	4,910	15,857	35,527
Other equity instruments holders	13,122	12,364	11,875

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Equity excluding other reserves				Other reserves								Total equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Remeasurements of defined benefit plans reserve	Available-for-sale financial assets reserve	Financial instruments at fair value through other comprehensive income reserve	Own credit on financial liabilities designated at fair value through profit or loss reserve	Exchange differences on translating foreign operations reserve	Equity attributable to SMFG's shareholders	Non-controlling interests	Equity attributable to other equity instruments holders	
Balance at March 31, 2018	¥2,338,743	¥ 863,505	¥5,149,193	¥ (12,493)	¥ 76,102	¥ 2,122,260	¥ —	¥ —	¥ 125,987	¥ 10,663,297	¥1,232,980	¥ 599,522	¥12,495,799
Effect of changes in accounting policies	—	—	270,414	—	—	(2,122,260)	1,718,937	—	—	(132,909)	250	—	(132,659)
Balance at April 1, 2018	2,338,743	863,505	5,419,607	(12,493)	76,102	—	1,718,937	—	125,987	10,530,388	1,233,230	599,522	12,363,140
Comprehensive income:													
Net profit	—	—	541,932	—	—	—	—	—	—	541,932	93,779	11,875	647,586
Other comprehensive income (loss)	—	—	—	—	(27,109)	—	75,828	—	(12,653)	36,066	(58,252)	—	(22,186)
Total comprehensive income	—	—	541,932	—	(27,109)	—	75,828	—	(12,653)	577,998	35,527	11,875	625,400
Issuance of shares under share-based payment transactions	700	699	—	—	—	—	—	—	—	1,399	—	—	1,399
Acquisition and disposal of subsidiaries and businesses-net	—	—	—	—	—	—	—	—	—	—	(306,444)	—	(306,444)
Transaction with non-controlling interest shareholders	—	(113,736)	—	—	—	—	—	—	—	(113,736)	(91,767)	—	(205,503)
Dividends to shareholders	—	—	(245,577)	—	—	—	—	—	—	(245,577)	(77,184)	—	(322,761)
Coupons on other equity instruments	—	—	—	—	—	—	—	—	—	—	—	(11,875)	(11,875)
Redemption of preferred securities	—	—	—	—	—	—	—	—	—	—	(299,239)	—	(299,239)
Purchase of treasury stock	—	—	—	(70,094)	—	—	—	—	—	(70,094)	—	—	(70,094)
Sale of treasury stock	—	—	—	363	—	—	—	—	—	363	—	—	363
Loss on sale of treasury stock	—	(68)	—	—	—	—	—	—	—	(68)	—	—	(68)
Cancellation of treasury stock	—	(24,218)	(41,704)	65,922	—	—	—	—	—	—	—	—	—
Share-based payment transactions	—	(129)	—	—	—	—	—	—	—	(129)	—	—	(129)
Transfer from other reserves to retained earnings	—	—	40,726	—	23,432	—	(64,158)	—	—	—	—	—	—
Others	—	(41)	117	—	—	—	—	—	—	76	—	(819)	(743)
Balance at March 31, 2019	¥2,339,443	¥ 726,012	¥5,715,101	¥ (16,302)	¥ 72,425	¥ —	¥ 1,730,607	¥ —	¥ 113,334	¥10,680,620	¥ 494,123	¥ 598,703	¥11,773,446
Comprehensive income:													
Net profit	—	—	200,052	—	—	—	—	—	—	200,052	18,567	12,364	230,983
Other comprehensive income (loss)	—	—	—	—	(62,284)	—	(190,765)	—	(85,074)	(338,123)	(2,710)	—	(340,833)
Total comprehensive income (loss)	—	—	200,052	—	(62,284)	—	(190,765)	—	(85,074)	(138,071)	15,857	12,364	(109,850)
Issuance of shares under share-based payment transactions	522	522	—	—	—	—	—	—	—	1,044	—	—	1,044
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	84,951	84,951
Acquisition and disposal of subsidiaries and businesses-net	—	—	—	—	—	—	—	—	—	—	5,936	—	5,936
Transaction with non-controlling interest shareholders	—	498	—	—	—	—	—	—	—	498	11	—	509
Dividends to shareholders	—	—	(255,835)	—	—	—	—	—	—	(255,835)	(16,921)	—	(272,756)
Coupons on other equity instruments	—	—	—	—	—	—	—	—	—	—	—	(12,364)	(12,364)
Redemption of preferred securities	—	—	—	—	—	—	—	—	—	—	(436,500)	—	(436,500)
Purchase of treasury stock	—	—	—	(100,089)	—	—	—	—	—	(100,089)	—	—	(100,089)
Sale of treasury stock	—	—	—	733	—	—	—	—	—	733	—	—	733
Loss on sale of treasury stock	—	—	(250)	—	—	—	—	—	—	(250)	—	—	(250)
Cancellation of treasury stock	—	—	(101,674)	101,674	—	—	—	—	—	—	—	—	—
Share-based payment transactions	—	1,565	—	—	—	—	—	—	—	1,565	(1,610)	—	(45)
Transfer from other reserves to retained earnings	—	—	52,523	—	(12,694)	—	(39,829)	—	—	—	—	—	—
Others	—	(46)	(63)	—	—	—	—	—	—	(109)	(600)	822	113
Balance at March 31, 2020	¥2,339,965	¥ 728,551	¥5,609,854	¥ (13,984)	¥ (2,553)	¥ —	¥ 1,500,013	¥ —	¥ 28,260	¥10,190,106	¥ 60,296	¥ 684,476	¥10,934,878

	Equity excluding other reserves				Other reserves								Total equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Remeasurements of defined benefit plans reserve	Available-for-sale financial assets reserve	Financial instruments at fair value through other comprehensive income reserve	Own credit on financial liabilities designated at fair value through profit or loss reserve	Exchange differences on translating foreign operations reserve	Equity attributable to SMFG's shareholders	Non-controlling interests	Equity attributable to other equity instruments holders	
	(In millions)												
Balance at March 31, 2020	¥2,339,965	¥728,551	¥5,609,854	¥(13,984)	¥(2,553)	¥—	¥1,500,013	¥—	¥28,260	¥10,190,106	¥60,296	¥684,476	¥10,934,878
Comprehensive income:													
Net profit	—	—	687,483	—	—	—	642,910	(3,455)	85,386	687,483	4,471	13,122	705,076
Other comprehensive income	—	—	—	—	228,376	—	—	—	—	953,217	439	—	953,656
Total comprehensive income	—	—	687,483	—	228,376	—	642,910	(3,455)	85,386	1,640,700	4,910	13,122	1,658,732
Issuance of shares under share-based payment transactions	1,309	1,309	—	—	—	—	—	—	—	2,618	—	—	2,618
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	99,943	99,943
Acquisition and disposal of subsidiaries and businesses-net	—	—	—	—	—	—	—	—	—	—	2,351	—	2,351
Transaction with non-controlling interest shareholders	—	(107)	—	—	—	—	—	—	—	(107)	212	—	105
Share of changes in capital surplus of associates and joint ventures	—	(5,921)	—	—	—	—	—	—	—	(5,921)	—	—	(5,921)
Dividends to shareholders	—	—	(267,144)	—	—	—	—	—	—	(267,144)	(1,245)	—	(268,389)
Coupons on other equity instruments	—	—	—	—	—	—	—	—	—	—	—	(13,122)	(13,122)
Redemption of other equity instruments	—	(36)	—	—	—	—	—	—	—	(36)	—	(129,964)	(130,000)
Purchase of other equity instruments and sale of other equity instruments-net	—	—	—	—	—	—	—	—	—	—	—	(5,919)	(5,919)
Purchase of treasury stock	—	—	—	(62)	—	—	—	—	—	(62)	—	—	(62)
Sale of treasury stock	—	—	—	347	—	—	—	—	—	347	—	—	347
Loss on sale of treasury stock	—	—	(65)	—	—	—	—	—	—	(65)	—	—	(65)
Share-based payment transactions	—	(1,201)	—	—	—	—	—	—	—	(1,201)	—	—	(1,201)
Transfer from other reserves to retained earnings	—	—	48,080	—	(11,412)	—	(36,668)	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	1,855	—	1,855
Balance at March 31, 2021	¥2,341,274	¥722,595	¥6,078,208	¥(13,699)	¥214,411	¥—	¥2,106,255	¥(3,455)	¥113,646	¥11,559,235	¥68,379	¥648,536	¥12,276,150

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Operating Activities:			
Profit before tax	¥ 956,478	¥ 282,751	¥ 831,892
Adjustments for:			
Gains on financial assets at fair value through profit or loss and investment securities	(321,635)	(42,600)	(5,888)
Foreign exchange (gains) losses	(567,088)	179,888	181,023
Provision for loan losses	277,085	249,478	122,927
Depreciation and amortization	310,100	317,074	218,915
Share of post-tax profit of associates and joint ventures	(36,373)	(24,031)	(40,157)
Net changes in assets and liabilities:			
Net (increase) decrease of term deposits with original maturities over three months	(198,423)	(255,988)	199,313
Net (increase) decrease of call loans and bills bought	(1,575,396)	1,509,361	(596,424)
Net (increase) decrease of reverse repurchase agreements and cash collateral on securities borrowed	1,913,956	(3,428,875)	(1,862,136)
Net increase of loans and advances	(3,074,515)	(4,528,736)	(3,368,911)
Net change of trading assets and liabilities, derivative financial instruments, and financial liabilities designated at fair value through profit or loss	424,587	(142,660)	(901,481)
Net increase of deposits	16,707,952	4,375,139	5,129,513
Net increase (decrease) of call money and bills sold	(2,395,948)	2,462,341	126,395
Net increase of repurchase agreements and cash collateral on securities lent	3,143,567	2,588,673	879,734
Net increase of other unsecured borrowings and debt securities in issue	2,832,020	4,612,574	2,073,280
Income taxes paid—net	(135,708)	(285,779)	(283,761)
Other operating activities—net	61,700	1,014,624	81,599
Net cash and cash equivalents provided by operating activities	18,322,359	8,883,234	2,785,833
Investing Activities:			
Purchases of financial assets at fair value through profit or loss and investment securities	(40,140,112)	(34,178,930)	(25,077,310)
Proceeds from sale of financial assets at fair value through profit or loss and investment securities	16,994,681	23,114,463	17,705,865
Proceeds from maturities of financial assets at fair value through profit or loss and investment securities	15,692,233	8,274,856	8,922,752
Acquisitions of the subsidiaries and businesses, net of cash and cash equivalents acquired	(3,570)	(15,942)	37,966
Investments in associates and joint ventures	(57,681)	(2,860)	(102,830)
Disposal of subsidiaries and businesses, net of cash and cash equivalents disposed	—	26,799	157,507
Proceeds from sale of investments in associates and joint ventures	362	1,947	101,359
Purchases of property, plant and equipment, and investment properties	(111,642)	(83,949)	(508,835)
Purchases of intangible assets	(178,281)	(147,939)	(139,305)
Proceeds from sale of property, plant and equipment, investment properties and intangible assets	23,147	19,119	104,403
Other investing activities—net	1	(283)	(2)
Net cash and cash equivalents provided by (used in) investing activities	(7,780,862)	(2,992,719)	1,201,570
Financing Activities:			
Redemption of subordinated borrowings	—	(8,000)	(8,000)
Proceeds from issuance of subordinated bonds	90,135	54,303	—
Redemption of subordinated bonds	(361,820)	(113,000)	(26,721)
Payments for the principal portion of lease liabilities ⁽¹⁾	(95,586)	(95,386)	—
Redemption of preferred securities	—	(436,500)	(299,239)
Proceeds from issuance of other equity instruments	99,943	84,951	—
Redemption of other equity instruments	(130,000)	—	—
Dividends paid to shareholders of Sumitomo Mitsui Financial Group, Inc.	(267,119)	(255,771)	(245,595)
Dividends paid to non-controlling interest shareholders	(1,245)	(16,921)	(77,180)
Coupons paid to other equity instruments holders	(13,122)	(12,364)	(11,875)
Purchase of treasury stock and proceeds from sale of treasury stock—net	220	(99,605)	(69,800)
Purchase of other equity instruments and proceeds from sale of other equity instruments—net	(5,919)	822	(819)
Transactions with non-controlling interest shareholders—net	100	(234,159)	7,837
Net cash and cash equivalents used in financing activities	(684,413)	(1,131,630)	(731,392)
Effect of exchange rate changes on cash and cash equivalents	488,072	(271,873)	44,062
Net increase of cash and cash equivalents	10,345,156	4,487,012	3,300,073
Cash and cash equivalents at beginning of period	61,203,541	56,716,529	53,416,456
Cash and cash equivalents at end of period	¥ 71,548,697	¥ 61,203,541	¥ 56,716,529
Net cash and cash equivalents provided by operating activities includes:			
Interest and dividends received	¥ 1,955,515	¥ 2,543,771	¥ 2,501,705
Interest paid	435,205	1,111,439	1,092,458

- (1) Upon the adoption of IFRS 16 “Leases” on April 1, 2019, payments for the principal portion of lease liabilities previously classified within “Operating activities” have been reclassified to “Financing activities.” We have not restated the amount for the fiscal year ended March 31, 2019 as permitted by IFRS 16.

The accompanying notes are an integral part of the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Sumitomo Mitsui Financial Group, Inc. (the “Company” or “SMFG”) was established on December 2, 2002, as a holding company for Sumitomo Mitsui Banking Corporation (“SMBC”) and its subsidiaries through a statutory share transfer (*kabushiki-iten*) of all of the outstanding equity securities of SMBC in exchange for the Company’s newly issued securities. The Company is a joint stock corporation with limited liability (*Kabushiki Kaisha*) incorporated under the Companies Act of Japan (“Companies Act”). Upon the formation of the Company and the completion of the statutory share transfer, SMBC became a direct, wholly owned subsidiary of the Company. The Company has a primary listing on the Tokyo Stock Exchange (First Section), with further listing on the Nagoya Stock Exchange (First Section). The Company’s American Depositary Shares are listed on the New York Stock Exchange.

The Company and its subsidiaries (the “Group”) offer a diverse range of financial services, including commercial banking, leasing, securities, consumer finance and other services together with its associates and joint ventures.

The accompanying consolidated financial statements have been authorized for issue by the Management Committee on June 28, 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the fiscal years presented, unless otherwise stated.

Basis of Preparation

Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for the following:

- trading assets and liabilities are measured at fair value;
- derivative financial instruments are measured at fair value;
- financial assets and liabilities at fair value through profit or loss are measured at fair value;
- investment securities at fair value through other comprehensive income are measured at fair value; and
- liabilities and the assets recognized in consolidated statements of financial position in respect of defined benefit plans are the present value of the defined benefit obligation less the fair value of plan assets.

Functional and presentation currency

The consolidated financial statements are presented in Japanese yen, which is also the Company’s functional currency. All financial information presented in Japanese yen has been rounded to the nearest million, except as otherwise indicated.

Critical accounting estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. Actual results may differ from these estimates. The notes to the consolidated financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated financial statements, such as allowance for loan losses (Notes 10, 33), fair value of financial instruments (Note 44), impairment of intangible assets (Note 14), provision for interest repayment (Note 21), retirement benefits (Note 24) and deferred tax assets (Note 23).

Refer to Note 3 “Critical Accounting Estimates and Judgments” for further information.

New and Amended Accounting Standards Adopted by the Group

During the fiscal year ended March 31, 2021, a number of amendments to standards have become effective; however, they have not resulted in any material changes to the Group’s accounting policies.

Consolidation

Subsidiaries

Subsidiaries are all entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group considers all facts and circumstances whether it controls an entity.

Where the relevant activities are directed through voting or similar rights, the Group considers that it controls an entity if it has the existing rights that give it the current ability to direct the operating and financing policies of the entity, in general by having a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are deemed to be substantive are taken into account when assessing whether the Group controls another entity.

Where the voting rights are not the dominant factor in deciding who controls the entity, the assessment of control is more complex and requires greater use of judgment. The Group assesses whether it controls an entity considering all facts and circumstances, such as the purpose and design of the entity, the relevant activities and how to make decisions about those activities.

The Group also determines whether it is acting as an agent or a principal in assessing whether it has control of another entity. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties and therefore does not control the entity. To make such judgments, the Group considers the overall relationship, especially all of the following factors: the scope of its decision-making authority over the entity, the rights held by other parties, the remuneration to which it is entitled in accordance with the remuneration agreement, and its exposure to variability of returns from other interests that it holds in the entity.

The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

Subsidiaries are fully consolidated from the date on which the Group obtains control. They are deconsolidated from the date on which the Group loses control.

The acquisition method is used to account for the business combinations including the acquisition of subsidiaries by the Group. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred and the equity interests issued. Identifiable assets acquired and liabilities assumed in a business combination are

measured initially at their fair values at the acquisition date. The Group's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date and any gain or loss is recognized in profit or loss. For each business combination, the Group measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of the Group's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed is recorded as goodwill in the consolidated statements of financial position. If the aggregate of the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of the Group's previously held equity interest in the acquiree is less than the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, the difference is recognized immediately in the consolidated income statements.

Inter-company transactions, balances and unrealized gains on transactions between the Group companies are eliminated on consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Interests in the equity of subsidiaries not attributable to the Group are reported in the consolidated statements of financial position as a separate component of equity as non-controlling interests. Profits or losses attributable to non-controlling interests are separately reported in the consolidated income statements.

Associates and joint ventures

An associate is an entity over which the Group has significant influence, but does not control the financial and operating policy decisions of the entity. Significant influence is generally presumed to exist when the Group holds 20% or more, but less than 50%, of the voting rights.

Entities that are jointly controlled by more than one party, including the Group, may be determined to be a joint venture.

The Group accounts for investments in associates and joint ventures using the equity method from the date on which they become associates or joint ventures. The Group discontinues the use of the equity method from the date on which the Group ceases to have significant influence or joint control over the investees.

Under the equity method, the Group's investments in associates and joint ventures are initially recognized at cost. The carrying amount of the investments are subsequently increased or decreased to recognize the Group's share of the post-acquisition profit or loss of the associate or joint venture and other movements included directly in the equity of the associate or joint venture. The Group's share of the results of associates and joint ventures is based on the financial statements of its associates and joint ventures, adjusted to conform with the accounting policies of the Group. Profits on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Losses are also eliminated to the extent of the Group's interest in the associates or joint ventures unless the transaction provides evidence of impairment in the asset transferred.

The carrying amounts of the investments in associates and joint ventures include goodwill (net of any accumulated impairment loss) arising on the acquisition of the interests in the entities. Because goodwill arising on the acquisition of the interest in an associate or joint venture is not separately recognized, it is not tested for

impairment separately. Instead, the entire carrying amount of the investment in an associate or joint venture is tested for impairment as a single asset by comparing its recoverable amount, which is the higher of value in use and fair value less costs to sell, with its carrying amount, whenever there is any objective evidence that the investment is impaired. An impairment loss recognized in prior periods for the investment is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment since the last impairment loss was recognized. If this is the case, the carrying amount of the investment is increased to its recoverable amount. That increase is a reversal of an impairment loss.

When the Group's share of losses in an associate or joint venture exceeds the Group's carrying amount of the investment, the Group does not recognize further losses, unless it has a binding obligation or has made payments on behalf of the entity.

Segment Reporting

The Group determines its operating segments based on the management approach, which requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by management, in order to allocate resources to a segment and to assess its performance.

Foreign Currency Translation

Items included in the financial statements of each of the Group companies are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The consolidated financial statements are presented in Japanese yen, which is also the Company's functional currency.

Transactions and balances

Foreign currency transactions that are denominated or settled in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated using the exchange rate at the end of the reporting period. Foreign exchange gains and losses resulting from the retranslation and settlement of monetary items are recognized in the consolidated income statements. Non-monetary items that are measured at fair value in a foreign currency are translated into the functional currency using the exchange rate at the date the fair value is determined. Translation differences on certain of these items, such as equity instruments measured at fair value through other comprehensive income, are not included in the consolidated income statements but are recognized directly in equity. Non-monetary items that are measured at historical cost in a foreign currency are translated into the functional currency using the exchange rate at the date of the initial transaction.

Foreign operations

The assets and liabilities of foreign operations are translated into the presentation currency of the Group using the exchange rate at the end of the reporting period, and their income statements are translated using the exchange rates at the dates of the transactions or average exchange rates where these approximate to actual rates.

The exchange differences arising on the translation of a foreign operation are included in other comprehensive income within equity and subsequently included in profit or loss on the disposal or partial disposal of the operation.

Financial Assets

Regular way purchases and sales of financial assets are recognized and derecognized on the trade date—the date on which the Group commits to purchase or sell the assets. Financial assets are derecognized when the

contractual rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership of the financial assets at a consolidated level. The Group consolidates all subsidiaries in accordance with IFRS 10 “Consolidated Financial Statements” before determining derecognition of financial assets.

IFRS 9 “Financial Instruments” requires all financial assets, including entire hybrid instruments, to be classified into three measurement categories, namely, amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVPL”), based on the business model within which they are held and their contractual cash flow characteristics.

The Group has assessed the business models based on facts and circumstances at a portfolio level. Factors that are considered in determining the business model include policies and objectives for the relevant portfolio, how the performance and risks of the portfolio are managed, evaluated and reported to management, and the level of sales activity.

The Group has assessed the contractual cash flow characteristics of financial assets with reference to whether the contractual cash flows are solely payments of principal and interest (“SPPI”). Principal is defined as the fair value of the financial asset at initial recognition but it may change over the life of the financial asset as amounts are repaid. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks such as liquidity risk and costs such as administrative costs associated with holding the financial asset for a particular period of time, as well as a profit margin. In assessing whether the contractual cash flows meet the conditions for SPPI, the Group considers the contractual terms of the financial asset. This includes assessing whether the financial asset contains a contractual term that could change the contractual cash flows so that it would not meet the conditions for SPPI, including leverage features, contingent events that would change the amount or timing of cash flows, contractual terms that limit the Group’s claim to cash flows from specified assets, and features that modify consideration of the time value of money.

Financial assets measured at amortized cost

Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold the assets in order to collect contractual cash flows, and their contractual cash flows are SPPI. These financial assets are mainly included in “Loans and advances” and also in “Investment securities” in the consolidated statements of financial position. They are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, and are subsequently measured at amortized cost using the effective interest method. Interest income on these financial assets using the effective interest method is recognized in “Net interest income” in the consolidated income statements.

Financial assets measured at fair value through other comprehensive income

Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows are SPPI. Financial assets measured at FVOCI are included in “Investment securities” in the consolidated statements of financial position. They are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, and are subsequently measured at fair value. Gains and losses arising from changes in the fair value of these financial assets are recognized in other comprehensive income, until they are derecognized. At the time of derecognition, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss and are recognized in “Net investment income” in the consolidated income statements. Interest income calculated using the effective interest method, foreign currency gains and losses, and impairment gains and losses are recognized in “Net interest income,” “Net trading income” and “Impairment charges on financial assets” in the consolidated income statements, respectively.

In addition, the Group makes an irrevocable election at initial recognition, for particular non-trading equity instruments that would otherwise be measured at FVPL, to present subsequent changes in fair value in other comprehensive income. These financial assets are also included in “Investment securities” in the consolidated statements of financial position. They are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, and are subsequently measured at fair value. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividend income on equity instruments included in these financial assets is recognized in “Net investment income” in the consolidated income statements when the entity’s right to receive payment of the dividend is established.

Financial assets measured at fair value through profit or loss

Any financial assets that do not meet the criteria of amortized cost or FVOCI are classified as FVPL, unless the Group makes an irrevocable election for non-trading equity instruments to be measured at FVOCI. Financial assets of the Group classified as FVPL consist of financial assets held for trading, derivatives and financial assets mandatorily measured at FVPL.

Financial assets are classified as held for trading and are included in “Trading assets” in the consolidated statements of financial position, if they are acquired principally for the purpose of selling in the near term or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives which are not designated as hedging instruments are classified as held for trading, and all derivatives are included in “Derivative financial instruments” in the consolidated statements of financial position. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets mandatorily measured at FVPL, other than those held for trading and derivatives, are included in “Financial assets at fair value through profit or loss” in the consolidated statements of financial position.

The financial assets mentioned above are initially recognized at fair value with transaction costs being recognized in profit or loss, and are subsequently measured at fair value. Gains and losses arising from changes in the fair values of trading assets and derivatives held for trading, and interest and dividend income on trading assets are included in “Net trading income” in the consolidated income statements. Gains or losses arising from financial assets mandatorily measured at FVPL are included in “Net income (loss) from financial assets and liabilities at fair value through profit or loss” in the consolidated income statements.

Additionally, financial assets measured at amortized cost or FVOCI can be designated at initial recognition to be measured at FVPL in order to eliminate or significantly reduce a measurement or recognition inconsistency. The Group does not make this designation.

Financial Liabilities

Financial liabilities measured at amortized cost

Financial liabilities, except for financial liabilities measured at FVPL, are mainly included in “Deposits,” “Borrowings,” and “Debt securities in issue” in the consolidated statements of financial position. They are initially recognized at fair value, net of transaction costs that are directly attributable to the issue of the financial liabilities, and are subsequently measured at amortized cost using the effective interest method. Interest expense on these financial liabilities measured at amortized cost using the effective interest method is recognized in “Net interest income” in the consolidated income statements.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at FVPL consist of financial liabilities held for trading, derivatives whose fair values are negative and financial liabilities designated at FVPL.

Financial liabilities are classified as held for trading if they are incurred principally for the purpose of repurchasing in the near term or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial liabilities held for trading are included in “Trading liabilities” in the consolidated statements of financial position. Trading liabilities are initially recognized at fair value with transaction costs being recognized in profit or loss, and are subsequently measured at fair value. Gains and losses arising from changes in the fair values of trading liabilities and interest expense on trading liabilities are included in “Net trading income” in the consolidated income statements.

For derivatives other than the component of hybrid instrument, refer to “Financial assets measured at fair value through profit or loss.”

The derivative component of a hybrid instrument containing both a derivative and non-derivative component (“host contract”) is referred to as an embedded derivative. Certain embedded derivatives are accounted for as separated derivatives, when their economic characteristics and risks are not closely related to those of the host contract, a separated instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not carried at FVPL. These embedded derivatives are measured at fair value, while the host contracts are measured at amortized cost. These embedded derivatives are presented in the consolidated statements of financial position together with the host contract.

From April 1, 2020, the Group adopted a fair value option for certain financial liabilities which were issued by the Group’s securities subsidiary. As part of risk management, the Group enters into derivative transactions to offset the profit or loss of financial liabilities containing embedded derivatives, designated at FVPL under the fair value option. The Group can make an irrevocable election for each individual financial liability at initial recognition to designate it as measured at FVPL, if it meets one of the following criteria:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases;
- A group of financial liabilities or financial assets and financial liabilities is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the board of directors; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows and it is not clear with no analysis that separation is prohibited.

The financial liabilities designated at FVPL are presented as “Financial liabilities designated at fair value through profit or loss” in the consolidated statements of financial position. Those liabilities are initially recognized at fair value with transaction costs being recognized in profit or loss, and are subsequently measured at fair value. The amount of changes in their fair values that is attributable to changes in own credit risk of the liabilities is recognized in other comprehensive income and subsequently not transferred to profit or loss. The amount of changes in their fair values except for the effects of changes in their own credit risk, gains or losses on derecognition and interest expense are included in “Net income (loss) from financial assets and liabilities at fair value through profit or loss” in the consolidated income statements.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

Hedge Accounting

The Group applies fair value hedge accounting and hedge accounting of net investments in foreign operations, in order to reflect the effect of risk management activities on its consolidated financial statements.

Fair value hedges

The Group applies fair value hedge accounting in order to reflect in its consolidated financial statements the effect of risk management activities to mitigate the risk of changes in the fair value of certain fixed rate debt securities in issue and borrowings arising from changes in interest rates. The Group designates interest rate swaps as hedging instruments. Changes in fair values of hedging instruments are recognized in the consolidated income statements, together with changes in fair value of the hedged item attributable to the hedged risk. The fair value changes adjust the carrying amount of the hedged item. If the hedge no longer meets the criteria for hedge accounting for reasons other than the derecognition of the hedged item, the adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity of the hedged item. When the hedged item is derecognized, the adjustment is recognized immediately in the consolidated income statements.

The Group also applies fair value hedge accounting in order to reflect in its consolidated financial statements the effect of risk management activities to mitigate the risk of changes in fair values of certain equity instruments elected to be measured at FVOCI. The Group designates equity derivatives as hedging instruments. Both the effective portion and ineffective portion of changes in the fair value of the hedging instruments are recognized in other comprehensive income, and amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Hedges of net investments in foreign operations

The Group applies hedge accounting of net investments in foreign operations in order to reflect in its consolidated financial statements the effect of risk management activities to mitigate the foreign currency risk of exchange differences arising from the translation of net investments in foreign operations. The Group designates currency derivatives and foreign currency denominated financial liabilities as hedging instruments. The effective portion of the gain or loss on the hedging instruments is recognized in other comprehensive income, whereas the ineffective portion of the gain or loss on the hedging instruments is recognized in “Net trading income” in the consolidated income statements. The cumulative gain or loss recognized in other comprehensive income is reclassified to profit or loss on the disposal or partial disposal of foreign operations.

For further information about hedge accounting, see Note 7 “Derivative Financial Instruments and Hedge Accounting—Hedge accounting.”

Interest Rate Benchmark Reform

The Group early adopted “Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7” for the fiscal year ended March 31, 2020. The amendments provide reliefs from applying specific hedge accounting requirements to hedging relationships directly affected by the interest rate benchmark reform only if the reform gives rise to uncertainties. The reliefs aim to ensure that the interest rate benchmark reform does not result in the discontinuance of hedge accounting. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the beginning of the reporting period or were designated thereafter. The reliefs adopted by the Group are described below.

- Prospective assessments

The Group has assumed that the interest rate benchmarks on which the hedged risk or the cash flows of the hedging instrument is based are not altered as a result of the interest rate benchmark reform in assessing whether there is an economic relationship between the hedged item and the hedging instrument.

- Hedge of a non-contractually specified benchmark component of an interest rate

The Group has assessed whether a non-contractually specified benchmark component of interest rate risk designated as a hedged item is separately identifiable only at the inception of the hedging relationship.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position, only if the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously. In all other situations, they are presented on a gross basis.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining the fair value, the Group gives the highest priority to a quoted price in an active market for identical assets or liabilities. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no active market for the asset or liability, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. In cases where the Group manages a group of financial assets and financial liabilities on the basis of its net credit risk exposure, the fair value of the group of financial assets and financial liabilities is measured on the basis of the price that would be received to sell a net long position (i.e., an asset) or paid to transfer a net short position (i.e., a liability) for the credit risk exposure provided that certain criteria set forth in IFRS 13 “Fair Value Measurement” are met. Details of fair value measurement are described in Note 44 “Fair Value of Financial Assets and Liabilities.”

Recognition of Deferred Day One Profit and Loss

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received). However, if the fair value at initial recognition is not evidenced by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the difference between the fair value at initial recognition and the transaction price, commonly referred to as “day one profit and loss,” is not recognized as a gain or loss but is adjusted to be deferred.

The Group has certain financial instruments, such as derivatives, hybrid financial instruments and certain loans and advances classified as FVPL where fair value is determined using valuation techniques for which not all inputs are observable in a market. Such a financial instrument is initially recognized at the transaction price which may be different from the fair value, and the day one profit and loss is not recognized as a gain or loss.

The timing of recognition of the deferred day one profit and loss is determined on an instrument by instrument basis. It is either amortized over the life of the transaction, deferred until fair value of the instrument can be determined using data from observable markets, or realized due to redemption or sales of the instrument.

Repurchase and Reverse Repurchase Agreements, and Securities Borrowing and Lending Agreements

In the ordinary course of business, the Group lends or sells securities under agreements to repurchase them at a predetermined price on a future date (“repos”). Since substantially all the risks and rewards of ownership are retained by the Group, the securities remain on the consolidated statements of financial position and a liability is recorded in respect of the consideration received. On the other hand, the Group borrows or purchases securities

under agreements to resell them at a predetermined price on a future date (“reverse repos”). Since the Group does not retain the risks and rewards of ownership of the financial assets, these transactions are treated as collateralized loans and the securities are not included in the consolidated statements of financial position.

The Group measures repos and reverse repos at amortized cost. The difference between the sale and purchase price is accrued over the life of the transactions. Securities lent to counterparties remain on the consolidated statements of financial position. Securities borrowed are not recognized in the consolidated statements of financial position, unless these are sold to third parties, at which point the obligation to repurchase the securities is measured at fair value and included in “Trading liabilities” in the consolidated statements of financial position and any subsequent gain or loss is included in “Net trading income” in the consolidated income statements.

For the fiscal years ended March 31, 2021 and 2020, there were no transactions pursuant to repurchase agreements, securities lending transactions or other transactions involving the transfer of financial assets with an obligation to repurchase such transferred assets that were treated as sales and hence derecognized for accounting purposes.

Impairment of Financial Assets

The ECL model is used for the recognition of impairment loss under IFRS 9. The ECL model applies to financial assets measured at amortized cost, and debt instruments at FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. Under the ECL model, an entity is required to account for expected credit losses from initial recognition of financial instruments and to recognize full lifetime expected losses on a timely basis.

Determining significant increase in credit risk

At each reporting date, credit risk on a financial asset is assessed and a loss allowance is measured at an amount equal to the ECL resulting from default events that are possible within the next 12 months, if the credit risk has not increased significantly since initial recognition (“Stage 1”). A loss allowance is measured at an amount equal to the ECL resulting from all possible default events over the expected life of the financial assets which are assessed to have experienced a significant increase in credit risk since initial recognition (“Stage 2”) or the credit-impaired financial assets (“Stage 3”). The expected life of a financial asset is the maximum contractual period over which it is exposed to credit risk. However, for certain revolving facilities including both a loan and an undrawn component, such as retail overdrafts and credit card facilities, the contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. The expected life of these revolving facilities is derived from the behavioral life calculated based on historical data.

Assessments on significant increases in credit risk are performed on an individual financial asset basis. The Group performs ECL recognition and measurement on a collective basis or an individual basis using reasonable and supportable information that is available without undue cost or effort, such as asset type, credit risk ratings, collateral collectability, past-due status and other relevant characteristics of financial instruments.

The Group determines whether there has been a significant increase in credit risk by comparing the risk of a default occurring on a financial instrument at the reporting date with that at the date of initial recognition, based on quantitative and qualitative assessments. As for the quantitative assessment, the Group measures increase of probability of default (“PD”) since initial recognition. If an obligor gets downgraded to a certain degree which reflects an increase of PD exceeding the threshold defined, a significant increase in credit risk is recognized. For example, origination obligor grade getting down by one to four grades is taken as a significant increase in credit risk where PD has increased since initial recognition. Numbers of obligor grade deterioration taken to identify significant increase in credit risk depend on credit quality at origination. The origination obligor grade with lower

credit rating takes less downgrades to identify significant increase in credit risk than those with higher credit rating, due to the difference in increase of PD. Refer to Note 46 “Financial Risk Management” for information on obligor grading system of SMBC. As for the qualitative assessment, the Group evaluates credit risk characteristics of financial assets in accordance with the Group’s credit risk management practices. For example, certain financial assets that meet high credit risk criteria are transferred to Stage 2 from Stage 1. Moreover, financial assets whose principal and/or interest payments are more than 30 days past due are transferred to Stage 2. If there is no longer any observation of a significant increase in credit risk, the financial instrument will be transferred to Stage 1.

Determining credit-impaired financial assets

A financial asset is credit-impaired and classified to Stage 3 when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The criteria that the Group uses to determine that a financial asset is credit-impaired include:

- significant financial difficulty of an issuer or a borrower;
- a default or delinquency as more than 90 days past due in interest or principal payments;
- restructuring of a financial asset by the Group due to the borrower’s financial difficulties;
- indications that a borrower or issuer will enter bankruptcy; and
- the disappearance of an active market for that financial asset because of the borrower’s financial difficulties.

If a financial asset is no longer credit-impaired, it will be transferred to Stage 2 or Stage 1.

The definition of default used for ECL recognition and measurement is consistent with that used for the Group’s internal credit risk management purposes. The Group manages credit risk with an internal credit rating system, which is consisted of the borrower categories to substandard borrowers, potentially bankrupt borrowers, virtually bankrupt borrowers, and bankrupt borrowers defined as default for ECL application (see Note 46 “Financial Risk Management”).

Purchased or originated credit-impaired financial assets (“POCI”) are financial assets considered credit-impaired at the time of initial recognition. They are measured at fair value on initial recognition and therefore no credit loss allowance is initially recognized. Subsequently, lifetime expected credit losses for POCI are measured as the difference between the financial asset’s amortized cost and the present value of future cash flows discounted at the financial asset’s credit-adjusted effective interest rate determined at initial recognition. Moreover, changes in lifetime expected credit losses are recognized as impairment charges.

Measurement of Expected Credit Losses

The Group measures ECL of a financial asset in a way that reflects an unbiased and probability-weighted amount, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The ECL models have been built by leveraging the PD, loss given default (“LGD”) and exposure at default (“EAD”) used in the Basel III regulatory framework, for instance by adjusting certain conservative factors in those PDs and LGDs. For financial assets at Stage 1 and Stage 2, the Group uses the 12-month PDs developed to measure 12-month ECL and the lifetime PDs developed to measure lifetime ECL respectively, and considers forward-looking macroeconomic information. For financial assets at Stage 3, the Group applies the discounted cash flow (“DCF”) method for individually significant credit-impaired financial assets. For credit-impaired financial assets that are not individually significant, the Group applies the same formula used for Stage 2 with PD

set at 100%. For portfolios where the above ECL models are not applicable, the Group adjusts historical data, such as credit loss experience, with current observable data to reflect the effects of current conditions and forecasts to reflect the possible effect of future conditions.

The DCF method is used to measure the ECL, which is the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If financial assets have a variable interest rate, the discount rate for measuring any impairment loss is the effective interest rate determined under the contract, for the current period. The estimated future cash flows are individually calculated taking into account factors including historical loss information, the appropriateness of the borrower's business plan or operational improvement plan, the status of progress of its plan, the overall support from financial institutions, and the realizable value of any collateral held. Cash flows are probability-weighted by reference to different scenarios.

The Group incorporates forward-looking information into the ECL measurement by obligor grading, macroeconomic factors and additional ECL adjustments as appropriate. Obligor-specific forward-looking information is reflected in the obligor grade as a qualitative assessment. Refer to Note 46 "Financial Risk Management" for information on obligor grading system of SMBC. To incorporate forward-looking information into the ECL models, the Group introduces an approach based on multiple scenarios. In this approach, three scenarios (base, upside and downside scenarios) are modelled to ensure an unbiased ECL calculation. Information considered in the development of the base scenario is aligned with information used for strategic planning, budgeting and risk management of the Group, and includes not only internal information but external information including economic data and forecasts publicly provided by Japanese governmental bodies, research institutes of the private-sector and international organizations conducting economic analysis and projections. The downside scenario is the adverse scenario and based on the stressed business environments such as serious economic recession and financial market disruption. Both the downside scenario and the upside scenario, which is the favorable scenario, are developed based on the premises of the base scenario and the past macroeconomic experiences. The Group has lower weights for the downside scenario and the upside scenario compared with the base scenario. Furthermore, additional ECL adjustments are applied in cases where known or expected risk factors or information have not been specifically considered in the ECL model and thus the ECL does not fully reflect current circumstances, events or conditions at relevant portfolio level.

The Group has identified the key macroeconomic drivers impacting the credit risks and losses in each major portfolio of financial assets and has estimated relationships between those key drivers and credit risks and losses using an analysis of historical data. For domestic and foreign loans to wholesale customers, the key drivers for credit risks and losses are the growth rates of Japanese and global gross domestic product ("GDP"). For domestic loans to retail customers, the Japanese unemployment rate is applied as the key driver. Outcomes of the analysis are incorporated into PD for ECL recognition and measurement in a probability-weighted way.

ECLs are recognized through loss allowance accounts. Changes in the carrying amount of the loss allowance accounts are recognized as an impairment gain or loss and included in "Impairment charges on financial assets" in the consolidated income statements.

If a financial asset is determined to be uncollectible, it is written off against the related allowance for loan impairment. Uncollectible financial assets are normally written off when there is no reasonable expectation of further recovery after any collateral is foreclosed and the amount of the loss has been determined. Those assets primarily include loans to borrowers that have been legally or formally declared bankrupt and borrowers that may not have been legally or formally declared bankrupt but are essentially bankrupt.

If contractual terms of a loan have been modified, it is required to recalculate the gross carrying amount of that loan and recognize a modification gain or loss in profit or loss. Moreover, it is required to assess whether there has been a significant increase since initial recognition and the Group conducts analysis to monitor the

change in credit risk subsequent to modification. However, if the new contractual terms are considered substantially different from the existing contractual terms, a new loan will be recognized at fair value and the existing loan will be derecognized.

Property, Plant and Equipment

All property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. Repairs and maintenance costs are expensed as incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings: 7–50 years;
- Right of use assets: the shorter of the lease term and the estimated useful life, which is generally 1–20 years; and
- Assets for rent and others: 2–40 years.

The residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount. These are included in “Other income” and “Other expenses” in the consolidated income statements.

Intangible Assets

Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of the Group’s previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, and is initially recognized at the date of acquisition. Goodwill is allocated to cash-generating units for the purpose of impairment testing. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. Impairment testing is performed at least annually and whenever there is an indication that the cash-generating unit may be impaired. When the Group disposes of all or part of a cash-generating unit to which goodwill is allocated, the goodwill associated with the cash-generating unit is included in the carrying amount of the cash-generating unit when determining the gain or loss on disposal.

Software

Purchased software is carried at cost less accumulated amortization and accumulated impairment losses, if any.

Expenditure on internally generated software is recognized as an asset if the Group can demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and it can reliably measure the costs to complete the development. Internally generated software is carried at capitalized cost less accumulated amortization and accumulated impairment losses, if any. Costs associated with maintaining software are expensed as incurred.

Software is amortized using the straight-line method over the estimated useful life, which is generally 5 to 10 years.

Contractual customer relationships and trademarks

Contractual customer relationships and trademarks acquired in a business combination are recognized at fair value at the acquisition date. Contractual customer relationships and trademarks are carried at cost less accumulated amortization or impairment losses, if any. Contractual customer relationships and trademarks are amortized using the straight-line method over their estimated useful lives, which are generally 5 to 20 years.

Other intangible assets

Other intangible assets primarily consist of leasehold rights. They are recognized only when the Group legally obtains the rights and can reliably measure the fair value. Leasehold rights have an indefinite useful life and they are not amortized but are tested for impairment annually.

Impairment of Non-Financial Assets

Non-financial assets are reviewed for impairment at the end of each reporting period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in the consolidated income statements if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is estimated as the higher of the asset's fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. In addition, irrespective of whether there is any indication of impairment, intangible assets that have an indefinite useful life are tested for impairment annually.

For the purposes of conducting impairment reviews, assets are grouped into cash-generating units to which the assets belong. Non-financial assets other than impaired goodwill are reviewed for possible reversal of the impairment loss at the end of each reporting period. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if their carrying amount will be recovered principally through sale rather than through continuing use. In order to be classified as held for sale, the assets or disposal groups must be available for immediate sale in their present condition and their sale must be highly probable. Such assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell.

Leases

Accounting policies applied from April 1, 2019

The Group assesses whether the contract is, or contains, a lease at the inception of a contract. A lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

At the commencement date, the Group recognizes a lease liability and measures it at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, or the Group's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. After the commencement date, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made. The lease liabilities are included in "Borrowings" in the consolidated statement of financial position.

The Group also recognizes a right of use asset and measures it at cost at the commencement date. The cost of the right of use asset comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs incurred.

After the commencement date, the Group measures the right of use asset applying a cost model. The right of use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The lease term is determined as the non-cancellable period of a lease together with both periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and an option to terminate the lease if the Group is reasonably certain not to exercise that option. The right of use asset is included in “Property, plant and equipment” and “Intangible assets” in the consolidated statement of financial position, and it is presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned.

As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

When the Group acted as a lessor in an operating lease, the underlying assets were included in “Property, plant and equipment” in the consolidated statements of financial position and were depreciated over their expected useful lives on a basis consistent with similar assets in property, plant and equipment. Lease payment from operating leases as income was recognized on a straight-line basis over the lease term and included in “Other income” in the consolidated income statements. Initial direct costs incurred in obtaining an operating lease were added to the carrying amount of the underlying assets and recognized as an expense on a straight-line basis over the lease term.

When the Group was a lessor in a finance lease, the lease receivables were recognized at an amount equal to the net investment in the lease and included in “Loans and advances” in the consolidated statements of financial position. Finance income was recognized over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease and included in “Interest income” in the consolidated income statements.

Sale and leaseback

A sale and leaseback qualifies as a sale if the buyer-lessor obtains control of the underlying asset. The seller-lessee measures a right of use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained. The seller-lessee recognizes only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset or if the lease payments are not at market rates, the difference is accounted for as either a prepayment of lease payments (if the purchase price is below market terms) or an additional financing (if the purchase price is above market terms) to measure the sale proceeds at fair value.

Accounting policies applied until March 31, 2019

As lessee

A lease agreement in which the lessor did not transfer to the lessee substantially all the risks and rewards of ownership of assets was classified as an operating lease. The leases entered into by the Group as a lessee were primarily operating leases. Operating lease payments, net of lease incentives received from the lessor, were recognized in the consolidated income statements on a straight-line basis over the lease term.

A lease agreement in which the lessor transferred to the lessee substantially all the risks and rewards of ownership of assets, with or without ultimate legal title, was classified as a finance lease. For finance leases, the Group initially recognized the leased asset at the lower of the fair value of the asset or the present value of the minimum lease payments. Subsequent to initial recognition, assets were accounted for in accordance with the accounting policy applicable to those assets. The corresponding liability to the lessor was recognized as a lease obligation within "Borrowings" in the consolidated statements of financial position. Interest expense was recognized over the term of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

As lessor

When the Group acted as a lessor in an operating lease, the assets for rent were included in "Property, plant and equipment" in the consolidated statements of financial position and were depreciated over their expected useful lives on a basis consistent with similar assets in property, plant and equipment. Income from operating leases (net of any incentives given to the lessee) was recognized on a straight-line basis over the lease term and included in "Other income" in the consolidated income statements. Initial direct costs incurred in negotiating and arranging an operating lease were added to the carrying amount of the leased assets and recognized as an expense on a straight-line basis over the lease term.

When the Group was a lessor in a finance lease, the leased assets were derecognized and the present value of the future lease payments was recognized as a lease receivable within "Loans and advances" in the consolidated statements of financial position. The difference between the gross receivables, i.e., undiscounted future cash flows, and the present value of the receivables was recognized as unearned finance income. Finance income was recognized over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

Sale and leaseback

For sale and leaseback transactions leading to an operating lease, and the transaction took place at fair value, any profit or loss was recognized immediately. If the sale price was at or below fair value, any profit or loss was recognized immediately. However, if the loss was compensated for by future rentals at a below market price, the loss was deferred and amortized over the period that the asset was expected to be used. If the sale price was above fair value, any profit was deferred and amortized over the useful life of the asset. If the fair value of the asset was less than the carrying value of the asset at the date of transaction, that difference was recognized immediately as a loss on the sale.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, demand deposits, and other short-term highly liquid financial assets with original maturities of three months or less, which are subject to insignificant risk of changes in their fair value.

Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs when a specified debtor fails to make payments due in accordance with the original

or modified terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantees are initially recognized at fair value on the date the guarantee is given.

Financial guarantees are subsequently measured at the higher of the loss allowance and the amount initially recognized less the cumulative income recognized at the reporting date, and is included in “Other liabilities” in the consolidated statements of financial position. Any change in the loss allowance relating to financial guarantee contracts is included in “Impairment charges on financial assets” in the consolidated income statements.

Employee Benefits

The Group operates various retirement benefit plans and other employee benefit plans.

Retirement benefits

The Group has defined benefit plans, such as defined benefit pension plans and lump-sum severance indemnity plans, and defined contribution plans.

Defined benefit plans

The liabilities and the assets recognized in the consolidated statements of financial position in respect of defined benefit plans are the present value of the defined benefit obligation less the fair value of plan assets.

The present value of the defined benefit obligation is calculated annually by qualified actuaries. In calculating the present value of the defined benefit obligations, the related current service cost, and past service cost, the Group attributes the retirement benefits to years of service under the benefit formula. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of AA credit-rated corporate bonds that have terms to maturity approximating those of the related obligations. In cases where there is no deep market in corporate bonds with a sufficiently long maturity to match the estimated maturity of the benefit payments, the Group uses current market rates of the appropriate term to discount shorter term payments and estimates the discount rates for longer maturities by extrapolating current market rates along the yield curve.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the year, and return on plan assets excluding interest income are recognized in other comprehensive income and are never reclassified to profit or loss.

Past service costs are recognized immediately in the consolidated income statements.

When the calculations above result in a benefit to the Group, the recognized asset is limited to the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realizable during the life of the plan or on settlement of the plan obligations.

Defined contribution plans

Contributions to defined contribution plans are recognized as an expense in the consolidated income statements when they are due.

Other long-term employee benefits

The Group’s net obligation with respect to long-term employee benefits other than retirement benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods;

that benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rates are market yields of AA credit-rated corporate bonds that have terms to maturity approximating those of the related obligations. The calculation of obligations is performed using the projected unit credit method. Any actuarial gains or losses and past service costs are recognized in the consolidated income statements in the period in which they arise.

Short-term employee benefits

Short-term employee benefits, such as salaries, paid absences and other benefits are accounted for on an accrual basis over the period in which employees have provided services. Bonuses are recognized to the extent that the Group has a present obligation to its employees that can be measured reliably.

Income Tax

Income tax expense comprises current and deferred taxes. Income tax expense is recognized in the consolidated income statements except for that related to items recognized directly in equity. In such case, the income tax expense is recognized in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the fiscal year.

Deferred taxes are recognized, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax assets are realized or the deferred tax liabilities are settled.

Deferred tax assets principally arise from tax losses carried forward, impairment of investment securities and loans, and the allowance for loan losses.

Deferred taxes are not recognized for the following temporary differences: (a) the initial recognition of goodwill; (b) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and (c) the temporary differences associated with investments in subsidiaries, associates, and joint ventures, when the parent investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets relating to tax losses carried forward and deductible temporary differences are recognized, only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the deductible temporary differences can be utilized.

Debt and equity securities in issue

On initial recognition, financial instruments issued by the Group are classified in accordance with the substance of the contractual agreement as financial liabilities where the contractual arrangement results in the Group having an obligation to either deliver cash or another financial asset to the holder, or to satisfy the obligation other than by delivering a fixed number of equity shares in exchange for a fixed amount of cash or another financial asset. The instruments or their components are classified as equity where they do not meet the definition of a liability and show evidence of a residual interest in the entity's assets after deducting all of its liabilities. Compound financial instruments that contain both liability and equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the entire value of the compound financial instrument the fair value of the liability component which has been determined separately.

Shareholders' Equity

Stock issuance costs

Incremental costs directly attributable to the issuance of new shares or options including those issued as a result of a business combination transaction are deducted from the proceeds and shown in equity, net of tax.

Dividends on common stock and preferred stock

Dividends on common stock and preferred stock are recognized in equity in the period in which they are approved by the shareholders. Dividends for the fiscal year that are declared after the reporting period are described in Note 41 "Dividends Per Share."

Treasury stock

Where the Company or any other member of the Group companies purchase the Company's common or preferred stock, the consideration paid is deducted from equity as treasury stock until they are cancelled or sold. No gain or loss is recognized on the purchase, sale, or cancellation of the Company's own equity instruments and the consideration paid or received is recognized in equity.

Interest Income and Expense

Interest income and expense for all financial instruments, except for those classified as financial assets and liabilities at fair value through profit or loss, are recognized in "Interest income" and "Interest expense" in the consolidated income statements using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, the Group estimates cash flows, considering the contractual terms of the financial instrument but not including ECL. The calculation includes fees paid or received between parties to the contract that are an integral part of the effective interest rate of the financial instrument, transaction costs and other premiums or discounts.

The effective interest method is used for calculating interest income by applying the effective interest rate to the gross carrying amount of a financial asset. However, for credit-impaired financial assets subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial assets.

Fee and Commission Income

The Group recognizes fee and commission income in accordance with the five-step model. This model requires the Group to (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

Fee and commission income arises from a diverse range of services that the Group provides to its customers. Fee and commission income can be divided into two categories: fee and commission income from transaction services which is recognized at the point in time when the transaction takes place, and fee and commission income from services which is recognized over the time as the services are provided. Fee and commission income from transaction services includes fees on credit card business, fees and commissions on the securities

business, underwriting fees, brokerage fees, investment trusts sales commissions, fees on funds transfer and collection services, loan syndication fees for arranging a loan and fee and commission income from other services. Fee and commission income from services that are provided over a period of time includes fiduciary fees, investment fund management fees, loan commitments fees from which specific lending is unlikely to be drawn down and fee and commission income from other services.

Net Trading Income

Net trading income consists of margins made on market-making and customer business, as well as changes in fair value of trading assets and liabilities and derivative financial instruments, caused by movements in interest rates, exchange rates, equity prices and other market variables. It also includes net interest and dividend income on trading assets and liabilities.

Net Income (Loss) from Financial Assets and Liabilities at Fair Value through Profit or Loss

From April 1, 2020, the Group has changed the presentation from “Net income (loss) from financial assets at fair value through profit or loss” to “Net income (loss) from financial assets and liabilities at fair value through profit or loss” in the consolidated income statements in order to reflect gains or losses arising from the financial liabilities designated at FVPL in the consolidated income statements. Net income (loss) from financial assets and liabilities at fair value through profit or loss includes all gains and losses arising from changes in the fair value of financial assets mandatorily measured at FVPL other than trading assets and derivative financial instruments, disposal of such assets, and interest and dividend income on these financial assets. It also includes gains and losses arising from changes in the fair values of financial liabilities designated at FVPL except for the effects of changes in their own credit risk, gains or losses arising from the derecognition and interest expense on these financial liabilities.

Net Investment Income

Net investment income includes gains and losses on the disposal of debt instruments measured at fair value through other comprehensive income, and dividend income from equity instruments measured at fair value through other comprehensive income.

Earnings Per Share

The Group presents basic and diluted earnings per share (“EPS”) data for its common stock. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Group by the weighted average number of common stock outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common stock outstanding for the effects of all dilutive potential common stock including share options and other convertible instruments.

Recent Accounting Pronouncements

The Group is currently assessing the impact of the following standards, amendments to standards, and interpretations that are not yet effective and have not been early adopted:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

In September 2014, the IASB issued the narrow-scope amendments to IFRS 10 and IAS 28 “Investments in Associates and Joint Ventures” to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or

joint venture. The effective date of applying the amendments was January 1, 2016 when they were originally issued, however, in December 2015, the IASB issued *Effective Date of Amendments to IFRS 10 and IAS 28* to remove the effective date and indicated that a new effective date will be determined at a future date when it has finalized revisions, if any, that result from its research project on the equity accounting. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

Covid-19-Related Rent Concessions (Amendment to IFRS 16)

In May 2020, the IASB issued an amendment to IFRS 16 “Leases” to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions. The amendment exempts lessees to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. The amendment was effective for annual periods beginning on or after June 1, 2020.

In March 2021, the IASB extended the relief by one year to cover COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2022. The amendment is effective for annual periods beginning on or after April 1, 2021 and is not expected to have a material impact on the Group’s consolidated financial statements.

Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020, the IASB issued “Interest Rate Benchmark Reform—Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16” in response to the reform of interest rate benchmarks such as interbank offered rates (“IBORs”). The amendments supplement the amendments to IFRS 9, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” issued in 2019 and focus on the effects on entities’ financial statements when entities replace the previous interest rate benchmark with an alternative interest rate benchmark as a result of the reform. The amendments support entities in applying the standards when changes are made to contractual cash flows or hedging relationships because of the reform and providing useful information to users of financial statements. The amendments are effective for annual periods beginning on or after January 1, 2021 and are not expected to have a material impact on the Group’s consolidated financial statements.

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020, the IASB issued narrow-scope amendments to IFRS 3 “Business Combinations” to update a reference in IFRS 3 to the “Conceptual Framework for Financial Reporting” without changing the accounting requirements for business combinations. The amendments are effective for annual periods beginning on or after January 1, 2022. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

In May 2020, the IASB issued narrow-scope amendments to IAS 16 “Property, Plant and Equipment.” The amendments prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognize such sales proceeds and related cost in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 37)

In May 2020, the IASB issued narrow-scope amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” to specify which costs an entity includes when assessing whether a contract will be loss-making. The amendments are effective for annual periods beginning on or after January 1, 2022. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

Annual Improvements to IFRSs 2018–2020

In May 2020, the IASB issued Annual Improvements to IFRSs 2018-2020, which is amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards,” IFRS 9, IAS 41 “Agriculture” and the “Illustrative Examples” accompanying IFRS 16. These are minor amendments that clarify, simplify or remove redundant wordings in the standards. The amendments are effective for annual periods beginning on or after January 1, 2022. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

IFRS 17 “Insurance Contracts”

In May 2017, the IASB published IFRS 17 “Insurance Contracts,” which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, replacing IFRS 4 “Insurance Contracts.” IFRS 4 provided entities dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. IFRS 17 requires all insurance contracts to be accounted for in a consistent manner. Insurance obligations will be accounted for by using present values instead of historical cost.

In June 2020, the IASB issued amendments to IFRS 17 to help entities implement the standard and make it easier for them to explain their financial performance. The fundamental principles introduced when the IASB first issued IFRS 17 in May 2017 remain unaffected. The mandatory effective date of applying IFRS 17 was January 1, 2021 when it was originally issued but deferred to annual periods beginning on or after January 1, 2023. The Group is currently evaluating the potential impact that the adoption of the standard will have on its consolidated financial statements.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB issued narrow-scope amendments to IAS 1 “Presentation of Financial Statements” to clarify how to classify debt and other liabilities as current or non-current. The amendments make it easier for entities to determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The effective date of applying the amendments was January 1, 2022 when they were originally issued, however, in July 2020, the IASB issued an amendment which defers the effective date to annual periods beginning on or after January 1, 2023. The Group is currently evaluating the potential impact that the adoption of the standard will have on its consolidated financial statements.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

In February 2021, the IASB issued narrow-scope amendments to IAS 1 and IFRS Practice Statement 2 “Making Materiality Judgements” to support entities improve accounting policy disclosures for users of financial statements. The amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments are effective for annual periods beginning on or after January 1, 2023.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB issued narrow-scope amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors.” The amendments introduce the definition of accounting estimates and clarify how entities should distinguish changes in accounting policies from changes in accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

In May 2021, the IASB issued narrow-scope amendments to IAS 12 “Income Taxes” to specify how entities should account for deferred tax on transactions such as leases and decommissioning obligations. The aim of the amendments is to reduce diversity in the reporting of deferred tax on such transactions. The amendments are effective for annual periods beginning on or after January 1, 2023. The Group is currently evaluating the potential impact that the adoption of the standard will have on its consolidated financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The consolidated financial statements are influenced by estimates and management judgments, which necessarily have to be made in the course of preparation of the consolidated financial statements. Estimates and judgments are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and which are continually evaluated.

Allowance for Loan Losses

The allowance for loan losses is measured under the ECL model which requires the use of complex models and significant assumptions about future economic conditions and credit behavior. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- qualitative assessment in determining obligor grades;
- determining criteria for a significant increase in credit risk since initial recognition;
- measuring ECL by choosing appropriate models and assumptions;
- incorporating forward-looking information into the ECL measurement by obligor grading, forecast range of macroeconomic scenarios, and additional ECL adjustments if the current circumstances, events or conditions at relevant portfolio level are not fully reflected in the ECL model; and
- estimating the expected future cash flows by taking into account factors such as historical loss information, the appropriateness of the borrower’s business plan or operational improvement plan, the status of progress of its plan, the overall support from financial institutions, and the realizable value of any collateral held.

For the fiscal year ended March 31, 2021, the obligor grading, macroeconomic factors and additional ECL adjustments used to determine the final ECL reflected the current and forward-looking impact of the COVID-19 pandemic.

The obligor grades were reviewed based on the most recent information available as appropriate. For the fiscal year ended March 31, 2021, the obligor grades of many corporate borrowers severely affected by the COVID-19 pandemic were downgraded to the extent that the credit risk on loans and advances to such borrowers was determined to be significantly increased since initial recognition and their allowance for loan losses was measured at an amount equal to the lifetime ECL.

The macroeconomic scenarios for incorporating forward-looking information in the ECL measurement were updated, reflecting the recent economic forecasts. Although the Group understands that there is significant

uncertainty in predicting the severity and duration of the COVID-19 pandemic and its impact on the Japanese and global economy, we assumed that the Japanese and global economy will recover from the fiscal year ending March 31, 2022, reflecting the roll-out of vaccines, and reach pre-COVID-19 level by the end of the fiscal year ending March 31, 2023. This assumption was considered in determining the base scenario. The extent to which the premises of the base scenario and past macroeconomic experiences are reflected in determining the upside and downside scenarios was revised to better capture relevant information under the unprecedented conditions experienced during the fiscal year ended March 31, 2021. The following table shows the growth rates of the Japanese and global GDP, which are the key factors of the macroeconomic scenarios, under the base scenario.

	For the fiscal year ending March 31,	
	2022	2023
	(%)	
Japanese GDP	3.3	2.0
Global GDP	5.6	3.9

In determining the need for making additional ECL adjustments, the Group considered whether there is an increased credit risk for some portfolios on which the COVID-19 pandemic would have a material adverse impact but where the impact was not fully incorporated in the ECL model. This included the consideration of the temporary impact on probability of default of various measures taken by governments. The Group evaluated the forward-looking impact on credit risks and losses of certain industry-related portfolios selected based on changes in factors such as the market conditions and bankruptcy trends as a result of the reduction in economic activity by requests for voluntary restraint on movement and business closure requests to commercial facilities. As a consequence, the Group decided to make additional ECL adjustments for portfolios related to some industries.

Management estimates and judgments may change from time to time as the economic environment changes or new information becomes available. Changes in these estimates and judgments will result in a different allowance for loan losses and may have a direct impact on impairment charges. Allowance for loan losses amounted to ¥849,287 million and ¥706,405 million at March 31, 2021 and 2020, respectively. For additional information, refer to Note 10 “Loans and Advances.”

Fair Value of Financial Instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, inputs to valuation techniques are based on observable data with respect to similar financial instruments or by using models. Where observable inputs are not available, the fair value is estimated based on appropriate assumptions that a market participant would take into account. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. The Group certifies significant valuation models before they are used, and calibrates them to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, inputs such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the fair values of these financial instruments. More details about the Group’s valuation techniques, significant unobservable inputs used in determining fair values and sensitivity analyses are given in Note 44 “Fair Value of Financial Assets and Liabilities.”

Impairment of Intangible Assets

Impairment of goodwill

Goodwill is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that it may not be recoverable. If any such indication exists, then its recoverable amount is estimated. The process to determine the recoverable amount is inherently uncertain because such recoverable

amount is determined based on a number of management estimates and judgments. The Group determines the recoverable amount using the estimated future cash flows, pre-tax discount rates, growth rates, and other factors. The estimation of future cash flows inherently reflects management judgments, even though such forecasts are prepared taking into account actual performance and external economic data. The pre-tax discount rates and growth rates may be significantly affected by market interest rates or other market conditions, which are beyond management's control, and therefore significant management judgments are made to determine these assumptions. These management judgments are made based on the facts and circumstances at the time of the impairment test, and may vary depending on the situation and the time. Changes in management judgments may result in different impairment test results and different impairment amounts recognized. For the fiscal years ended March 31, 2021, 2020 and 2019, impairment losses on goodwill were ¥42,398 million, nil and ¥62,624 million, respectively. For additional information, refer to Note 14 "Intangible Assets."

Impairment of other intangible assets

The Group has other intangible assets, not including goodwill, which consist of software, contractual customer relationships, trademarks and others. These are divided into other amortizing intangible assets and other non-amortizing intangible assets. Other amortizing intangible assets are tested for impairment if events or changes in circumstances indicate that it may not be recoverable at the end of each reporting period. Other non-amortizing intangible assets are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that it may not be recoverable. If any such indication exists, then its recoverable amount is estimated. The process to determine the recoverable amount is inherently uncertain because such recoverable amount is determined based on a number of management estimates and judgments as described in "—Impairment of goodwill." Changes in management judgments may result in different impairment test results and different impairment amounts recognized. For the fiscal years ended March 31, 2021, 2020 and 2019, impairment losses on other intangible assets were ¥448 million, ¥28,689 million and ¥4,041 million, respectively. For additional information, refer to Note 14 "Intangible Assets."

Provision for Interest Repayment

Provision for interest repayment represents management's estimate of future claims for the refund of so-called "gray zone interest" (interest on loans in excess of the maximum rate prescribed by the Interest Rate Restriction Act (ranging from 15% to 20%) up to the 29.2% maximum rate permitted under the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates), taking into account historical experience such as the number of customer claims for a refund, the amount of repayments and the characteristics of customers, and the length of the period during which claims are expected to be received in the future.

Management estimates and judgments may change from time to time as the legal environment and market conditions change or new information becomes available. Changes in these estimates and judgments could affect the balance of provision for interest repayment. Provision for interest repayment is recorded in provisions as a liability, and it totaled ¥141,201 million and ¥143,429 million at March 31, 2021 and 2020, respectively. For additional information, refer to Note 21 "Provisions."

Retirement Benefits

The Group has defined benefit plans such as defined benefit pension plans and lump-sum severance indemnity plans. The present value of the defined benefit obligation is calculated based on actuarial valuations that are dependent upon a number of assumptions, including discount rates, mortality rates and future salary (benefit) increases. The discount rates are equivalent to market yields of AA credit-rated corporate bonds that have terms to maturity approximating those of the related obligations. Future mortality rates are based on the official mortality table generally used for actuarial assumptions in Japan. Other assumptions used for the calculation of the defined benefit obligation are based on historical records. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Any change in these assumptions will impact

actuarial gains and losses, as well as the present value of the defined benefit obligations and the net retirement benefit expense for each period. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the year, and return on plan assets excluding interest income are recognized in other comprehensive income and are never reclassified to profit or loss.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the end of the reporting period is recognized as assets and liabilities in the consolidated statements of financial position. When this calculation for each plan results in a benefit to the Group, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group, if it is realizable during the life of the plan or on settlement of the plan obligation. The net total of assets and liabilities in the consolidated statements of financial position amounted to net assets of ¥480,053 million and ¥129,976 million at March 31, 2021 and 2020, respectively. For additional information, refer to Note 24 “Retirement Benefits.”

Deferred Tax Assets

Deferred tax assets relating to tax losses carried forward and deductible temporary differences are recognized, only to the extent that it is probable that future taxable profit will be available against which the tax losses carried forward and the deductible temporary differences can be utilized. This assessment requires significant management estimates and judgments. Future taxable profit is estimated based on, among other relevant factors, forecasted results of operations, which are based on historical financial performance and the business plans that management believes to be prudent and feasible. While the Group carefully assesses the realization of tax losses carried forward and deductible temporary differences, the actual taxable profit in the future may be less than the forecast. The deferred tax assets amounted to ¥28,958 million and ¥102,198 million in the consolidated statements of financial position at March 31, 2021 and 2020, respectively, while the net total of deferred tax assets and liabilities amounted to net liabilities of ¥370,577 million at March 31, 2021 and net assets of ¥36,015 million at March 31, 2020, respectively. For additional information, refer to Note 23 “Deferred Income Tax.”

4 SEGMENT ANALYSIS

Business Segments

The Group’s business segment information is prepared based on the internal reporting system utilized by management to assess the performance of its business segments.

The Group has four main business segments: the Wholesale Business Unit, the Retail Business Unit, the Global Business Unit, which was renamed from the International Business Unit on April 1, 2020, and the Global Markets Business Unit, with the remaining operations recorded in Head office account and others. Effective from April 1, 2020, an internal reorganization of certain SMBC businesses was made and the revenue management system at SMBC Nikko Securities Inc. (“SMBC Nikko Securities”) was changed.

Wholesale Business Unit

The Wholesale Business Unit provides comprehensive solutions primarily for corporate clients in Japan that respond to wide-ranging client needs in relation to financing, investment management, risk hedging, settlement, M&A and other advisory services, digital services and leasing. This business unit mainly consists of the wholesale businesses of SMBC, SMBC Trust Bank Ltd. (“SMBC Trust Bank”), Sumitomo Mitsui Finance and Leasing Company, Limited (“SMFL”), SMBC Nikko Securities, Sumitomo Mitsui Card Company, Limited (“Sumitomo Mitsui Card”) and SMBC Finance Service Co., Ltd. (“SMBC Finance Service”), which changed its corporate name from Cedyna Financial Corporation upon merger with former SMBC Finance Service Co., Ltd. on July 1, 2020.

Retail Business Unit

The Retail Business Unit provides financial services to consumers residing in Japan and mainly consists of the retail business of SMBC, SMBC Trust Bank and SMBC Nikko Securities, together with three consumer finance companies, Sumitomo Mitsui Card, SMBC Finance Service and SMBC Consumer Finance Co., Ltd. This business unit offers a wide range of products and services for consumers, including wealth management services, settlement services, consumer finance and housing loans, in order to address the financial needs of all individual customers.

Global Business Unit

The Global Business Unit supports the global businesses of a diverse range of clients, such as Japanese companies operating overseas, non-Japanese companies, financial institutions and government agencies and public corporations of various countries. This business unit provides a variety of tailored products and services to meet customer and market requirements, including loans, deposits, clearing services, trade finance, project finance, loan syndication, derivatives, global cash management services, leasing services, underwriting activities, Japanese stockbroking and M&A advisory services. This business unit mainly consists of the global businesses of SMBC, SMBC Trust Bank, SMFL, SMBC Nikko Securities and their foreign subsidiaries.

Global Markets Business Unit

The Global Markets Business Unit offers solutions through foreign exchange products, derivatives, bonds, stocks, and other marketable financial products and also undertakes asset liability management operations, which help comprehensively control balance sheet liquidity risks and interest rate risks. This business unit consists of the Treasury Unit of SMBC and the global markets businesses of SMBC Nikko Securities.

Head office account and others

The Head office account and others represent the difference between the aggregate of the Wholesale Business Unit, the Retail Business Unit, the Global Business Unit and the Global Markets Business Unit, and the Group as a whole. It mainly consists of administrative expenses related to headquarters operations and profit or loss from other subsidiaries including The Japan Research Institute, Limited and Sumitomo Mitsui DS Asset Management Company, Limited. It also includes internal transactions between the Group companies, which are eliminated in the consolidated financial statements.

Measurement of Segment Profit or Loss

The business segment information is prepared under the management approach. Consolidated net business profit is used as a profit indicator of banks in Japan. Consolidated net business profit of each segment is calculated by deducting general and administrative expenses (i.e., the total of personnel expense, non-personnel expense and tax), and by adding or deducting others (i.e., share of profit or loss of equity-method associates and joint ventures and cooperated profit and loss based on internal managerial accounting) to or from consolidated gross profits (i.e., the total of net interest income, trust fees, net fee and commission income, net trading income and net other operating income). The consolidated gross profits and general and administrative expenses of each segment are prepared for management accounting purposes and not generated solely by aggregating figures prepared under financial accounting. While the Group's disclosure complies with the requirements on segment information in accordance with IFRS, the figures reported to management and disclosed herein are prepared under accounting principles generally accepted in Japan ("Japanese GAAP"). Consequently, the business segment information does not agree with the figures in the consolidated financial statements under IFRS. These differences are addressed in the "Reconciliation of Segmental Results of Operations to Consolidated Income Statements."

Information regarding the total assets of each segment is not used by management in deciding how to allocate resources and assess performance. Accordingly, total assets are not included in the business segment information.

Segmental Results of Operations

The following tables show our results of operations by business segment for the fiscal year ended March 31, 2021, 2020, and 2019. The comparative information for the fiscal years ended March 31, 2020 and 2019 has been restated to reflect the aforementioned internal reorganization and change in the revenue management system, and eliminate the impact of factors such as changes in interest rates and exchange rates that may distort the comparison.

For the fiscal year ended March 31, 2021:

	Wholesale Business Unit	Retail Business Unit	Global Business Unit	Global Markets Business Unit	Head office account and others	Total
	(In billions)					
Consolidated gross profit ⁽¹⁾	¥ 634.9	¥1,127.4	¥ 723.7	¥ 460.7	¥ (140.5)	¥ 2,806.2
General and administrative expenses . . .	(299.9)	(910.4)	(383.3)	(82.9)	(70.6)	(1,747.1)
Others ⁽²⁾	53.5	2.2	26.3	35.7	(92.8)	24.9
Consolidated net business profit	<u>¥ 388.5</u>	<u>¥ 219.2</u>	<u>¥ 366.7</u>	<u>¥ 413.5</u>	<u>¥ (303.9)</u>	<u>¥ 1,084.0</u>

For the fiscal year ended March 31, 2020:

	Wholesale Business Unit	Retail Business Unit	Global Business Unit	Global Markets Business Unit	Head office account and others	Total
	(In billions)					
Consolidated gross profit ⁽¹⁾	¥ 620.1	¥1,176.1	¥ 680.8	¥ 438.6	¥ (147.0)	¥ 2,768.6
General and administrative expenses . . .	(303.6)	(934.5)	(370.9)	(79.6)	(51.0)	(1,739.6)
Others ⁽²⁾	50.5	2.0	52.9	32.5	(81.9)	56.0
Consolidated net business profit	<u>¥ 367.0</u>	<u>¥ 243.6</u>	<u>¥ 362.8</u>	<u>¥ 391.5</u>	<u>¥ (279.9)</u>	<u>¥ 1,085.0</u>

For the fiscal year ended March 31, 2019:

	Wholesale Business Unit ⁽³⁾	Retail Business Unit	Global Business Unit ⁽³⁾	Global Markets Business Unit	Head office account and others ⁽³⁾	Total
	(In billions)					
Consolidated gross profit ⁽¹⁾	¥ 626.8	¥1,185.7	¥ 654.6	¥ 378.0	¥ 1.1	¥ 2,846.2
General and administrative expenses . . .	(305.8)	(930.0)	(351.2)	(77.0)	(51.1)	(1,715.1)
Others ⁽²⁾	46.9	1.8	56.1	30.6	(74.2)	61.2
Consolidated net business profit	<u>¥ 367.9</u>	<u>¥ 257.5</u>	<u>¥ 359.5</u>	<u>¥ 331.6</u>	<u>¥ (124.2)</u>	<u>¥ 1,192.3</u>

(1) Consolidated gross profit = (Interest income – Interest expenses) + Trust fees + (Fee and commission income – Fee and commission expenses) + (Trading income – Trading losses) + (Other operating income – Other operating expenses).

(2) “Others” includes share of profit or loss of equity-method associates and joint ventures and cooperated profit and loss, that is, profit and loss double counted within the Group’s business segments in the managerial accounting.

(3) SMFL became a joint venture from a consolidated subsidiary of the Group on November 28, 2018. However, for managerial accounting purposes, the full year results of SMFL were included in those of the Wholesale Business Unit and the Global Business Unit, while its results after it became a joint venture of the Group were deducted from those of Head office account and others. For consistency with financial results, the Group’s share of the profit of SMFL as our joint venture recognized in the consolidated income statement was included in others in the Head office account and others.

Reconciliation of Segmental Results of Operations to Consolidated Income Statements

The figures provided in the tables above are calculated by aggregating the figures used for management reporting under Japanese GAAP for each segment. The total amount of consolidated net business profit that is calculated by each segment based on the internal managerial data is reconciled to profit before tax reported in the consolidated financial statements under IFRS as shown in the following table:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In billions)		
Consolidated net business profit	¥1,084.0	¥1,085.0	¥1,192.3
Differences between management reporting and Japanese GAAP:			
Total credit costs	(360.5)	(170.6)	(110.3)
Gains on equity instruments	92.6	80.5	116.3
Extraordinary gains or losses and others	(143.9)	(106.3)	(74.7)
Profit before tax under Japanese GAAP	672.2	888.6	1,123.6
Differences between Japanese GAAP and IFRS:			
Scope of consolidation	5.7	(3.3)	0.1
Derivative financial instruments	94.8	(163.3)	31.3
Investment securities	113.3	(115.3)	(129.5)
Loans and advances	60.9	(116.0)	(23.2)
Investments in associates and joint ventures	3.4	(190.8)	(86.5)
Property, plant and equipment	(2.5)	(30.5)	(1.2)
Lease accounting	1.0	0.4	(1.4)
Defined benefit plans	—	(32.6)	(51.4)
Foreign currency translation	(20.2)	11.9	1.3
Classification of equity and liability	12.5	12.7	11.9
Others	15.4	21.0	(43.1)
Profit before tax under IFRS	¥ 956.5	¥ 282.8	¥ 831.9

On April 1, 2019, the Group adopted IFRS 16 retrospectively by adjusting the consolidated statement of financial position at the date of initial application, and has not restated comparatives as permitted by IFRS 16. Therefore, the accounting standards under IFRS for the fiscal years ended March 31, 2021 and 2020 are different from those for the fiscal year ended March 31, 2019, when calculating the differences in profit before tax between Japanese GAAP and IFRS.

Information about Geographical Areas

The following table shows the total operating income in accordance with IFRS by the main geographical areas. The Group's services are provided to domestic and foreign clients on a worldwide basis. These include transactions where SMBC's branches in Japan may deal with customers located in foreign countries and where SMBC's overseas branches may provide services to Japanese companies.

To identify income attributed to each geographical area for the purposes of this disclosure, they are aggregated based on the geographical location of the booking entity, with the assumption that transactions booked in booking entities are deemed to have occurred in their respective geographical areas.

	For the fiscal year ended March 31,		
	2021	2020	2019 ⁽⁴⁾
	(In millions)		
Domestic⁽¹⁾:			
Japan	¥2,077,833	¥1,791,910	¥2,079,758
Total domestic	2,077,833	1,791,910	2,079,758
Foreign⁽¹⁾⁽²⁾:			
Americas	448,998	277,017	315,419
Europe and Middle East	246,218	194,441	371,413
Asia and Oceania	392,536	440,482	400,301
Total foreign	1,087,752	911,940	1,087,133
Total operating income ⁽³⁾	¥3,165,585	¥2,703,850	¥3,166,891

- (1) The geographical segmentation is determined based on the degrees of the following factors: geographic proximity, similarity of economic activities and relationship of business activities among regions.
- (2) Americas includes the United States, Brazil, Canada and others; Europe and Middle East include the United Kingdom, Germany, France and others; Asia and Oceania include China, Singapore, Australia and others except Japan.
- (3) Total operating income comprises net interest income, net fee and commission income, net trading income, net income (loss) from financial assets and liabilities at fair value through profit or loss, net investment income and other income.
- (4) From the fiscal year ended March 31, 2020, premiums for deposit insurance have been reclassified from "General and administrative expense" to "Interest expense." Comparative amounts have been reclassified to conform to the current presentation.

5 CASH AND DEPOSITS WITH BANKS

Cash and deposits with banks at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Cash	¥ 779,343	¥ 844,886
Deposits with banks	72,311,473	61,626,567
Total cash and deposits with banks	¥73,090,816	¥62,471,453

The reconciliation of cash and cash equivalents used for the purposes of the consolidated statements of cash flows at March 31, 2021, 2020 and 2019 is shown as follows:

	At March 31,		
	2021	2020	2019
	(In millions)		
Cash and deposits with banks	¥73,090,816	¥62,471,453	¥57,763,441
Less: term deposits with original maturities over three months	(675,185)	(532,703)	(532,784)
Less: cash segregated as deposits and others	(866,934)	(735,209)	(514,128)
Cash and cash equivalents	<u>¥71,548,697</u>	<u>¥61,203,541</u>	<u>¥56,716,529</u>

Private depository institutions in Japan are required to maintain certain minimum reserve funds with the Bank of Japan, based on average deposit balances and certain other factors. There are similar reserve deposit requirements for the Group's foreign offices engaged in banking businesses in foreign countries. At March 31, 2021, 2020 and 2019, the reserve funds required to be maintained by the Group, which were included in cash and cash equivalents, amounted to ¥1,875,857 million, ¥1,705,352 million and ¥1,784,466 million, respectively.

6 TRADING ASSETS

Trading assets at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Debt instruments	¥2,732,480	¥2,545,703
Equity instruments	408,256	239,313
Total trading assets	<u>¥3,140,736</u>	<u>¥2,785,016</u>

Trading debt instruments mainly consist of Japanese government bonds. Trading equity instruments mainly consist of publicly traded Japanese stocks.

7 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments include futures, forwards, swaps, options and other types of derivative contracts, which are transactions listed on exchanges or over-the-counter ("OTC") transactions. In the normal course of business, the Group enters into a variety of derivatives for trading and risk management purposes. The Group uses derivatives for trading activities, which include facilitating customer transactions, market-making and arbitrage activities. The Group also uses derivatives to reduce its exposures to market and credit risks as part of its asset and liability management.

Derivatives are financial instruments that derive their value from the price of underlying items such as interest rates, foreign exchange rates, equities, bonds, commodities, credit spreads and other indices. The Group's derivative financial instruments mainly consist of interest rate derivatives and currency derivatives. Interest rate derivatives include interest rate swaps, interest rate options and interest rate futures. Currency derivatives include foreign exchange forward transactions, currency swaps and currency options.

The tables below represent the derivative financial instruments by type and purpose of derivatives at March 31, 2021 and 2020.

At March 31, 2021						
	Trading			Risk Management ⁽¹⁾		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
(In millions)						
Interest rate derivatives	¥ 897,101,881	¥2,701,146	¥2,395,741	¥56,201,172	¥396,135	¥254,218
Futures	28,832,868	14,800	14,662	11,629,291	1,494	588
Listed Options	186,425,271	30,995	6,915	—	—	—
Forwards	110,252,456	256	3	—	—	—
Swaps	466,717,825	2,485,621	2,189,767	44,417,994	383,371	253,630
OTC Options	104,873,461	169,474	184,394	153,887	11,270	—
Currency derivatives	157,543,495	2,129,604	1,935,117	13,119,180	196,261	239,943
Futures	8,068	104	10	—	—	—
Listed Options	—	—	—	—	—	—
Forwards	75,327,505	1,081,492	863,744	2,003,070	5,605	91,422
Swaps	76,385,589	955,783	973,057	11,116,110	190,656	148,521
OTC Options	5,822,333	92,225	98,306	—	—	—
Equity derivatives	2,825,220	65,887	87,783	54,752	715	2,715
Futures	1,613,308	14,269	9,969	—	—	—
Listed Options	950,758	34,014	69,039	—	—	—
Forwards	3,574	155	63	—	—	—
Swaps	91,648	1,593	3,124	54,752	715	2,715
OTC Options	165,932	15,856	5,588	—	—	—
Commodity derivatives	109,665	7,310	5,371	—	—	—
Futures	30,917	1,043	510	—	—	—
Listed Options	—	—	—	—	—	—
Forwards	—	—	—	—	—	—
Swaps	76,264	6,201	4,346	—	—	—
OTC Options	2,484	66	515	—	—	—
Credit derivatives	2,895,632	24,559	28,545	—	—	—
Total derivative financial instruments	<u>¥1,060,475,893</u>	<u>¥4,928,506</u>	<u>¥4,452,557</u>	<u>¥69,375,104</u>	<u>¥593,111</u>	<u>¥496,876</u>

At March 31, 2020						
	Trading			Risk Management ⁽¹⁾		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
(In millions)						
Interest rate derivatives	¥ 893,588,637	¥3,446,719	¥2,982,015	¥53,625,724	¥664,807	¥500,374
Futures	38,049,894	51,843	50,545	1,577,745	438	124
Listed Options	165,280,570	48,277	11,465	—	—	—
Forwards	124,681,480	616	—	—	—	—
Swaps	465,412,015	3,123,501	2,729,662	51,896,189	638,744	500,250
OTC Options	100,164,678	222,482	190,343	151,790	25,625	—
Currency derivatives	141,416,221	1,858,803	1,783,476	12,204,471	184,981	110,985
Futures	4,500	—	7	—	—	—
Listed Options	—	—	—	—	—	—
Forwards	78,698,264	862,105	843,072	1,983,357	20,587	26,515
Swaps	54,931,441	869,766	823,957	10,221,114	164,394	84,470
OTC Options	7,782,016	126,932	116,440	—	—	—
Equity derivatives	3,049,786	82,305	143,084	41,556	8,861	—
Futures	1,158,638	14,348	20,418	—	—	—
Listed Options	1,101,352	31,352	69,630	—	—	—
Forwards	2,615	449	—	—	—	—
Swaps	119,965	3,111	21,499	41,556	8,861	—
OTC Options	667,216	33,045	31,537	—	—	—
Commodity derivatives	169,734	16,823	14,715	—	—	—
Futures	7,134	181	389	—	—	—
Listed Options	—	—	—	—	—	—
Forwards	—	—	—	—	—	—
Swaps	158,139	16,496	13,647	—	—	—
OTC Options	4,461	146	679	—	—	—
Credit derivatives	2,285,271	16,502	20,552	—	—	—
Total derivative financial instruments	¥1,040,509,649	¥5,421,152	¥4,943,842	¥65,871,751	¥858,649	¥611,359

(1) Derivative financial instruments categorized as “Risk Management” are used for economic hedging, such as managing the exposure to changes in fair value of the loan portfolio, and are identified as hedging instruments under Japanese GAAP. Under IFRS, the Group applies hedge accounting for certain fixed rate debt securities in issue and borrowings, certain equity instruments elected to be measured at fair value through other comprehensive income (“FVOCI”) and net investments in foreign operations, and derivative financial instruments designated as hedging instruments are also categorized as “Risk Management.”

Hedge accounting

The Group applies fair value hedge accounting and hedge accounting of net investments in foreign operations in order to reflect the effect of risk management activities on its consolidated financial statements.

Fair value hedges

The Group applies fair value hedge accounting to mitigate the risk of changes in the fair value of certain fixed rate debt securities in issue and borrowings arising from changes in the interest rate benchmarks, and the risk of changes in the fair value of certain equity instruments elected to be measured at FVOCI. Changes in the fair value of the liabilities arising from changes in the interest rates would not be recognized in profit or loss and those of the equity derivatives would be recognized in profit or loss if it did not apply the hedge accounting. For more information about the interest rate benchmarks to which the Group’s hedging relationships are exposed, see “Interest Rate Benchmark Reform” in this note.

For fair value hedge of interest rate risk, the Group hedges interest rate risk only to the extent of interest rate benchmarks because the changes in fair value of certain fixed rate debt securities in issue and borrowings are significantly influenced by changes in the interest rate benchmarks. The Group designates as hedging instruments interest rate swaps and establishes a hedge ratio by matching the notional of the derivative financial instruments with the principal amount of the hedged items. The Group assesses hedge effectiveness qualitatively by considering whether the critical terms of the hedged items and hedging instruments closely align and quantitatively by comparing changes in the fair value of the hedged items arising from changes in the interest rate benchmarks with those of the hedging instruments. Hedge ineffectiveness may arise from basis risk, timing differences between the hedged items and hedging instruments and the effect of the counterparty or the Group's own credit risk on the fair value of the interest rate swaps, which is not reflected in the fair value of the hedged item attributable to the change in interest rate benchmarks. There are no other sources of hedge ineffectiveness in the hedging relationships. The gain or loss on the hedging instrument is recognized in "Net trading income" in the consolidated income statements. The hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item, and is recognized in "Net trading income" in the consolidated income statements. If the hedge no longer meets the criteria for hedge accounting for reasons other than the derecognition of the hedged item, the adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity of the hedged item. When the hedged item is derecognized, the adjustment is recognized immediately in the consolidated income statements.

For fair value hedge of stock price risk, the Group designates as hedging instruments equity derivatives with underlying instruments identical to the hedged items and establishes a hedge ratio by aligning the number of shares of hedged items with that of equity derivatives used as hedging instruments. The Group assesses hedge effectiveness qualitatively by considering whether the critical terms of the hedged items and hedging instruments closely align and quantitatively by comparing changes in the fair value of the hedged items with those of the hedging instruments. Hedge ineffectiveness may arise from the effect of the counterparty or the Group's own credit risk on the fair value of the equity derivatives and interest rate risk on the equity derivatives. There are no other sources of hedge ineffectiveness in the hedging relationships. Both the effective portion and ineffective portion of changes in the fair value of the hedging instruments are recognized in other comprehensive income, and amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

The tables below represent the amounts related to items designated as hedging instruments at March 31, 2021 and 2020.

Line item in the consolidated statements of financial position where the hedging instrument is included	At March 31, 2021			For the fiscal year ended March 31, 2021	
	Notional amounts ⁽¹⁾	Carrying amounts		Change in value used for calculating hedge ineffectiveness	
		Assets	Liabilities		
		(In millions)			
Interest rate risk					
Interest rate swaps	Derivative financial instruments	¥6,199,507	¥222,553	¥46,666	¥ (122,874)
Stock price risk					
Equity swaps	Derivative financial instruments	33,675	—	2,690	(19,215)

- (1) At March 31, 2021, the notional amount of interest rate swaps with remaining maturities more than 12 months that are designated hedging instruments against interest rate risk is ¥5,317,746 million out of ¥6,199,507 million in total, and that of equity swaps with remaining maturities more than 12 months that are designated hedging instruments against stock price risk is ¥33,675 million, equal to the total notional amount.

Line item in the consolidated statements of financial position where the hedging instrument is included	At March 31, 2020			For the fiscal year ended March 31, 2020	
	Notional amounts ⁽¹⁾	Carrying amounts		Change in value used for calculating hedge ineffectiveness	
		Assets	Liabilities		
		(In millions)			
Interest rate risk					
Interest rate swaps	Derivative financial instruments	¥5,723,327	¥366,092	¥ —	¥ 350,446
Stock price risk					
Equity swaps	Derivative financial instruments	41,556	8,861	—	13,889

(1) At March 31, 2020, the notional amount of interest rate swaps with remaining maturities more than 12 months that are designated hedging instruments against interest rate risk is ¥5,156,729 million out of ¥5,723,327 million in total, and that of equity swaps with remaining maturities more than 12 months that are designated hedging instruments against stock price risk is ¥41,556 million, equal to the total notional amount.

The amounts related to items designated as hedged items at March 31, 2021 and 2020 were as follows:

	Line item in the consolidated statements of financial position where the hedged item is included	At March 31, 2021	For the fiscal year ended March 31, 2021
		Carrying amounts	Change in value used for calculating hedge ineffectiveness
		(In millions)	
Interest rate risk			
Debt securities in issue	Debt securities in issue	¥ 6,252,899	¥ 116,793
Borrowings	Borrowings	85,376	2,017
Stock price risk			
Equity instruments at fair value through other comprehensive income	Investment securities	74,564	18,994
	Line item in the consolidated statements of financial position where the hedged item is included	At March 31, 2020	For the fiscal year ended March 31, 2020
		Carrying amounts	Change in value used for calculating hedge ineffectiveness
		(In millions)	
Interest rate risk			
Debt securities in issue	Debt securities in issue	¥ 5,983,893	¥ (335,998)
Borrowings	Borrowings	78,573	(6,712)
Stock price risk			
Equity instruments at fair value through other comprehensive income	Investment securities	31,721	(14,126)

As for interest rate risk, the accumulated amount of fair value hedge adjustments on the hedged items were a loss of ¥138,456 million and a loss of ¥342,710 million at March 31, 2021 and 2020, respectively. There were no balances remaining in the consolidated statements of financial position for any hedged items that had ceased to be adjusted for hedging gains and losses at March 31, 2021 and 2020, respectively. As for stock price risk, the accumulated amount of fair value hedge adjustments on the hedged items were a loss of ¥9,508 million and a loss of ¥28,502 million at March 31, 2021 and 2020, respectively. There were no balances remaining in the consolidated statements of financial position for any hedged items that had ceased to be adjusted for hedging gains and losses at March 31, 2021 and 2020.

As for interest rate risk, hedge ineffectiveness was included in “Net trading income” in the consolidated income statements, and amounted to a loss of ¥4,064 million and a profit of ¥7,736 million for the fiscal years ended March 31, 2021 and 2020, respectively. As for stock price risk, hedge ineffectiveness was included in

“Other comprehensive income—Equity instruments at fair value through other comprehensive income” in the consolidated statements of comprehensive income, and amounted to a loss of ¥221 million and a loss of ¥237 million for the fiscal years ended March 31, 2021 and 2020, respectively.

Interest Rate Benchmark Reform

Interest rate benchmark reform has been undertaken globally to replace or reform interest rate benchmarks such as interbank offered rates (“IBORs”) with alternative rates. This reform gives rise to uncertainties about the timing or the amount of interest rate benchmark-based cash flows of hedged items or of hedging instruments. As a response, the IASB issued in September 2019 “Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7” that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform. The reliefs aim to ensure that the interest rate benchmark reform does not result in the discontinuance of hedge accounting.

The Group’s fair value hedge relationships where IBOR-linked derivatives are designated as hedging instruments are directly affected by the interest rate benchmark reform. The hedging instruments offset the risk exposure the Group aims to manage through hedge relationships. USD LIBOR is the significant interest rate benchmark to which hedging relationships are exposed. The notional amounts of hedging instruments directly affected by the interest rate benchmark reform were ¥5,102,495 million and ¥4,586,214 million at March 31, 2021 and 2020, respectively.

In applying the reliefs provided by the amendments, the Group has assumed it is too early to reliably estimate when interest rate benchmark uncertainty will be resolved for all interest rate benchmarks that are in the scope of the amendments at March 31, 2021.

The Group put in place a Group-wide IBOR transition project team in May 2019 involving all the Group’s business lines and functions. This project team’s objective is providing smooth and efficient global coordination for the transition from IBOR to alternative reference rates, expected to take place by the end of 2021 or the mid-2023. Recently the cessation date for certain USD LIBOR settings was extended to be after June 30, 2023 and so the Group’s transition plans have been updated accordingly. The working groups and work streams have continued to execute the plans based on each region’s background for the IBOR transition project, while taking into consideration the common objective and achievement globally.

Hedges of net investments in foreign operations

The Group applies hedge accounting of net investments in foreign operations to mitigate the foreign currency risk of exchange differences arising from the translation of net investments in foreign operations. The Group hedges the risk of changes in its equity, arising from the movement in the U.S. dollar exchange rate or other exchange rates against Japanese yen. Changes in foreign exchange rates would have an impact on the equity of the Group if it did not apply the hedge accounting.

The Group designates as hedging instruments foreign exchange forward contracts and foreign currency denominated financial liabilities. When the hedging instruments are foreign exchange forward contracts, the Group establishes a hedge ratio where the notional amounts on the foreign exchange forward contracts match the carrying amount of the hedged items. The Group designates as hedging instruments only the changes in the fair value of the spot element of the foreign exchange forward contracts, and assesses hedge effectiveness and calculates hedge ineffectiveness by comparing the changes in the carrying amounts of the hedging instruments that are attributable to a change in the spot rate with the changes in the net investments in foreign operations due to a movement in the spot rate. Therefore, the only sources of hedge ineffectiveness that is expected to arise from these hedging relationships are due to the effect of the counterparty or the Group’s own credit risk on the changes in the fair value of the hedging instruments. There are no other sources of hedge ineffectiveness in these hedge relationships.

When the hedging instruments are foreign currency denominated financial liabilities, the Group designates them as hedging instruments to the extent that the amounts do not exceed those of the hedged items, and establishes the hedge ratio by aligning the amounts of the hedging instruments with those of the hedged items. The Group assesses hedge effectiveness and calculates hedge ineffectiveness by comparing the changes in the carrying amounts of the liabilities that are attributable to a change in the spot rate with the changes in the net investments in foreign operations due to a movement in the spot rate. Therefore, no hedge ineffectiveness arises.

The effective portion of the gain or loss on the hedging instruments is recognized in other comprehensive income, whereas the ineffective portion of the gain or loss on the hedging instruments is recognized in “Net trading income” in the consolidated income statements. The cumulative gain or loss recognized in other comprehensive income is reclassified to profit or loss on the disposal or partial disposal of the foreign operations. On the other hand, changes in the fair value of the forward element of the foreign exchange forward contracts are recognized in “Net trading income” in the consolidated income statements because the Group designates as hedging instruments only the changes in the fair value of the spot element of the foreign exchange forward contracts, as stated above.

The tables below represent the amounts related to items designated as hedging instruments at March 31, 2021 and 2020.

		At March 31, 2021			For the fiscal year ended March 31, 2021
Line item in the consolidated statements of financial position where the hedging instrument is included		Nominal amounts	Carrying amounts		Change in value used for calculating hedge ineffectiveness
			Assets	Liabilities	
(In millions)					
Foreign exchange forward contracts	Derivative financial instruments	¥1,963,691	¥5,269	¥91,422	¥ (94,786)
Foreign currency denominated financial liabilities	Debt securities in issue, Borrowings, Deposits	91,401	—	91,401	(1,419)
		At March 31, 2020			For the fiscal year ended March 31, 2020
Line item in the consolidated statements of financial position where the hedging instrument is included		Nominal amounts	Carrying amounts		Change in value used for calculating hedge ineffectiveness
			Assets	Liabilities	
(In millions)					
Foreign exchange forward contracts	Derivative financial instruments	¥1,943,931	¥19,864	¥ 26,515	¥ 29,625
Foreign currency denominated financial liabilities	Debt securities in issue, Borrowings, Deposits	180,178	—	180,178	1,844

The amounts related to items designated as hedged items for the fiscal years ended March 31, 2021 and 2020 were as follows:

	For the fiscal year ended March 31, 2021		At March 31, 2021	
	Change in value used for calculating hedge ineffectiveness		Translating foreign operations reserve	
	(In millions)			
USD foreign operations	¥	15,137	¥	2,760
EUR foreign operations		42,581		38,499
THB foreign operations		20,273		20,393
Other foreign operations		18,214		20,679
Total	¥	96,205	¥	82,331

	For the fiscal year ended March 31, 2020		At March 31, 2020	
	Change in value used for calculating hedge ineffectiveness		Translating foreign operations reserve	
	(In millions)			
USD foreign operations	¥	(14,341)	¥	(12,376)
EUR foreign operations		(22,556)		(4,083)
THB foreign operations		(15,459)		120
Other foreign operations		20,887		2,465
Total	¥	(31,469)	¥	(13,874)

The balances remaining in the foreign currency translation reserve from hedging relationships for which hedge accounting is no longer applied were ¥37,813 million and ¥16,761 million at March 31, 2021 and 2020, respectively.

Changes in the translating foreign operations reserve of ¥96,205 million and ¥31,469 million were offset by hedges of net investment in foreign operations for the fiscal years ended March 31, 2021 and 2020, respectively. There were no hedge ineffectiveness recognized in “Net trading income” for the fiscal years ended March 31, 2021 and 2020.

Credit derivatives

The Group enters into credit derivatives to manage the risk of its commercial banking credit portfolio containing loans by hedging economically, as well as diversifying the credit exposure in the portfolio, and to undertake credit loss protection transactions based on the needs from customers as financial intermediation. The tables below provide the notional amounts and the fair value of credit derivatives by purpose of transactions at March 31, 2021 and 2020.

	At March 31, 2021					
	Protection purchased			Protection sold		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	(In millions)					
Managing the Group’s credit risk portfolio	¥1,401,115	¥ 643	¥25,841	¥1,423,170	¥23,399	¥ 1,863
Facilitating client transactions	50,902	310	839	20,445	207	2
Total	¥1,452,017	¥ 953	¥26,680	¥1,443,615	¥23,606	¥ 1,865

	At March 31, 2020					
	Protection purchased			Protection sold		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	(In millions)					
Managing the Group’s credit risk portfolio	¥ 960,225	¥ 9,954	¥ 5,290	¥1,193,827	¥ 4,957	¥14,470
Facilitating client transactions	88,702	1,320	528	42,517	271	264
Total	¥1,048,927	¥11,274	¥ 5,818	¥1,236,344	¥ 5,228	¥14,734

The following table summarizes the notional amounts of the Group's credit derivative portfolio by type of counterparty at March 31, 2021 and 2020.

	At March 31, 2021		At March 31, 2020	
	Protection purchased	Protection sold	Protection purchased	Protection sold
	(In millions)			
Banks and broker-dealers	¥1,444,017	¥1,443,615	¥1,037,427	¥1,234,344
Insurance and other financial guaranty firms	8,000	—	11,500	2,000
Total	<u>¥1,452,017</u>	<u>¥1,443,615</u>	<u>¥1,048,927</u>	<u>¥1,236,344</u>

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Debt instruments	¥1,667,164	¥1,454,387
Equity instruments	77,684	23,969
Total financial assets at fair value through profit or loss	<u>¥1,744,848</u>	<u>¥1,478,356</u>

Debt instruments in financial assets at fair value through profit or loss mainly consist of investment funds. Equity instruments in financial assets at fair value through profit or loss mainly consist of non-trading stocks which are not designated as at fair value through other comprehensive income.

9 INVESTMENT SECURITIES

The following table shows the amount of investment securities, which consist of debt instruments at amortized cost, debt instruments at fair value through other comprehensive income and equity instruments at fair value through other comprehensive income at March 31, 2021 and 2020.

	At March 31,	
	2021	2020
	(In millions)	
Debt instruments at amortized cost:		
Domestic:		
Japanese government bonds	¥ —	¥ 260,079
Japanese municipal bonds	22,300	22,300
Total domestic	22,300	282,379
Foreign:		
Bonds issued by other governments and official institutions ⁽¹⁾	47,129	37,358
Other debt instruments	2,586	1,034
Total foreign	49,715	38,392
Total debt instruments at amortized cost	¥ 72,015	¥ 320,771
Debt instruments at fair value through other comprehensive income:		
Domestic:		
Japanese government bonds	¥14,293,611	¥ 6,785,068
Japanese municipal bonds	732,622	240,382
Japanese corporate bonds	725,895	579,293
Other debt instruments	310	310
Total domestic	15,752,438	7,605,053
Foreign:		
U.S. Treasury and other U.S. government agency bonds	5,564,944	4,494,686
Bonds issued by other governments and official institutions ⁽¹⁾	2,994,032	2,930,806
Mortgage-backed securities	1,658,732	2,807,813
Other debt instruments	422,489	215,806
Total foreign	10,640,197	10,449,111
Total debt instruments at fair value through other comprehensive income	¥26,392,635	¥18,054,164
Equity instruments at fair value through other comprehensive income:		
Domestic equity instruments	¥ 3,919,787	¥ 3,024,731
Foreign equity instruments	667,024	464,720
Total equity instruments at fair value through other comprehensive income	¥ 4,586,811	¥ 3,489,451
Total investment securities	¥31,051,461	¥21,864,386

(1) Excludes U.S. Treasury and other U.S. government agency bonds.

Designation of equity instruments as at fair value through other comprehensive income

The Group designates equity instruments, which are issued by its customers and not held for trading, as at fair value through other comprehensive income. Those equity instruments are held to establish, maintain, and strengthen business ties with those customers. Equity instruments at fair value through other comprehensive income at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Listed	¥3,722,813	¥2,770,473
Unlisted	863,998	718,978
Total equity instruments at fair value through other comprehensive income	<u>¥4,586,811</u>	<u>¥3,489,451</u>

The investments in the listed equity instruments at fair value through other comprehensive income at March 31, 2021 and 2020 mainly consisted of the following:

	At March 31, 2021
	(In millions)
TOYOTA MOTOR CORPORATION	¥335,460
DAIKIN INDUSTRIES, LTD.	200,880
KUBOTA CORPORATION	90,717
Kotak Mahindra Bank Limited	86,823
NIDEC CORPORATION	81,483
NIPPON PAINT HOLDINGS CO., LTD.	79,747
Ares Management Corporation	75,247
FUJIFILM Holdings Corporation	68,852
DAIICHI SANKYO COMPANY, LIMITED	66,258
SG HOLDINGS CO., LTD.	63,932
Murata Manufacturing Co., Ltd.	60,361
MITSUI & CO., LTD.	59,085
Sumitomo Realty & Development Co., Ltd.	53,755
East Japan Railway Company	53,658
DAIWA HOUSE INDUSTRY CO., LTD.	52,236
ITOCHU Corporation	52,132
DAIFUKU CO., LTD.	44,232
Seven & i Holdings Co., Ltd.	43,887
Central Japan Railway Company	43,076
KOITO MANUFACTURING CO., LTD.	40,385
BRIDGESTONE CORPORATION	40,275
West Japan Railway Company	39,264
Japan Exchange Group, Inc.	39,257
Asahi Group Holdings, Ltd.	37,451
GMO Payment Gateway, Inc.	36,723
Mitsui Fudosan Co., Ltd.	32,632
ASAHI KASEI CORPORATION	32,379
KOMATSU LTD.	30,332
MINEBEA MITSUMI Inc.	28,923
TAISHO PHARMACEUTICAL HOLDINGS CO., LTD.	28,767
Makita Corporation	27,523
Shionogi & Co., Ltd.	27,351

	At March 31, 2021
	(In millions)
Stanley Electric Co., Ltd.	26,507
SHIMANO INC.	26,375
NIPPON STEEL CORPORATION	24,691
Square, Inc.	22,822
Oji Holdings Corporation	22,675
TOHO GAS CO., LTD.	22,568
OLYMPUS CORPORATION	22,217
TOYOTA TSUSHO CORPORATION	19,739
OMRON Corporation	18,924
Sumitomo Metal Mining Co., Ltd.	18,281
Sekisui House, Ltd.	17,727
TORAY INDUSTRIES, INC.	17,116
Sanwa Holdings Corporation	15,994
Chubu Electric Power Company, Incorporated	15,971
BROTHER INDUSTRIES, LTD.	14,838
TOYODA GOSEI CO., LTD.	14,684
Idemitsu Kosan Co., Ltd.	14,678
KAJIMA CORPORATION.	14,349
Others	1,319,574
Total listed equity instruments at fair value through other comprehensive income	<u>¥3,722,813</u>

	At March 31, 2020
	(In millions)
TOYOTA MOTOR CORPORATION	¥253,113
DAIKIN INDUSTRIES, LTD.	118,530
East Japan Railway Company	61,377
Kotak Mahindra Bank Limited	61,215
FUJIFILM Holdings Corporation	56,991
NIPPON PAINT HOLDINGS CO., LTD.	56,598
DAIICHI SANKYO COMPANY, LIMITED	50,911
KUBOTA CORPORATION	49,742
Central Japan Railway Company	49,208
West Japan Railway Company	47,334
DAIWA HOUSE INDUSTRY CO., LTD.	43,154
Japan Exchange Group, Inc.	42,332
Ares Management Corporation	40,825
MITSUI & CO., LTD.	38,590
Murata Manufacturing Co., Ltd.	37,355
Sumitomo Realty & Development Co., Ltd.	36,263
Seven & i Holdings Co., Ltd.	35,165
NIDEC CORPORATION	34,006
ITOCHU Corporation	32,592
SG HOLDINGS CO., LTD.	32,420
KOMATSU LTD.	31,721
BRIDGESTONE CORPORATION	29,907
Asahi Group Holdings, Ltd.	28,178
DAIFUKU CO., LTD.	27,951
Shionogi & Co., Ltd.	24,433

	At March 31, 2020
	(In millions)
Mitsui Fudosan Co., Ltd.	24,284
TAISHO PHARMACEUTICAL HOLDINGS CO., LTD.	19,945
KOITO MANUFACTURING CO., LTD.	19,893
ASAHI KASEI CORPORATION	19,430
Makita Corporation	19,229
GMO Payment Gateway, Inc.	18,962
Oji Holdings Corporation	18,336
Chubu Electric Power Company, Incorporated	18,225
Stanley Electric Co., Ltd.	17,294
MINEBEA MITSUMI Inc.	16,501
TOHO GAS CO., LTD.	16,191
SHIMANO INC.	15,440
OLYMPUS CORPORATION	15,147
NISSIN FOODS HOLDINGS CO., LTD.	14,580
Tokyo Electric Power Company Holdings, Incorporated	13,545
The Kansai Electric Power Company, Incorporated	13,393
Sekisui House, Ltd.	13,325
Hankyu Hanshin Holdings, Inc.	13,020
Idemitsu Kosan Co., Ltd.	12,744
OMRON Corporation	12,331
NIPPON STEEL CORPORATION	12,112
TORAY INDUSTRIES, INC.	11,970
Sotetsu Holdings, Inc.	11,354
Odakyu Electric Railway Co., Ltd.	11,169
BROTHER INDUSTRIES, LTD.	11,129
Others	1,061,013
Total listed equity instruments at fair value through other comprehensive income	<u>¥2,770,473</u>

Disposal of equity instruments at fair value through other comprehensive income

The Group sold equity instruments measured at fair value through other comprehensive income mainly in order to mitigate the impact of share price fluctuations on the Group's financial base. The fair value of the equity instruments measured at fair value through other comprehensive income at the date of derecognition and the cumulative gain on disposal for the fiscal years ended March 31, 2021 and 2020 were as follows:

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
Fair value of the equity instruments at fair value through other comprehensive income at the date of derecognition	¥115,260	¥210,047
Cumulative gain on disposal	46,897	94,443

The Group transferred the cumulative gain or loss related to the equity instruments that were derecognized or whose significant fair value decline reduced income tax expense for the current reporting period from "Other reserves" to "Retained earnings." The transferred amount was ¥34,886 million and ¥39,750 million for the fiscal years ended March 31, 2021 and 2020, respectively.

10 LOANS AND ADVANCES

The following tables present loans and advances at March 31, 2021 and 2020.

At March 31, 2021				
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	(In millions)			
Loans and advances at amortized cost:				
Gross loans and advances	¥ 94,155,246	¥ 3,498,733	¥ 1,171,576	¥98,825,555
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net . .				(261,330)
Less: Allowance for loan losses	(170,156)	(255,909)	(423,222)	(849,287)
Carrying amount				¥97,714,938
At March 31, 2020				
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	(In millions)			
Loans and advances at amortized cost:				
Gross loans and advances	¥ 92,997,331	¥ 1,800,090	¥ 845,329	¥95,642,750
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net . .				(264,527)
Less: Allowance for loan losses	(203,286)	(147,382)	(355,737)	(706,405)
Carrying amount				¥94,671,818

For additional information on loans and advances and allowance for loan losses at March 31, 2021 and 2020, refer to Note 46 “Financial Risk Management.”

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The following table presents the Group's principal associates and joint venture at March 31, 2021. Investments in associates and joint ventures of the Group are accounted for using the equity method unless they are held for sale.

<u>Company Name</u>	<u>Country of Incorporation</u>	<u>Proportion of Ownership Interest⁽¹⁾</u> (%)	<u>Proportion of Voting Rights⁽¹⁾</u> (%)	<u>Main Business</u>
Principal Associates				
The Japan Net Bank, Limited(2)	Japan	46.5	46.5	Internet banking
The Bank of East Asia, Limited	China	19.6	19.6	Commercial banking
ACLEDA Bank Plc.	Cambodia	18.0	18.0	Commercial banking
Vietnam Export Import Commercial Joint Stock Bank	Vietnam	15.0	15.0	Commercial banking
Sumitomo Mitsui Auto Service Company, Limited	Japan	26.8	26.8	Leasing
SMBC Aviation Capital Limited	Ireland	32.0	32.0	Leasing
POCKET CARD CO., LTD.	Japan	20.0	20.0	Credit card
SAKURA KCS Corporation	Japan	29.7	29.7	System engineering and data processing
JSOL Corporation	Japan	50.0	50.0	System development and data processing
Sakura Information Systems Co., Ltd.	Japan	49.0	49.0	System engineering and data processing
China Post & Capital Fund Management Co., Ltd.	China	23.6	23.6	Investment management, and investment advisory and agency
Principal Joint Venture				
Sumitomo Mitsui Finance and Leasing Company, Limited	Japan	50.0	50.0	Leasing

(1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.

(2) The Japan Net Bank, Limited changed its corporate name to PayPay Bank Corporation on April 5, 2021.

The Group accounts for certain investees, including The Bank of East Asia, Limited, ACLEDA Bank Plc. and Vietnam Export Import Commercial Joint Stock Bank, as associates regardless of its below 20% holdings of the voting rights to these investees, since the Group has the ability to exercise significant influence over these investees through participation in the policy making process at the meeting of the board of directors, the provision of essential technical information, or other relevant agreements or relationships.

On the other hand, the Group accounts for certain investees as financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss regardless of its 20% or more holdings of the voting rights to these investees when the Group has contracts or arrangements with other investors by which the Group loses the power to exert significant influence over such investees.

The Group has interests in a number of associates and joint ventures, none of which are regarded as individually material. The following table summarizes, in aggregate, the financial information of all individually immaterial associates and joint ventures that are accounted for using the equity method:

	At and for the fiscal year ended March 31,	
	2021	2020
	(In millions)	
Carrying amount of investments in associates and joint ventures	¥886,685	¥826,736
Share of:		
Profit from continuing operations	36,373	24,031
Other comprehensive income (loss)	9,335	(11,605)
Total comprehensive income	45,708	12,426

There are no significant restrictions on the ability of associates or joint ventures to transfer funds to the Group in the form of cash dividends, repayment of loans and advances.

12 PROPERTY, PLANT AND EQUIPMENT

The table below shows the changes in property, plant and equipment for the fiscal years ended March 31, 2021 and 2020.

	Assets for rent	Land	Buildings	Right of use assets	Others	Total
	(In millions)					
Cost	¥ 609,763	¥469,095	¥ 746,687	¥ 440,790	¥ 394,308	¥ 2,660,643
Accumulated depreciation and impairment losses	(45,302)	(4,998)	(408,187)	(34,609)	(279,129)	(772,225)
Net carrying amount at April 1, 2019	564,461	464,097	338,500	406,181	115,179	1,888,418
Additions	18,700	355	16,862	66,621	50,297	152,835
Acquisition of subsidiaries and businesses	—	1	226	787	95	1,109
Disposals	(14,600)	(3,921)	(847)	(2,664)	(929)	(22,961)
Depreciation	(17,990)	—	(23,114)	(92,991)	(23,073)	(157,168)
Impairment losses	(69,796)	(432)	(8,098)	(3)	(1,618)	(79,947)
Exchange differences	(8,028)	(1,093)	(514)	(2,783)	(1,705)	(14,123)
Others	(6,287)	3,479	11,913	1,610	(14,267)	(3,552)
Net carrying amount	466,460	462,486	334,928	376,758	123,979	1,764,611
Cost	571,346	467,636	759,576	484,431	414,212	2,697,201
Accumulated depreciation and impairment losses	(104,886)	(5,150)	(424,648)	(107,673)	(290,233)	(932,590)
Net carrying amount at March 31, 2020 ...	466,460	462,486	334,928	376,758	123,979	1,764,611
Additions	11,092	—	18,664	93,162	84,848	207,766
Acquisition of subsidiaries and businesses	—	—	60	—	9	69
Disposals	(2,305)	(8,784)	(8,715)	(6,243)	(1,311)	(27,358)
Depreciation	(15,493)	—	(22,340)	(93,793)	(21,312)	(152,938)
Impairment losses	—	(314)	(9,053)	(322)	(1,270)	(10,959)
Exchange differences	(23,768)	909	598	3,200	1,400	(17,661)
Others	1,749	33,363	49,821	240	(94,042)	(8,869)
Net carrying amount	437,735	487,660	363,963	373,002	92,301	1,754,661
Cost	551,598	492,499	809,153	536,305	397,768	2,787,323
Accumulated depreciation and impairment losses	(113,863)	(4,839)	(445,190)	(163,303)	(305,467)	(1,032,662)
Net carrying amount at March 31, 2021 ...	¥ 437,735	¥487,660	¥ 363,963	¥ 373,002	¥ 92,301	¥ 1,754,661

The impairment losses on property, plant and equipment are included in “Other expenses” in the consolidated income statements.

The Group had ¥8,532 million and ¥48,707 million of contractual commitments to acquire property, plant and equipment at March 31, 2021 and 2020, respectively.

Recognition of Impairment Losses

For the fiscal year ended March 31, 2020, the market and economic environment adversely affected the profitability of the railcar leasing business in the United States, and led the Group to recognize impairment losses of ¥69,796 million on the railcars to be leased. To determine whether they might be impaired, the Group identified the cash-generating units based on similarities in the nature and use in the railcar leasing business. The recoverable amount of those impaired assets was principally determined based on the value in use. The discount rate used to estimate the recoverable amount of the assets for rent was approximately 6%.

13 LEASES

As Lessee

The Group leases land and buildings, office equipment, and other tangible and intangible assets from third parties under lease contracts.

Right of use assets

The carrying amount of right of use assets at March 31, 2021 and 2020 consisted of the following:

	Net carrying amount		Depreciation	
	At March 31,		For the fiscal year ended March 31,	
	2021	2020	2021	2020
	(In millions)			
Land and buildings	¥ 341,256	¥ 344,624	¥ 81,930	¥ 81,291
Other tangible assets ⁽¹⁾	31,746	32,134	11,863	11,700
Intangible assets ⁽²⁾	6,949	9,210	3,239	3,154
Total	¥ 379,951	¥ 385,968	¥ 97,032	¥ 96,145

(1) Other tangible assets include mainly office equipment, machinery and vehicles.

(2) Intangible assets include mainly software.

The additions of right of use assets for the fiscal years ended March 31, 2021 and 2020 were ¥94,157 million and ¥67,685 million, respectively. The Group leases mainly land and buildings for its head offices and branches.

Lease liabilities

The maturity analysis of lease liabilities at March 31, 2021 and 2020 were as follows:

	At March 31, 2021	At March 31, 2020
	(In millions)	
Not later than one year	¥ 82,237	¥ 78,719
Later than one year and not later than five years	178,977	176,426
Later than five years	134,738	145,722
Total	395,952	400,867
Less: Future interest charges	(15,311)	(14,979)
Lease liabilities ⁽¹⁾	¥ 380,641	¥ 385,888

(1) Lease liabilities is included in "Borrowings" in the consolidated statements of financial position. See Note 19 "Borrowings."

For the fiscal years ended March 31, 2021 and 2020, ¥2,808 million and ¥2,896 million were recognized as interests on lease liabilities, respectively and ¥98,421 million and ¥98,728 million were recognized as total cash outflow for leases, respectively.

Operating lease commitments at March 31, 2019

For the fiscal year ended March 31, 2019, ¥52,465 million was recognized as expenses in respect of operating lease and sublease agreements, of which ¥52,155 million related to minimum lease payments, and ¥310 million related to sublease payments. Lease expenses recognized in respect of lease and sublease agreements are included in “General and administrative expenses” in the consolidated income statements.

As Lessor

The Group leases assets to third parties under finance leases or operating leases, including machinery, equipment, aircraft, vessel and property.

Finance lease receivable

The maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received at March 31, 2021 and 2020 were as follows:

At March 31, 2021				
	Undiscounted lease payments	Unearned finance income	Discounted lease payments ⁽¹⁾	Unguaranteed residual values ⁽¹⁾
	(In millions)			
Not later than one year	¥ 45,950	¥ 10,003	¥ 35,947	¥ 5,283
Later than one year and not later than two years	33,889	9,418	24,471	12,113
Later than two years and not later than three years	39,618	8,507	31,111	3,156
Later than three years and not later than four years	42,137	7,197	34,940	10,755
Later than four years and not later than five years	45,051	6,444	38,607	5,297
Later than five years	186,650	69,054	117,596	12,390
Total	¥ 393,295	¥ 110,623	¥ 282,672	¥ 48,994

At March 31, 2020				
	Undiscounted lease payments	Unearned finance income	Discounted lease payments ⁽¹⁾	Unguaranteed residual values ⁽¹⁾
	(In millions)			
Not later than one year	¥ 40,225	¥ 10,544	¥ 29,681	¥ 2,814
Later than one year and not later than two years	104,817	9,528	95,289	15,211
Later than two years and not later than three years	33,160	6,565	26,595	2,670
Later than three years and not later than four years	27,542	4,660	22,882	1,102
Later than four years and not later than five years	58,947	3,446	55,501	11,663
Later than five years	45,724	6,123	39,601	14,902
Total	¥ 310,415	¥ 40,866	¥ 269,549	¥ 48,362

(1) Discounted lease payments and unguaranteed residual values are included in “Loans and advances” in the consolidated statements of financial position.

Accumulated allowance for net investment in the lease amounting to ¥1,072 million and ¥502 million were measured under IFRS 9 at March 31, 2021 and 2020, respectively. For the fiscal years ended March 31, 2021 and 2020, ¥9,514 million and ¥11,268 million were recognized as finance income on net investment in the lease, respectively.

Operating lease receivable

The total amounts of the future minimum lease payments receivable under non-cancellable operating leases at March 31, 2021 and 2020 were as follows:

	At March 31, 2021		At March 31, 2020	
	(In millions)			
Not later than one year	¥	26,602	¥	31,499
Later than one year and not later than two years		20,210		24,137
Later than two years and not later than three years		13,248		16,935
Later than three years and not later than four years		9,123		11,799
Later than four years and not later than five years		5,763		7,148
Later than five years		10,416		12,636
Total	¥	85,362	¥	104,154

For the fiscal years ended March 31, 2021 and 2020, ¥34,426 million and ¥40,588 million were recognized as income from operating leases, respectively.

14 INTANGIBLE ASSETS

Goodwill

The table below shows the changes in goodwill by business segment for the fiscal years ended March 31, 2021 and 2020.

	Retail Business Unit	Global Business Unit	Head office account and others	Total
	(In millions)			
Gross amount of goodwill ⁽¹⁾	¥ 63,418	¥ 4,707	¥ 210,307	¥278,432
Accumulated impairment losses ⁽¹⁾	—	—	(62,624)	(62,624)
Net carrying amount at March 31, 2019	63,418	4,707	147,683	215,808
Acquisitions ⁽²⁾	—	—	31,647	31,647
Disposals	(1,466)	—	—	(1,466)
Exchange differences	—	(843)	(1,319)	(2,162)
Net carrying amount	61,952	3,864	178,011	243,827
Gross amount of goodwill ⁽¹⁾	61,952	3,864	240,635	306,451
Accumulated impairment losses ⁽¹⁾	—	—	(62,624)	(62,624)
Net carrying amount at March 31, 2020	61,952	3,864	178,011	243,827
Impairment losses	—	—	(42,398)	(42,398)
Exchange differences	—	586	1,876	2,462
Net carrying amount	61,952	4,450	137,489	203,891
Gross amount of goodwill ⁽¹⁾	61,952	4,450	242,511	308,913
Accumulated impairment losses ⁽¹⁾	—	—	(105,022)	(105,022)
Net carrying amount at March 31, 2021	¥ 61,952	¥ 4,450	¥ 137,489	¥203,891

(1) The goodwill which all amounts have been impaired is excluded from gross amount of goodwill and accumulated impairment losses.

(2) The Group recognized goodwill of ¥17,022 million in Head office account and others resulting from the acquisition of Daiwa SB Investments Ltd. on April 1, 2019. For additional information, refer to Note 50 "Acquisitions."

The Group has four main business segments: the Wholesale Business Unit, the Retail Business Unit, the Global Business Unit and the Global Markets Business Unit, with the remaining operations recorded in the Head office account and others.

Impairment testing of goodwill

Allocating goodwill to cash-generating units

For the purpose of impairment testing, goodwill is allocated to cash-generating units or group of cash-generating units, which represent the lowest level within the entity at which goodwill is monitored for internal purposes.

At March 31, 2021, the Group allocated goodwill to the Retail Business Unit of SMBC Consumer Finance Co., Ltd. (“SMBC Consumer Finance”) amounting to ¥56,692 million and to the Head office account and others of SMBC Nikko Securities Inc. (“SMBC Nikko Securities”) and Sumitomo Mitsui DS Asset Management Company, Limited (“SMDAM”) amounting to ¥109,629 million and ¥12,678 million, respectively.

At March 31, 2020, the Group allocated goodwill to the Retail Business Unit of SMBC Consumer Finance amounting to ¥56,692 million and to the Head office account and others of SMBC Nikko Securities and SMDAM amounting to ¥109,629 million and ¥55,076 million, respectively.

The aggregate amounts of other goodwill were ¥24,892 million and ¥22,430 million at March 31, 2021 and 2020, respectively, and they were not considered individually significant.

Timing of impairment tests

The Group performs impairment tests at least annually and whenever there is an indication that the cash-generating unit may be impaired.

Recoverable amount of cash-generating units

To determine whether an impairment loss shall be recognized, the carrying amount of a cash-generating unit is compared to its recoverable amount. The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell: The fair value less costs to sell is determined using an observable market price in the active market or unobservable inputs for the cash-generating unit at the date of the impairment test.

Value in use: The value in use is determined based on discounted future cash flows, which are based on the financial plans which have been approved by management and which are valid when the impairment test is performed. The financial plans are prepared taking into account the current economic and regulatory environment, direction of the regulation and business forecasts of the individual cash-generating units. The Group determined the recoverable amounts of the primary cash-generating units based on the value in use.

The financial plans, which are used to estimate the cash flow projections of the cash-generating units, cover three to five years. The cash flow projections beyond the period covered by the financial plans are extrapolated by applying the appropriate growth rates in perpetuity.

Key assumptions used in impairment testing

The key assumptions used for the value in use calculations for the fiscal years ended March 31, 2021 and 2020 were as follows:

	<u>SMBC Nikko Securities</u>	<u>SMBC Consumer Finance</u>	<u>SMDAM</u>
For the fiscal year ended March 31, 2021:			
Pre-tax discount rate	8.42%	9.73%	12.80%
Growth rate	1.00%	1.00%	1.00%
For the fiscal year ended March 31, 2020:			
Pre-tax discount rate	9.60%	9.28%	7.61%
Growth rate	1.00%	1.00%	1.00%

Management considers that the pre-tax discount rates and the growth rates are the most sensitive key assumptions to determine the value in use of the cash-generating units.

Pre-tax discount rate: The pre-tax discount rates used to estimate the discounted cash flow of the primary cash-generating units are determined based on the Capital Asset Pricing Model (“CAPM”). The risk-free interest rate, the market risk premium and the beta factor that are used in the CAPM are determined based on market data and other external sources of information. The beta factor is determined based on a respective group of peer companies of the cash-generating units.

Growth rate: The growth rates used to estimate the cash flow projections beyond the period covered by the financial plans, which shall cover a maximum period of five years, are determined based on the expected long-term inflation rate and long-term average growth rates for the industries. The growth rate does not exceed the long-term growth rate for the industry in which the cash-generating unit operates.

Management believes that there were no reasonably possible changes in any of the key assumptions that would lead to the recoverable amounts of the cash-generating units being below these carrying amounts for the fiscal years ended March 31, 2021 and 2020.

Recognition of Impairment Losses

If the recoverable amount of the cash-generating unit is less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount, and this reduction is recognized as impairment loss of goodwill. The recoverable amount of SMDAM was determined based on the value in use. For the fiscal year ended March 31, 2021, the value in use of SMDAM decreased to less than its carrying amount, primarily due to the revision of the business plan and the key assumptions. As a result, the Group recognized an impairment loss of ¥42,398 million on the goodwill relating to SMDAM for the fiscal year ended March 31, 2021.

The impairment losses on goodwill are included in “Other expenses” in the consolidated income statements.

Other intangible assets

The table below shows the changes in other intangible assets for the fiscal years ended March 31, 2021 and 2020.

	Internally generated software	Purchased software	Contractual customer relationships	Trademarks	Other intangibles	Total
	(In millions)					
Cost	¥697,480	¥ 358,130	¥ 185,795	¥ 55,822	¥ 99,362	¥1,396,589
Accumulated amortization and impairment losses	(395,399)	(229,076)	(93,721)	(42,964)	(17,697)	(778,857)
Net carrying amount at April 1, 2019	302,081	129,054	92,074	12,858	81,665	617,732
Additions	97,895	42,435	—	—	8,673	149,003
Acquisition of subsidiaries and businesses	—	165	4,271	—	20,082	24,518
Disposals	(241)	(1,792)	—	—	(1,543)	(3,576)
Amortization	(90,154)	(44,129)	(11,652)	(2,741)	(10,616)	(159,292)
Impairment losses	—	(8)	(7,262)	—	(21,419)	(28,689)
Exchange differences	(174)	(2,613)	(2,334)	(1,475)	(4,463)	(11,059)
Others	(2,349)	10,237	—	—	(4,875)	3,013
Net carrying amount	307,058	133,349	75,097	8,642	67,504	591,650
Cost	726,459	379,524	187,705	54,329	116,951	1,464,968
Accumulated amortization and impairment losses	(419,401)	(246,175)	(112,608)	(45,687)	(49,447)	(873,318)
Net carrying amount at March 31, 2020	307,058	133,349	75,097	8,642	67,504	591,650
Additions	117,470	51,886	—	—	9,920	179,276
Acquisition of subsidiaries and businesses	—	8	—	—	2	10
Disposals	(27)	(1,027)	—	—	(25)	(1,079)
Amortization	(90,580)	(43,931)	(11,982)	(931)	(9,744)	(157,168)
Impairment losses	—	(447)	—	—	(1)	(448)
Exchange differences	134	1,380	2,081	1,167	3,344	8,106
Others	584	(496)	—	—	(4,606)	(4,518)
Net carrying amount	334,639	140,722	65,196	8,878	66,394	615,829
Cost	788,808	412,032	189,900	55,573	125,913	1,572,226
Accumulated amortization and impairment losses	(454,169)	(271,310)	(124,704)	(46,695)	(59,519)	(956,397)
Net carrying amount at March 31, 2021	¥334,639	¥ 140,722	¥ 65,196	¥ 8,878	¥ 66,394	¥ 615,829

Other intangible assets related to the acquisition of the retail banking business of Citibank Japan Ltd were tested for impairment because changes in the market conditions indicated that the carrying amount of these assets might not be recoverable at March 31, 2020. The cash-generating unit of these assets was SMBC Trust Bank's retail banking business unit. In the impairment test, the carrying amount of SMBC Trust Bank's retail banking business unit was compared against its recoverable amount. The recoverable amount determined based on the value in use was less than its carrying amount, primarily due to the revision of the business plan. As a result, the Group recognized an impairment loss of ¥28,679 million, equal to the total carrying amount of these intangible assets for the fiscal year ended March 31, 2020. The pre-tax discount rate used to estimate the value in use of SMBC Trust Bank's retail banking business unit was approximately 8%.

The impairment losses on other intangible assets are included in "Other expenses" and the amortization expenses of other intangible assets are included in "General and administrative expenses" in the consolidated income statements.

The amounts of research and development expenditure recognized as expenses for the fiscal years ended March 31, 2021, 2020 and 2019 were ¥60 million, ¥78 million and ¥167 million, respectively, and they were included in “General and administrative expenses” in the consolidated income statements.

Other intangibles at March 31, 2021 and 2020 include leasehold rights, amounting to ¥6,619 million and ¥6,423 million, respectively, which are rights to use land for the purpose of owning the buildings. Since the Group has a long history of renewal, these contracts are not expected to be terminated in the foreseeable future. Leasehold rights are expected to generate cash flows for an indefinite period of time. They are not amortized but are tested for impairment annually, irrespective of whether there is any indication of impairment.

15 OTHER ASSETS

Other assets at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Prepaid expenses	¥ 73,737	¥ 65,129
Accrued income	308,024	330,654
Receivables from brokers, dealers and customers for securities transactions	1,294,607	1,221,414
Cash collateral provided for derivative and other financial transactions	2,000,222	2,121,025
Retirement benefit assets	518,934	168,962
Security deposits	87,578	88,518
Others	662,529	276,928
Total other assets	¥ 4,945,631	¥ 4,272,630

16 DEPOSITS

Deposits at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Non-interest-bearing demand deposits	¥ 28,269,215	¥ 25,307,775
Interest-bearing demand deposits	68,635,578	59,772,689
Deposits at notice	11,462,658	10,769,494
Time deposits	25,818,987	25,023,508
Negotiable certificates of deposit	12,570,618	10,180,436
Others ⁽¹⁾	8,736,598	7,377,516
Total deposits	¥155,493,654	¥138,431,418

(1) Others include, among other items, foreign currency deposits in domestic offices and Japanese yen accounts held by foreign depositors in domestic offices.

17 TRADING LIABILITIES

Trading liabilities at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Debt instruments “short position”	¥ 2,002,591	¥ 1,915,687
Equity instruments “short position”	78,235	102,797
Total trading liabilities	¥ 2,080,826	¥ 2,018,484

Trading liabilities include the instruments classified as held for trading. Trading debt instruments mainly consist of Japanese government bonds. Trading equity instruments mainly consist of publicly traded Japanese stocks.

18 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities designated at fair value through profit or loss at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Borrowings	¥ 24,971	¥ —
Debt securities in issue	214,548	—
Total financial liabilities designated at fair value through profit or loss	¥ 239,519	¥ —

From April 1, 2020, the Group adopted the fair value option for certain financial liabilities which were issued by the Group’s securities subsidiary. As part of risk management, the Group enters into derivative transactions to offset the profit or loss of financial liabilities containing embedded derivatives, designated at fair value through profit or loss (“FVPL”) under the fair value option. The carrying amount of financial liabilities designated at FVPL at March 31, 2021 was ¥2,980 million more than the contractual amount required to be paid at maturity. The cumulative losses arising from changes in own credit risk of financial liabilities designated at FVPL were ¥4,981 million at March 31, 2021.

19 BORROWINGS

Borrowings at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Unsubordinated borrowings	¥ 17,565,291	¥ 15,208,696
Subordinated borrowings	249,833	254,064
Liabilities associated with securitization transactions	1,227,590	1,272,714
Lease liabilities	380,641	385,888
Total borrowings	¥ 19,423,355	¥ 17,121,362

20 DEBT SECURITIES IN ISSUE

Debt securities in issue at March 31, 2021 and 2020 consisted of the following:

		At March 31,	
	Interest rate	2021	2020
		(In millions)	
SMFG:			
Bonds:			
Bonds, payable in United States dollars, due 2021-2051	0.00%-4.31%	¥ 4,793,038	¥ 4,357,548
Bonds, payable in euros, due 2022-2033	0.00%-1.72%	891,662	761,597
Bonds, payable in Australian dollars, due 2022-2028	1.22%-4.13%	252,135	199,201
Bonds, payable in Hong Kong dollars, due 2028	3.54%	4,493	4,581
Subordinated bonds:			
Subordinated bonds, payable in Japanese yen, due 2024-2030	0.30%-1.33%	605,472	724,332
Subordinated bonds, payable in United States dollars, due 2024-2030	2.14%-4.44%	342,931	262,856
Total SMFG		6,889,731	6,310,115
SMBC:			
Commercial paper	(0.60%)-1.90%	978,109	642,377
Bonds:			
Bonds, payable in United States dollars, due 2020-2045	2.00%-4.30%	576,458	859,470
Bonds, payable in euros, due 2020-2023	0.09%-2.75%	162,788	411,895
Bonds, payable in Australian dollars, due 2020-2025	2.90%-3.67%	11,408	20,227
Bonds, payable in Hong Kong dollars, due 2020-2025	2.09%-2.92%	23,722	33,908
Bonds, payable in Thai baht, due 2020-2021	2.00%-2.66%	7,080	19,980
Bonds, payable in Great Britain pound, due 2020	0.82%	—	33,338
Bonds, payable in Chinese yuan, due 2023	3.20%	16,828	—
Subordinated bonds:			
Subordinated bonds, payable in Japanese yen, due 2020-2026	1.43%-2.21%	139,935	289,899
Subordinated bonds, payable in United States dollars, due 2022	4.85%	169,024	168,386
Subordinated bonds, payable in euros, due 2020	4.00%	—	89,442
Total SMBC		2,085,352	2,568,922
Other subsidiaries:			
Commercial paper	(0.00%)-2.85%	1,347,181	1,094,325
Bonds:			
Bonds, payable in Japanese yen, due 2020-2050	0.01%-20.00%	252,354	483,329
Bonds, payable in United States dollars, due 2020-2037	0.01%-11.40%	197,654	206,552
Bonds, payable in euros, due 2023-2029	0.01%-0.55%	422,121	268,512
Bonds, payable in Indonesian rupiah, due 2020-2024	7.50%-8.25%	7,553	21,067
Bonds, payable in Australian dollars, due 2020-2031	0.01%-3.00%	1,179	1,290
Bonds, payable in Turkish lira, due 2020-2023	0.01%-15.00%	2,444	4,081
Bonds, payable in Chinese yuan, due 2020-2021	0.00%	3,031	6,855
Subordinated bonds:			
Subordinated bonds, payable in Japanese yen, due 2028	4.00%-4.15%	20,000	20,000
Total other subsidiaries		2,253,517	2,106,011
Total debt securities in issue		¥ 11,228,600	¥ 10,985,048

Interest rates represent the contractual interest rates that were applied at March 31, 2021 and 2020, and thus do not represent the actual effective interest rates.

The following table presents the movement in Subordinated bonds for the fiscal years ended March 31, 2021 and 2020.

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
Subordinated bonds at beginning of period ⁽¹⁾	¥1,554,915	¥1,595,327
Cash flows:		
Proceeds from issuance of subordinated bonds	90,135	54,303
Redemption of subordinated bonds	(361,820)	(113,000)
Non-cash changes:		
Foreign exchange translations	14,201	(10,900)
Others	(20,069)	29,185
Subordinated bonds at end of period ⁽¹⁾	¥1,277,362	¥1,554,915

(1) The balances are comprised of subordinated bonds issued by SMFG, SMBC and other subsidiaries.

21 PROVISIONS

The following table presents movements by class of provisions for the fiscal years ended March 31, 2021 and 2020.

	Provision for interest repayment	Other provisions	Total
	(In millions)		
Balance at April 1, 2019	¥ 148,409	¥ 46,409	¥ 194,818
Additional provisions	39,000	19,614	58,614
Amounts used	(43,674)	(9,577)	(53,251)
Unused amounts reversed	(29)	(106)	(135)
Amortization of discount and effect of change in discount rate	(277)	157	(120)
Others	—	127	127
Balance at March 31, 2020	143,429	56,624	200,053
Additional provisions	39,000	34,374	73,374
Amounts used	(40,572)	(8,418)	(48,990)
Unused amounts reversed	(559)	(27)	(586)
Amortization of discount and effect of change in discount rate	(97)	147	50
Others	—	373	373
Balance at March 31, 2021	¥ 141,201	¥ 83,073	¥ 224,274

Provision for Interest Repayment

Japan has two laws restricting interest rates on loans. The Interest Rate Restriction Act sets the maximum interest rates on loans ranging from 15% to 20%. The Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates capped the interest rate on loans at 29.2% up to June 2010. Interest rates on loans greater than the range of 15-20% but below the maximum allowable of 29.2% were called “gray zone interest,” and many consumer lending and credit card companies were charging interest in this zone.

In January 2006, judicial decisions strictly interpreted the conditions under which consumer finance companies may retain gray zone interest. As a result, claims for refunds of gray zone interest have increased, and consumer lending and credit card companies have recorded a provision for claims for refunds of gray zone interest.

In December 2006, the Government of Japan made amendments to laws regulating money lenders to implement regulatory reforms affecting the consumer finance industry. As a result, in June 2010, the maximum legal interest rates on loans were reduced to the range of 15-20%, and gray zone interest was abolished.

The provision for interest repayment is calculated by estimating the future claims for the refund of gray zone interest, taking into account historical experience such as the number of customer claims for a refund, the amount of repayments and the characteristics of customers, and the length of the period during which claims are expected to be received in the future. Of these historical experiences, the number of customer claims for the refund has a significant effect on the amount of the provision, and the historical number of customer claims to the Group was 89 thousand, 95 thousand and 84 thousand for the fiscal years ended March 31, 2021, 2020 and 2019, respectively. The timing of the settlement of these claims is uncertain.

The decrease in the provision for interest repayment for the fiscal year ended March 31, 2021 was primarily due to the use of the provision during the year, which was partially offset by additional provisions as a result of the estimation of the future claims for the refund.

Other Provisions

Other provisions include asset retirement obligations and provisions for loan commitments, reimbursement of deposits, point programs, product warranties and litigation claims. Most of these provisions occurred in the normal course of business and none of them were individually significant at March 31, 2021 and 2020.

22 OTHER LIABILITIES

Other liabilities at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Accrued expenses	¥ 320,850	¥ 338,626
Unearned income	105,510	121,416
Financial guarantees and other credit-related contingent liabilities	34,227	42,515
Due to trust account	1,732,438	1,379,220
Payables to brokers, dealers and customers for securities transactions	2,504,422	1,712,641
Payables related to credit card services	743,514	636,032
Obligations from factoring transactions	479,963	506,202
Retirement benefit liabilities	38,881	38,986
Guarantee deposits received	746,465	1,130,839
Others	2,071,232	1,694,878
Total other liabilities	<u>¥8,777,502</u>	<u>¥7,601,355</u>

23 DEFERRED INCOME TAX

The changes of net deferred tax assets and liabilities for the fiscal years ended March 31, 2021 and 2020 were as follows:

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
At beginning of period	¥ 36,015	¥(230,292)
Deferred tax benefit (expense)	(43,660)	151,292
Deferred tax relating to other comprehensive income:		
Remeasurements of defined benefit plans reserve	(100,427)	27,028
Financial instruments at fair value through other comprehensive income reserve	(266,255)	96,170
Own credit on financial liabilities designated at fair value through profit or loss reserve	1,525	—
Exchange differences on translating foreign operations reserve	(3,921)	2,226
Acquisition and disposal of subsidiaries and businesses	5	(6,438)
Exchange differences and others	6,141	(3,971)
At end of period	¥(370,577)	¥ 36,015

The deferred tax assets and liabilities at March 31, 2021 and 2020 were attributable to the following items:

	At March 31,	
	2021	2020
	(In millions)	
Deferred tax assets:		
Loans and advances	¥ 389,209	¥349,058
Tax losses carried forward	63,563	68,678
Derivative financial instruments	49,076	95,917
Provision for interest repayment	39,386	39,928
Retirement benefits	10,130	42,719
Investment securities	207	216
Other deductible temporary differences	127,720	121,580
Total deferred tax assets	679,291	718,096
Deferred tax liabilities:		
Investment securities	780,118	477,168
Retirement benefits	76,821	3,110
Property, plant and equipment	65,483	56,992
Goodwill and intangible assets	60,145	64,574
Lease transactions	7,399	8,845
Other taxable temporary differences	59,902	71,392
Total deferred tax liabilities	1,049,868	682,081
Net deferred tax assets (liabilities) ⁽¹⁾	¥ (370,577)	¥ 36,015

- (1) Deferred tax assets and deferred tax liabilities are offset in the consolidated statements of financial position if the entity has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Company has adopted the consolidated corporate-tax system in Japan. Under the consolidated corporate-tax system, the taxable profits or losses on a consolidated basis are calculated by aggregating those of

the parent company and its wholly owned domestic subsidiaries (a “tax consolidated group”), and any unused tax losses carried forward, except for certain specified consolidated tax losses carried forward, by one company can be used by another company within the tax consolidated group for Japanese national corporation tax purposes. Therefore, the deferred tax assets relating to deductible temporary differences and tax losses carried forward were recognized on a consolidated basis, but only to the extent that it is probable that future consolidated taxable profits will be available against which the deductible temporary differences and tax losses carried forward can be utilized.

On March 31, 2020, the Government of Japan promulgated an amendment to the Corporation Tax Act, which revised the consolidated corporate-tax system and shifted to the group aggregation system. Under the group aggregation system, each company in the tax group will individually file its own tax returns while maintaining certain system to aggregate profits and losses within the group company. The amendments are effective for fiscal years beginning on or after April 1, 2022 and there are not expected to have a material impact on the Group’s consolidated financial statements.

The deferred tax assets of the Company and its wholly owned domestic subsidiaries, which adopted the consolidated corporate-tax system, consisted mainly of those for loans and advances. The deferred tax assets for loans and advances were generally related to the accumulated losses from the impairment of these assets which would be deductible for tax purposes in future periods. The Company and its wholly owned domestic subsidiaries consider that most of the deductible temporary differences will be able to be used based mainly on future taxable profits on a consolidated basis. The future taxable profits are estimated based on forecasted results of operations, which reflect historical financial performance and the business plans that management believes to be prudent and feasible. In the Company’s other subsidiaries, deferred tax assets relating to deductible temporary differences are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. No deferred tax assets were recognized in certain subsidiaries of the Company for the deductible temporary differences estimated not to be realized, or for the tax losses carried forward projected to expire due to the uncertainty of sufficient future taxable profit.

The following table shows the amounts of deductible temporary differences and tax losses carried forward by expiration date at March 31, 2021 and 2020 for which no deferred tax assets were recognized.

	At March 31,	
	2021	2020
	(In millions)	
Deductible temporary differences	¥229,111	¥232,242
Tax losses carried forward which will expire in 1 year	56,745	220,969
2 years	49,388	63,570
3 years	37,702	49,388
4 years	23,082	37,702
5 years	16,054	23,082
6 years	60,252	13,120
7 years	—	60,027
8 years	137,202	—
9 years	46,457	137,046
10 years and thereafter	47,129	54,174
Total deductible temporary differences and tax losses carried forward ⁽¹⁾	¥703,122	¥891,320

(1) Under the consolidated corporate-tax system, the Company and its wholly owned domestic subsidiaries recognized deferred tax assets relating to deductible temporary differences and tax losses carried forward on a consolidated basis for Japanese national corporation tax purposes and on a stand-alone basis for Japanese local corporation tax purposes. There are deductible temporary differences and tax losses carried forward on which deferred tax assets are recognized for Japanese national corporation tax purposes, but on which no deferred tax assets are recognized for Japanese local corporation tax purposes. These deductible temporary differences and tax losses carried forward amounted to ¥216,294 million and ¥229,883 million at March 31, 2021 and 2020, respectively.

In addition to the above table, the Group does not recognize deferred tax assets for deductible temporary differences related to investments in subsidiaries, associates and joint ventures where the Company has no intention to reverse these differences in the foreseeable future. The amount of those deductible temporary differences was ¥1,041 billion and ¥1,471 billion at March 31, 2021 and 2020, respectively.

At March 31, 2021 and 2020, the amount of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures for which deferred tax liabilities had not been recognized was ¥2,787 billion and ¥1,777 billion, respectively. The Company can control the timing of reversal of the temporary differences and it is probable that they will not be reversed in the foreseeable future.

Deferred tax benefit and expense for the fiscal years ended March 31, 2021 and 2020 was attributable to the following temporary differences and tax losses carried forward:

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
Derivative financial instruments	¥ (48,773)	¥ 47,115
Investment securities	(36,714)	720
Loans and advances	34,953	65,549
Property, plant and equipment	(11,218)	556
Retirement benefits	(5,881)	5,131
Goodwill and intangible assets	4,428	13,552
Tax losses carried forward	(2,491)	24,769
Lease transactions	1,171	1,373
Provision for interest repayment	(541)	2,083
Other temporary differences—net	21,406	(9,556)
Total deferred tax benefit (expense)	¥ (43,660)	¥ 151,292

24 RETIREMENT BENEFITS

Defined Benefit Plans

SMBC and some of the Company's other subsidiaries have various defined benefit plans such as defined benefit pension plans and lump-sum severance indemnity plans, which define the amount of benefits that an employee will receive on or after retirement, usually based on one or more factors, such as age, years of service, compensation, classes and earned points based on service.

SMBC's defined benefit plans account for the vast majority of the defined benefit obligations and plan assets in the Group. SMBC has a corporate defined benefit pension plan and a lump-sum severance indemnity plan.

Defined benefit pension plans

SMBC's corporate defined benefit pension plan is a funded defined benefit pension plan, which is regulated by the Corporate Defined Benefit Pension Plan Law, one of the Japanese pension laws. Benefits are paid in exchange for services rendered by employees who worked for more than a specified period considering their years of service and the degree of their contribution to SMBC.

SMBC's pension fund is a special entity established in accordance with the pension laws, and SMBC has an obligation to make contributions to it. It has a board of directors which consists of an equal number of members elected from both the management and employees of SMBC. These board members have a fiduciary duty to administer and manage the pension fund.

The objective of SMBC's pension fund is to earn a return over the long term which is sufficient to pay future benefits to participants of the corporate defined benefit pension plan, including pension benefit plans, lump-sum indemnity plans for bereaved families, and other lump sum indemnity plans. To achieve this, SMBC's pension fund annually sets investment guidelines including asset allocation composed of equities, bonds and other appropriate financial assets according to the funding status. Investment decisions for its assets are made in accordance with these guidelines.

The Corporate Defined Benefit Pension Plan Law requires a pension fund to review the assumptions and remeasure the required contribution at least every fifth fiscal year, in order to ensure that it maintains sufficient assets for future benefit payments. On the other hand, the present value of the defined benefit obligation is calculated annually based on actuarial valuations that are dependent upon a number of assumptions, including discount rates, mortality rates and future salary (benefit) increases, in accordance with IAS 19 "Employee Benefits." Other types of defined benefit pension plans operated by the Group are generally established and operated in the same manner as described above.

Lump-sum severance indemnity plans

SMBC and some of the Company's other subsidiaries have lump-sum severance indemnity plans under which their employees are provided with lump-sum cash payments upon leaving the company. While funding of these plans is not required under Japanese pension laws, some of these plans are funded with assets held by retirement benefit trusts.

SMBC and a number of the Company's other subsidiaries in Japan established retirement benefit trusts and contributed some of their marketable securities to these trusts in order to isolate these assets for retirement benefits by entering into contracts with trust banks. Retirement benefit trusts are voluntary funds that are used either to contribute assets to the pension funds or to directly settle retirement benefits. Among the Group, retirement benefit trusts are set up for the defined benefit pension plans, as well as for the lump-sum severance indemnity plans.

The assets belonging to the retirement benefit trusts are available to be used only to pay or fund retirement benefits, and practically held by an entity that is legally separated from the Group. Therefore, they are not available to the Group's creditors even in bankruptcy and cannot be returned to the Group, unless either the remaining assets are sufficient to meet all the related obligations or the entities (funds) reimburse to the Group the retirement benefits which are already paid by the Group. Therefore, these assets are accounted for as plan assets.

The following tables provide detailed information for the defined benefit plans.

The amounts of the retirement benefit liabilities and the retirement benefit assets recognized in the consolidated statements of financial position at March 31, 2021 and 2020 were determined as follows:

	At March 31,	
	2021	2020
	(In millions)	
Present value of unfunded obligations	¥ (32,872)	¥ (32,696)
Present value of funded obligations	(1,114,185)	(1,155,401)
Fair value of plan assets	1,627,110	1,318,073
Net retirement benefit assets (liabilities)	¥ 480,053	¥ 129,976
Of which retirement benefit liabilities included in "Other liabilities"	¥ (38,881)	¥ (38,986)
Of which retirement benefit assets included in "Other assets"	¥ 518,934	¥ 168,962

The movements in the defined benefit obligations for the fiscal years ended March 31, 2021 and 2020 were as follows:

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
At beginning of period	¥1,188,097	¥1,188,183
Current service cost	32,099	37,775
Interest cost	6,352	6,826
Actuarial losses (gains)—demographic assumptions	1,510	8,089
Actuarial losses—financial assumptions	(6,348)	757
Actuarial losses—experience	2,630	2,592
Benefits paid	(41,933)	(43,636)
Lump-sum payments	(12,463)	(12,443)
Past service cost ⁽¹⁾	(28,023)	—
Acquisition of subsidiaries and businesses	46	1,252
Others	5,090	(1,298)
At end of period	¥1,147,057	¥1,188,097

- (1) During the fiscal year ended March 31, 2021, SMBC made an amendment to its terms of defined benefit pension plans. Primarily as a result of the amendment, the defined benefit obligation decreased by ¥28,023 million and a corresponding past service cost was recognized as profit for the fiscal year ended March 31, 2021.

The movements in the fair value of plan assets for the fiscal years ended March 31, 2021 and 2020 were as follows:

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
At beginning of period	¥1,318,073	¥1,420,639
Interest income	7,767	8,080
Return on plan assets excluding interest income	325,474	(77,512)
Contributions by employer	11,752	13,145
Benefits paid	(41,933)	(43,636)
Others	5,977	(2,643)
At end of period	¥1,627,110	¥1,318,073

The amounts recognized in “General and administrative expenses” in the consolidated income statements for the fiscal years ended March 31, 2021, 2020 and 2019 were as follows:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Current service cost	¥ 32,099	¥ 37,775	¥ 38,540
Net interest cost	(1,415)	(1,254)	(1,797)
Past service cost	(28,023)	—	108
Total	¥ 2,661	¥ 36,521	¥ 36,851

The plan assets at March 31, 2021 and 2020 were composed as follows:

	At March 31,					
	2021			2020		
	Quoted in active markets	Other	Total	Quoted in active markets	Other	Total
	(In millions)					
Plan assets retained in the pension funds:						
Equity instruments	¥ 248,064	¥ 157,910	¥ 405,974	¥ 184,621	¥ 138,692	¥ 323,313
Debt instruments	14,552	218,610	233,162	21,326	174,030	195,356
General account of life insurance companies	117	40,216	40,333	124	39,697	39,821
Other investments and short-term assets	48,178	295,104	343,282	47,496	243,834	291,330
Plan assets retained in the retirement benefit trusts:						
Equity instruments	530,485	2,211	532,696	416,923	1,470	418,393
Other short-term assets	63,324	8,339	71,663	40,254	9,606	49,860
Total	¥ 904,720	¥ 722,390	¥ 1,627,110	¥ 710,744	¥ 607,329	¥ 1,318,073

The assets in the pension funds included common stocks issued by the Group at March 31, 2021 and 2020. The amounts of these stocks were not significant.

The assets in retirement benefit trusts were primarily composed of Japanese equity instruments. Most of the plan assets held by the Group are invested in Japanese equity and debt instruments. Accordingly, the Group may be exposed to market risk arising from the domestic markets.

The Group retained the voting rights of some of these equity instruments with fair values of ¥515,890 million and ¥406,305 million (31.7% and 30.8% of the total fair values of plan assets) at March 31, 2021 and 2020, respectively.

The principal actuarial assumptions used at March 31, 2021, 2020 and 2019 were as follows:

	At March 31,		
	2021	2020	2019
Discount rates	0.6%	0.5%	0.5%

Discount rates are weighted on the basis of the defined benefit obligations.

The assumptions for future mortality are based on the official mortality table generally used for actuarial assumptions in Japan. The current average remaining life expectancy of an individual retiring at age 60 was 24 years for males and 29 years for females under the mortality table used at March 31, 2021, and 23 years for males and 28 years for females under the mortality table used at March 31, 2020 and 2019.

The sensitivity analyses of the effect of changes in key assumptions on the defined benefit obligations at March 31, 2021 and 2020 were as follows:

		At March 31,	
		2021	2020
		Increase/(decrease)	Increase/(decrease)
		(In millions)	
Discount rates:			
Increase by 50 bps	¥	(65,357)	¥ (75,446)
Decrease by 50 bps		73,727	85,951
Average life expectancy at age 60:			
Increase of one year	¥	35,200	¥ 40,012

Each increase and decrease in the table above assumes that only one assumption is changed, with all other assumptions remaining unchanged. In practice, however, changes in multiple assumptions may occur in a mutually interrelated manner.

The weighted average durations of defined benefit plans for the fiscal years ended March 31, 2021, 2020 and 2019 were as follows:

		At March 31,		
		2021	2020	2019
		(Years)		
Lump-sum severance indemnity plans		12.9	10.5	12.7
Defined benefit pension plans		18.5	17.5	18.9

Funding Policy for Plan Assets

The pension funds review the funding status of plan assets every year. If any funding deficit is identified, a measure to cover such deficit will be implemented, for example, by increasing the amount of contributions by the employer.

Expected contribution

Expected contributions to the defined benefit plans for the fiscal year ending March 31, 2022 are ¥18,297 million.

Defined Contribution Plans

SMBC and some of the Company's other subsidiaries provide defined contribution plans. The amounts recognized as expenses for the defined contribution plans were ¥10,994 million, ¥11,139 million and ¥10,862 million for the fiscal years ended March 31, 2021, 2020 and 2019, respectively, which were included in "General and administrative expenses" in the consolidated income statements.

Employees' Pension Insurance Plan

In Japan, the Government of Japan operates the Employees' Pension Insurance Plan which covers most of the private entities' employees. The amounts of contributions charged to expense for the Employees' Pension Insurance Plan were ¥37,692 million, ¥37,990 million and ¥39,232 million for the fiscal years ended March 31, 2021, 2020 and 2019, respectively, which were included in "General and administrative expenses" in the consolidated income statements.

25 SHAREHOLDERS' EQUITY

Common Stock

The changes in the number of issued shares of common stock and common stock held by the Company or its subsidiaries during the fiscal years ended March 31, 2021, 2020 and 2019 were as follows:

	For the fiscal year ended March 31,					
	2021		2020		2019	
	Outstanding	In treasury	Outstanding	In treasury	Outstanding	In treasury
At beginning of period	1,373,171,556	3,645,043	1,399,401,420	3,800,918	1,414,443,390	3,884,968
Net change	868,505	(32,741)	(26,229,864)	(155,875)	(15,041,970)	(84,050)
At end of period	<u>1,374,040,061</u>	<u>3,612,302</u>	<u>1,373,171,556</u>	<u>3,645,043</u>	<u>1,399,401,420</u>	<u>3,800,918</u>

The total number of authorized shares of common stock was 3,000 million at March 31, 2021 and 2020 with no stated value. All issued shares are fully paid. The details of the stock options and the restricted shares outstanding are described in Note 40 "Share-Based Payment."

On May 14, 2018, the Company's board of directors resolved to repurchase shares of its common stock and cancel all the repurchased shares. The resolution authorized the repurchase of up to the lesser of (i) an aggregate of 20,000,000 shares of its common stock and (ii) an aggregate of ¥70 billion between May 15, 2018 and July 31, 2018. On June 19, 2018, the Company completed the repurchase, acquiring 15,368,300 shares of its common stock for ¥70 billion in aggregate. The Company cancelled all of the repurchased shares on August 20, 2018.

On May 15, 2019, the Company's board of directors resolved to repurchase shares of its common stock and cancel all the repurchased shares. The resolution authorized the repurchase of up to the lesser of (i) an aggregate of 32,000,000 shares of its common stock and (ii) an aggregate of ¥100 billion between May 16, 2019 and August 30, 2019. On August 9, 2019, the Company completed the repurchase, acquiring 26,502,400 shares of its common stock for ¥100 billion in aggregate. The Company cancelled all of the repurchased shares on September 20, 2019.

Preferred Stock

The following table shows the number of shares of preferred stock at March 31, 2021 and 2020.

	At March 31, 2021		At March 31, 2020	
	Authorized	Issued	Authorized	Issued
Type 5 preferred stock	167,000	—	167,000	—
Type 7 preferred stock	167,000	—	167,000	—
Type 8 preferred stock	115,000	—	115,000	—
Type 9 preferred stock	115,000	—	115,000	—

All the preferred stocks have no stated value. There was no movement in preferred stock during the fiscal years ended March 31, 2021, 2020 and 2019.

Capital stock, Capital surplus and Treasury stock

"Capital stock" represents share capital under the Companies Act adjusted by the amount corresponding to the preferred stock which is accounted for as a liability under IFRS. Purchases of treasury stock are recognized at cost in "Treasury stock." Any additional paid-in capital, net gains or losses on the sale of treasury stock, and other changes in equity resulting from transactions with shareholders except for dividends are included in "Capital surplus."

Restriction on the Payment of Dividends

The amount of the capital surplus and retained earnings of the Company that can be paid out as dividends is subject to restrictions under the Companies Act of Japan (“Companies Act”). These amounts are calculated based on the Company’s nonconsolidated statement of financial position prepared in accordance with Japanese GAAP. Therefore, the adjustments made to prepare the IFRS consolidated financial statements have no impact on the calculation. The total amount that the Company can pay out as a dividend was ¥2,078 billion at March 31, 2021.

Other than the restriction by the Companies Act, the Company is required to maintain a risk-weighted capital ratio as per the Banking Act of Japan (“Banking Act”). The detail of the restriction is described in Note 46 “Financial Risk Management.” Therefore, the Company would not be able to pay a dividend if the ratio were to fall below the minimum amount as a result of the payment of the dividends.

Since the Company is a holding company, its earnings rely mostly on dividend income from SMBC, and the Company’s other subsidiaries and associates. SMBC is subject to some restrictions on its dividend payment by the Companies Act and the Banking Act, similar to those applied to the Company’s.

Other Reserves

Remeasurements of defined benefit plans reserve

Remeasurements of the defined benefit plans reserve includes the accumulated actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, and return on plan assets excluding interest income.

The movements of remeasurements of the defined benefit plans reserve for the fiscal years ended March 31, 2021, 2020 and 2019 were as follows:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
At beginning of period	¥ (2,553)	¥ 72,425	¥ 76,102
Gains (losses) arising during the period, before tax	327,681	(88,950)	(40,329)
Income tax (expense) benefit for changes arising during the period	(100,427)	27,028	12,407
Amount attributable to non-controlling interests	26	(29)	53
Share of other comprehensive income (loss) of associates and joint ventures	1,096	(333)	760
Transfer from other reserves to retained earnings	(11,412)	(12,694)	23,432
At end of period	<u>¥ 214,411</u>	<u>¥ (2,553)</u>	<u>¥ 72,425</u>

Financial instruments at fair value through other comprehensive income reserve

The financial instruments at fair value through other comprehensive income (“FVOCI”) reserve includes the accumulated gains and losses of debt instruments measured at FVOCI and equity instruments measured at FVOCI under IFRS 9. The accumulated gains and losses related to debt instruments measured at FVOCI are reclassified to profit or loss when the assets are derecognized or impaired. The accumulated gains and losses related to equity instruments measured at FVOCI are transferred to retained earnings when the assets are derecognized. In addition, when the decline in the fair value of an equity instrument measured at FVOCI is above the threshold to qualify for a tax deduction, the accumulated losses related to the equity instrument are transferred to retained earnings.

The movements of the financial instruments at FVOCI reserve for the fiscal years ended March 31, 2021, 2020 and 2019 were as follows:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
At beginning of period	¥1,500,013	¥1,730,607	¥1,718,937
Gains (losses) arising during the period, before tax	996,972	(178,166)	21,936
Income tax (expense) benefit for changes arising during the period	(304,515)	54,206	2,982
Reclassification adjustments for (gains) losses included in net profit,			
before tax	(79,711)	(96,624)	(6,071)
Income tax (expense) benefit for reclassification adjustments	24,409	29,590	1,844
Amount attributable to non-controlling interests	4	(2)	53,769
Share of other comprehensive income (loss) of associates and joint ventures	5,751	231	1,368
Transfer from other reserves to retained earnings	(36,668)	(39,829)	(64,158)
At end of period	<u>¥2,106,255</u>	<u>¥1,500,013</u>	<u>¥1,730,607</u>

Own credit on financial liabilities designated at fair value through profit or loss reserve

The own credit on financial liabilities designated at fair value through profit or loss (“FVPL”) reserve includes the accumulated gains and losses arising from changes in fair value that is attributable to changes in own credit risk of financial liabilities designated at FVPL.

The movements of own credit on financial liabilities designated at fair value through profit or loss reserve for the fiscal year ended March 31, 2021 were as follows:

	For the fiscal year ended March 31,
	2021
	(In millions)
At beginning of period	¥ —
Gains (losses) arising during the period, before tax	(4,981)
Income tax (expense) benefit for changes arising during the period	1,526
At end of period	<u>¥ (3,455)</u>

Exchange differences on translating foreign operations reserve

Exchange differences on translating foreign operations reserve includes foreign exchange differences arising from the translation of the net assets of foreign operations from their functional currencies to the Group’s presentation currency, Japanese yen.

The movements of exchange differences on translating the foreign operations reserve for the fiscal years ended March 31, 2021, 2020 and 2019 were as follows:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
At beginning of period	¥ 28,260	¥113,334	¥125,987
Gains (losses) arising during the period, before tax	86,842	(78,742)	22,517
Income tax (expense) benefit for changes arising during the period	(3,784)	2,288	343
Reclassification adjustments for (gains) losses included in net profit, before tax	446	204	(37,247)
Income tax (expense) benefit for reclassification adjustments	(137)	(62)	131
Amount attributable to non-controlling interests	(469)	2,741	4,430
Share of other comprehensive income (loss) of associates and joint ventures	2,488	(11,503)	(2,827)
At end of period	<u>¥113,646</u>	<u>¥ 28,260</u>	<u>¥113,334</u>

26 EQUITY ATTRIBUTABLE TO OTHER EQUITY INSTRUMENTS HOLDERS

Equity attributable to other equity instruments holders at March 31, 2021 and 2020 consisted of the following:

	At March 31,	
	2021	2020
	(In millions)	
Perpetual subordinated bonds	¥ 648,536	¥ 684,476
Total equity attributable to other equity instruments holders	<u>¥ 648,536</u>	<u>¥ 684,476</u>

SMFG issued perpetual subordinated bonds, which are Basel III-compliant Additional Tier 1 capital instruments and are classified as equity under IFRS.

The bonds bear a fixed rate of interest until the first call date. After the first call date, they will bear floating rate of interest unless they are redeemed. SMFG may at any time and in its sole discretion, elect to cancel any interest payment. If cancelled, interest payments are non-cumulative and will not increase to compensate for any short-fall in interest payments in any previous year.

These bonds are undated, have no final maturity date and may be redeemed at SMFG's option, in whole, but not in part, on the first call date or any interest payment dates thereafter subject to prior confirmation of the Financial Services Agency of Japan ("FSA").

The principal amount of the bonds may be written down upon the occurrence of certain trigger events. For example, if the Common Equity Tier 1 capital ratio falls below 5.125% ("Capital Ratio Event"), the principal amount required to fully restore the Common Equity Tier 1 capital ratio above 5.125% will be written down.

The principal amount of the bonds which has been written down due to a Capital Ratio Event may be reinstated at SMFG's option, subject to prior confirmation of the FSA that the Common Equity Tier 1 capital ratio remains at a sufficiently high level after giving effect to such reinstatement.

27 NET INTEREST INCOME

Net interest income for the fiscal years ended March 31, 2021, 2020 and 2019 consisted of the following:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Interest income from:			
Deposits with banks	¥ 17,411	¥ 81,592	¥ 103,798
Call loans and bills bought	11,091	16,556	16,400
Reverse repurchase agreements and cash collateral on securities borrowed	14,148	52,865	38,387
Investment securities	126,639	178,830	152,915
Loans and advances	1,611,081	2,077,202	2,094,850
Total interest income	1,780,370	2,407,045	2,406,350
Interest expense from:			
Deposits	179,910	582,799	601,365
Call money and bills sold	1,755	10,483	14,212
Repurchase agreements and cash collateral on securities lent	7,131	132,389	120,984
Borrowings	62,624	92,425	107,233
Debt securities in issue	109,205	232,473	256,035
Premiums for deposit insurance	35,813	36,809	35,555
Others	807	3,352	2,046
Total interest expense	397,245	1,090,730	1,137,430
Net interest income	¥ 1,383,125	¥ 1,316,315	¥ 1,268,920

28 NET FEE AND COMMISSION INCOME

Net fee and commission income for the fiscal years ended March 31, 2021, 2020 and 2019 consisted of the following:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Fee and commission income from:			
Loans	¥ 132,523	¥ 123,472	¥ 118,225
Credit card business	304,787	304,238	290,034
Guarantees	64,422	67,846	63,112
Securities-related business	169,251	149,837	142,870
Deposits	14,763	14,045	12,650
Remittances and transfers	138,907	141,617	139,625
Safe deposits	4,160	4,349	4,546
Trust fees	4,885	4,680	4,629
Investment trusts	163,522	150,349	127,762
Agency	8,442	9,612	11,417
Others	168,720	177,087	186,907
Total fee and commission income	1,174,382	1,147,132	1,101,777
Fee and commission expense from:			
Remittances and transfers	39,417	40,601	42,150
Others	162,306	163,221	136,201
Total fee and commission expense	201,723	203,822	178,351
Net fee and commission income	¥ 972,659	¥ 943,310	¥ 923,426

Fee and commission income can be mainly disaggregated into credit card business, securities-related business, investment trusts, remittances and transfers and loans by types of services. Fees obtained through credit card business principally arise in the Retail Business Unit. Fees obtained through securities-related business principally arise in the Wholesale Business Unit, the Retail Business Unit and the Global Business Unit. Fees and commissions obtained through investment trusts principally arise in the Retail Business Unit and Head office account and others, which include the investment advisory and investment trust management businesses. Remittance and transfer fees principally arise in the Wholesale Business Unit, the Retail Business Unit and the Global Business Unit. Loan transaction fees principally arise in the Wholesale Business Unit and the Global Business Unit.

29 NET TRADING INCOME

Net trading income for the fiscal years ended March 31, 2021, 2020 and 2019 consisted of the following:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Interest rate	¥ 38,987	¥ 149,420	¥ 176,352
Foreign exchange	168,462	(78,541)	92,835
Equity	34,772	59,388	46,576
Credit	(4,723)	2,495	3,667
Others	248	1,307	872
Total net trading income	<u>¥ 237,746</u>	<u>¥ 134,069</u>	<u>¥ 320,302</u>

Net trading income includes income and losses from trading assets and liabilities, and derivative financial instruments.

30 NET INCOME (LOSS) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net income (loss) from financial assets and liabilities at fair value through profit or loss for the fiscal years ended March 31, 2021, 2020 and 2019 consisted of the following:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Net income (loss) from financial assets mandatorily at fair value through profit or loss:			
Net income (loss) from debt instruments	¥ 262,396	¥ (23,557)	¥ 53,048
Net income from equity instruments	23,687	1,618	1,607
Net loss from financial liabilities designated at fair value through profit or loss	<u>(6,071)</u>	<u>—</u>	<u>—</u>
Total net income (loss) from financial assets and liabilities at fair value through profit or loss	<u>¥ 280,012</u>	<u>¥ (21,939)</u>	<u>¥ 54,655</u>

31 NET INVESTMENT INCOME

Net investment income for the fiscal years ended March 31, 2021, 2020 and 2019 consisted of the following:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Net gain from disposal of debt instruments	¥ 79,711	¥ 96,624	¥ 6,072
Dividend income	74,109	79,840	87,850
Total net investment income	¥ 153,820	¥ 176,464	¥ 93,922

Dividend income from equity instruments at fair value through other comprehensive income which were derecognized during the fiscal years ended March 31, 2021, 2020 and 2019 were ¥1,027 million, ¥1,555 million and ¥2,524 million, respectively.

32 OTHER INCOME

Other income for the fiscal years ended March 31, 2021, 2020 and 2019 consisted of the following:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Income from operating leases	¥ 34,426	¥ 40,337	¥ 235,044
Income related to disposal of assets leased	1,233	2,744	112,344
Income related to IT solution services	12,836	19,880	33,828
Gains on disposal of property, plant and equipment, and other intangible assets	3,035	1,862	541
Reversal of impairment losses of investments in associates and joint ventures	9,930	—	2,402
Gains on step acquisition of subsidiaries	405	22,040	—
Others	76,358	68,768	121,507
Total other income	¥ 138,223	¥ 155,631	¥ 505,666

33 IMPAIRMENT CHARGES ON FINANCIAL ASSETS

Impairment charges (reversals) on financial assets for the fiscal years ended March 31, 2021, 2020 and 2019 consisted of the following:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Loans and advances	¥ 277,085	¥ 249,478	¥ 122,927
Loan commitments	12,729	11,011	(9,771)
Financial guarantees	(7,328)	(551)	6,529
Investment securities	—	—	1
Total impairment charges on financial assets	¥ 282,486	¥ 259,938	¥ 119,686

34 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the fiscal years ended March 31, 2021, 2020 and 2019 consisted of the following:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Personnel expenses	¥ 770,769	¥ 787,880	¥ 803,821
Depreciation and amortization ⁽¹⁾	255,702	258,516	168,564
Rent and lease expenses ⁽¹⁾	—	—	112,660
Building and maintenance expenses	8,593	8,864	10,254
Supplies expenses	15,191	15,506	16,252
Communication expenses	33,454	34,213	35,030
Publicity and advertising expenses	89,924	73,483	63,669
Taxes and dues	83,554	84,364	82,792
Outsourcing expenses	111,737	109,100	100,495
Office equipment expenses	56,389	51,283	47,139
Others	253,802	273,177	239,137
Total general and administrative expenses	¥ 1,679,115	¥ 1,696,386	¥ 1,679,813

- (1) On April 1, 2019, the Group adopted IFRS 16 retrospectively by adjusting the consolidated statement of financial position at the date of initial application, and has not restated comparatives as permitted by IFRS 16. IFRS 16 requires a lessee to recognize a right of use asset and its depreciation and amortization over the lease term, instead of rent and lease expenses. For additional information, refer to Note 2 “Summary of Significant Accounting Policies.”

35 OTHER EXPENSES

Other expenses for the fiscal years ended March 31, 2021, 2020 and 2019 consisted of the following:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Cost of operating leases	¥ 23,225	¥ 26,380	¥ 120,412
Cost related to disposal of assets leased	—	—	101,218
Cost related to IT solution services and IT systems	84,691	85,872	96,727
Provision for interest repayment	38,344	38,694	47,293
Losses on disposal of property, plant and equipment, and other intangible assets	3,725	1,937	4,596
Impairment losses of property, plant and equipment	10,959	79,947	5,906
Impairment losses of intangible assets	42,846	28,689	66,665
Losses on sale of investments in subsidiaries and associates	680	—	2,677
Impairment losses of investments in associates and joint ventures ⁽¹⁾	12,537	174,782	50,679
Losses on step acquisition of subsidiaries	—	—	25,744
Others	66,872	52,505	53,740
Total other expenses	¥ 283,879	¥ 488,806	¥ 575,657

- (1) For the fiscal year ended March 31, 2021 and 2020, the Group recognized an impairment loss of ¥10,391 million and ¥133,122 million, respectively, on investments in associates and joint ventures, due to the decline in the stock price of its equity-method associate, The Bank of East Asia, Limited.

36 INCOME TAX EXPENSE

The detail of income tax expense for the fiscal years ended March 31, 2021, 2020 and 2019 was as follows:

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Current tax:			
Charge for period ⁽¹⁾	¥ 207,742	¥ 203,060	¥ 173,683
Deferred tax:			
Origination and reversal of temporary differences	48,295	(94,773)	17,460
Change in the write-down of deferred tax assets on the current fiscal year income tax expense	(4,635)	(56,519)	(6,837)
Total deferred tax expense (benefit)	43,660	(151,292)	10,623
Total income tax expense	¥ 251,402	¥ 51,768	¥ 184,306

(1) As a result of the adoption of IFRS 9, the current income tax expense of ¥13,851, ¥12,374 million and ¥103,264 million were recognized directly in equity for the fiscal years ended March 31, 2021, 2020 and 2019, respectively.

The following table shows the reconciliations of the effective income tax rates for the fiscal years ended March 31, 2021, 2020 and 2019.

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions, except percentages)		
Profit before tax	¥ 956,478	¥ 282,751	¥ 831,892
Income tax expense	251,402	51,768	184,306
Effective income tax rate	26.3%	18.3%	22.2%
Effective statutory tax rate in Japan ⁽¹⁾	30.6%	30.6%	30.6%
Non-Japanese earnings	(1.6%)	(4.4%)	(3.0%)
Tax impact of impairment losses of goodwill	1.4%	—	—
Tax impact of share of post-tax profit in associates and joint ventures	(1.2%)	(2.6%)	(1.5%)
Nontaxable dividends received	(0.7%)	(3.3%)	(4.8%)
Effect of the change in the write-down of deferred tax assets on the current fiscal year income tax expense	(0.5%)	(20.0%)	(0.8%)
Tax impact of impairment losses and reversal of impairment losses for investments in associates and joint ventures—net	0.1%	18.9%	1.8%
Gains on step acquisition of subsidiaries and associates and joint ventures which were not taxable	—	(2.4%)	1.0%
Others—net	(1.8%)	1.5%	(1.1%)
Effective income tax rate	26.3%	18.3%	22.2%

(1) The effective statutory tax rate in Japan for the fiscal year ended March 31, 2021 is the aggregate of the effective corporation tax rate of 23.2%, the effective local corporation tax rate of 2.4%, the effective inhabitant tax rate of 2.4% and the effective enterprise tax rate of 2.6%, which is payable by corporate entities on taxable profits under the tax laws in Japan. The effective local corporation tax rate and the effective inhabitant tax rate were changed from 1.0% and 3.8%, which were applied to the fiscal years ended March 31, 2020 and 2019.

37 EARNINGS PER SHARE

The following table shows the income and share data used in the basic and diluted earnings per share calculations for the fiscal years ended March 31, 2021, 2020 and 2019.

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions, except number of shares and per share data)		
Basic:			
Profit attributable to shareholders of the Company	¥ 687,483	¥ 200,052	¥ 541,932
Weighted average number of common stock in issue (in thousands of shares)	1,370,214	1,375,118	1,397,599
Basic earnings per share	¥ 501.73	¥ 145.48	¥ 387.76
Diluted:			
Profit attributable to the common shareholders of the Company	¥ 687,483	¥ 200,052	¥ 541,932
Impact of dilutive potential ordinary shares issued by subsidiaries	—	(3)	(19)
Net profit used to determine diluted earnings per share	¥ 687,483	¥ 200,049	¥ 541,913
Weighted average number of common stock in issue (in thousands of shares)	1,370,214	1,375,118	1,397,599
Adjustments for stock options (in thousands of shares)	658	802	924
Weighted average number of common stock for diluted earnings per share (in thousands of shares)	1,370,872	1,375,920	1,398,523
Diluted earnings per share	¥ 501.49	¥ 145.39	¥ 387.49

38 TRANSFERS OF FINANCIAL ASSETS

In the normal course of business, the Group transfers financial assets mainly through repurchase agreements, securities lending transactions and securitizations. Depending on the nature of the transactions, the transfers may either result in financial assets being derecognized or continuing to be recognized on the consolidated statements of financial position.

Full derecognition occurs when the Group transfers its contractual rights to receive cash flows from financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party, and transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. Derecognition does not occur when the Group retains substantially all the risks and rewards of ownership of the financial assets, where the contractual rights to receive cash flows from the financial assets are transferred, or the rights are retained but obligations to pay the cash flows are assumed.

The following tables show the carrying amounts and fair values of transferred financial assets that did not qualify for derecognition and their associated financial liabilities at March 31, 2021 and 2020:

At March 31, 2021			
	Repurchase agreements and securities lending transactions	Loans and advances	
		Residential mortgages	Corporate loans
		(In millions)	
Carrying amount of assets	¥ 9,837,768	¥1,522,945	¥ 849,842
Carrying amount of associated liabilities	8,561,981	1,207,662	788,300
For those liabilities that have recourse only to the transferred assets:			
Fair value of assets	¥ —	¥1,720,956	¥ 855,254
Fair value of associated liabilities	—	1,263,296	788,300
Net position	¥ —	¥ 457,660	¥ 66,954

At March 31, 2020			
	Repurchase agreements and securities lending transactions	Loans and advances	
		Residential mortgages	Corporate loans
		(In millions)	
Carrying amount of assets	¥ 8,068,054	¥1,545,664	¥1,083,861
Carrying amount of associated liabilities	7,911,064	1,234,536	761,080
For those liabilities that have recourse only to the transferred assets:			
Fair value of assets	¥ —	¥1,740,057	¥1,088,121
Fair value of associated liabilities	—	1,286,803	761,128
Net position	¥ —	¥ 453,254	¥ 326,993

Repurchase Agreements and Securities Lending Transactions

The Group lends or sells securities under agreements to repurchase them at a predetermined price on a future date. Since substantially all the risks and rewards of ownership of the securities are retained by the Group, the securities remain on the consolidated statements of financial position and their associated financial liabilities are recorded. The recourse of the counterparties to their associated financial liabilities is not limited to the underlying securities.

Loans and Advances

The Group transfers its loans and advances, including residential mortgages and corporate loans, mainly to bankruptcy-remote structured entities for securitizations whereby the structured entities issue debt securities to the Group for subordinated tranches and to investors for senior tranches. The investors have only recourse to the underlying financial assets due to their bankruptcy-remoteness. Since the Group retains substantially all the risks and rewards of ownership, the transferred financial assets do not qualify for derecognition. The Group therefore continues to recognize these transferred financial assets as loans and advances, and recognizes their associated financial liabilities arising from issuing debt securities to investors on the consolidated statements of financial position.

39 ASSETS PLEDGED AND RECEIVED AS COLLATERAL

Assets Pledged

The carrying amounts of assets pledged as collateral at March 31, 2021 and 2020 were as follows:

	At March 31,	
	2021	2020
	(In millions)	
Cash and deposits with banks	¥ 15,505	¥ 90,656
Trading assets	1,965,059	2,020,520
Financial assets at fair value through profit or loss	—	303,608
Debt instruments at amortized cost	22,300	258,079
Debt instruments at fair value through other comprehensive income	20,477,063	13,405,374
Equity instruments at fair value through other comprehensive income	4,136	3,138
Loans and advances	10,268,344	10,793,479
Other assets	2,305,749	2,359,282
Total	<u>¥35,058,156</u>	<u>¥29,234,136</u>

The Group pledges assets as collateral to secure payables under repurchase agreements, securities lending transactions and securitizations, borrowings or for cash settlements, margins on derivative transactions and certain other purposes. These transactions are conducted under terms that are usual and customary to standard contracts.

Loaned securities for which the borrowers have the right to sell or repledge were ¥9,837,768 million and ¥8,072,646 million at March 31, 2021 and 2020, respectively.

For the reserve funds with the Bank of Japan and other reserve deposits for foreign offices maintained by the Group, refer to Note 5 “Cash and Deposits with Banks.”

Assets Received as Collateral

Under certain transactions, including reverse repurchase agreements, securities borrowing, and discounting of bills, the Group is permitted to resell or repledge the collateral held in the absence of default by the owner of the collateral. These transactions are conducted under terms that are usual and customary for standard contracts. The fair values of securities and bills accepted as collateral were ¥15,701,634 million and ¥16,962,246 million at March 31, 2021 and 2020, respectively. As to the securities received in the reverse repurchase agreements and securities borrowing transactions, the Group has the obligation to return equivalent securities upon completion of the transactions. The fair value of securities sold or repledged to others was ¥10,446,835 million and ¥12,935,265 million at March 31, 2021 and 2020, respectively.

40 SHARE-BASED PAYMENT

Stock Option Plans

SMFG had introduced compensation-type stock options to directors, corporate auditors, and executive officers of SMFG and SMBC (“SMFG Stock Acquisition Rights”), which served as an incentive for them to further contribute to the equity appreciation and achieve better corporate performance through sharing the benefits and risks of the share price performance with the shareholders. The following table provides an overview of the significant terms and conditions of the stock option plan.

	Title of grantees	Exercise period	Requisite service period	Method of settlement
SMFG Stock Acquisition Rights	Directors, corporate auditors and executive officers of SMFG and SMBC	Not exceeding 30 years from the date of allocation of stock acquisition rights ⁽¹⁾	One year from the date of the ordinary general meeting of shareholders of SMFG to the closing of the next ordinary general meeting of shareholders of SMFG	Common stock of SMFG

(1) A stock acquisition rights holder can exercise the rights from the day they are relieved of their positions either as a director, a corporate auditor or an executive officer (“Start of Exercise Date”) to 20 years from the Start of Exercise Date.

The number and the weighted average exercise prices of stock options for the fiscal years ended March 31, 2021 and 2020 were as follows:

	For the fiscal year ended March 31,			
	2021		2020	
	Number of options ⁽¹⁾	Weighted average exercise price	Number of options ⁽¹⁾	Weighted average exercise price
Outstanding at beginning of period	722,500	¥ 1	899,400	¥ 1
Exercised	(87,800)	1	(176,900)	1
Outstanding at end of period	634,700	¥ 1	722,500	¥ 1
Exercisable at end of period	346,700	¥ 1	390,800	¥ 1

(1) Number of options is the number of SMFG’s common stock granted by the exercise of stock options.

In June 2017, SMFG and SMBC resolved to discontinue the issuance of new stock options. Thereafter, SMFG has not issued any new stock options.

The weighted average stock price at the date of exercise was ¥2,903 and ¥3,598 for the fiscal years ended March 31, 2021 and 2020, respectively.

Summarized information about stock options outstanding at March 31, 2021 and 2020 was as follows:

			At March 31,			
			2021		2020	
	Exercise price	Number of options	Remaining contractual lives in years	Number of options	Remaining contractual lives in years	
SMFG Stock Acquisition Rights	¥ 1	634,700	22.4	722,500	23.4	

Compensation Plans Utilizing Restricted Stock

In July 2017, the SMFG compensation committee resolved to revise the executive compensation policy and to introduce new stock compensation plans that utilize restricted stock.

The plans consist of Stock Compensation Plan I (“Plan I”), which determines remuneration primarily based on the medium-term performance, Stock Compensation Plan II (“Plan II”), which determines remuneration primarily based on the annual performance and Stock Compensation Plan III (“Plan III”), which determines remuneration primarily based on corporate title.

Plan I (medium-term performance share plan) has an evaluation period of three years, corresponding with SMFG’s medium-term management plan. Executives are initially allotted shares of restricted stock equivalent to the monetary amount determined based on the executive’s corporate title. After the completion of the evaluation period, the compensation committee reviews the progress of the medium-term management plan, performance of SMFG’s common stock, and results of customer satisfaction surveys and other factors, to determine the final amount to be released from transfer restrictions. In case the final amount falls below the initial amount, SMFG retrieves all or part of the allotted shares at no cost.

Under Plan II (annual performance share plan), executives are allotted shares of restricted stock equivalent to a certain portion of the monetary amount determined based on the annual performance of SMFG and SMBC, as well as on the individual performance of the executives reviewed both from short-term and medium-to-long-term perspectives. The remainder is paid to the executives as a cash bonus. Transfer restrictions on these shares are released evenly over the three-year period following the year of allotment.

Under Plan III (promotion reward plan), executives are allotted shares of restricted stock equivalent to pre-determined compensation amounts per title, reflecting the increased responsibilities derived from promotions. Restrictions shall apply to the shares until the earlier of 30 years from allotment or when the executive retires from office.

The eligible executives for the plans are directors (excluding outside directors), corporate executive officers and executive officers of SMFG, directors (excluding outside directors) and executive officers, etc. of SMBC and representative corporate executive officers of certain of our subsidiaries.

As part of the executive compensation policy, SMFG and SMBC introduced provisions for forfeiture and claw-back of vested stock under the plans in order to restrain excessive risk-taking and foster a prudent risk culture expected of a financial institution.

The number of restricted shares and the fair value of restricted shares at the measurement date for the fiscal years ended March 31, 2021 and 2020 were as follows:

	For the fiscal year ended March 31,	
	2021	2020
Outstanding at beginning of period	923,425	702,203
Allotted	868,505	272,536
Released	(486,964)	(51,314)
Forfeited	(38,953)	—
Outstanding at end of period	1,266,013	923,425
Fair value at measurement date	¥ 3,015	¥ 3,828

The fair value of restricted shares is based on the market price of SMFG common stock. If any granted conditions exist, the terms and conditions upon which the shares were granted, are taken into account when estimating both the number of shares expected to vest and the fair value of the shares granted. The amount of restricted shares recognized as expenses was measured based on the fair value of the restricted shares granted, which were ¥927 million and ¥1,260 million for the fiscal years ended March 31, 2021 and 2020, respectively, and included in “General and administrative expenses” in the consolidated income statements.

41 DIVIDENDS PER SHARE

The dividends recognized by the Company for the fiscal years ended March 31, 2021, 2020 and 2019 were as follows:

	<u>Dividends per share</u> (In yen)	<u>Aggregate amount</u> (In millions)
For the fiscal year ended March 31, 2021:		
Common stock	¥195	¥267,144
For the fiscal year ended March 31, 2020:		
Common stock	¥185	¥255,835
For the fiscal year ended March 31, 2019:		
Common stock	¥175	¥245,577

The Company proposed to the shareholders the distribution of a dividend of ¥95 per share of common stock totaling ¥130,191 million in respect of the fiscal year ended March 31, 2021. The dividend is subject to the approval at the general meeting of shareholders on June 29, 2021. The consolidated financial statements for the fiscal year ended March 31, 2021 do not include this dividend.

42 CONTINGENCY AND CAPITAL COMMITMENTS

Legal Proceedings

The Group is engaged in various legal proceedings in Japan and a number of overseas jurisdictions, involving claims by and against it, which arise in the normal course of business. The Group does not expect that the outcome of these proceedings will have a significant adverse effect on the consolidated financial statements of the Group. The Group has recorded adequate provisions with respect to litigation arising out of normal business operations. The Group has not disclosed any contingent liability associated with these legal actions because it cannot reliably be estimated.

Capital Commitments

At March 31, 2021 and 2020, the Group had ¥8,532 million and ¥48,707 million, respectively, of contractual commitments to acquire property, plant and equipment. The Group’s management is confident that future net revenues and funding will be sufficient to cover these commitments.

Loan Commitments and Financial Guarantees and Other Credit-related Contingent Liabilities

Loan commitment contracts on overdrafts and loans are agreements to lend up to a prescribed amount to customers, as long as there is no violation of any condition established in the contracts. However, since many of these loan commitments are expected to expire without being drawn down, the total amount of unused commitments does not necessarily represent an actual future cash flow requirement. Many of these loan commitments include clauses under which the Group can reject an application from customers or reduce the contract amounts in cases where economic conditions change, the Group needs to secure claims, or some other significant event occurs.

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument. Other credit-related contingent liabilities include performance bonds, which are contracts that provide compensation if another party fails to perform the contractual obligation.

The table below shows the nominal amounts of undrawn loan commitments, and financial guarantees and other credit-related contingent liabilities at March 31, 2021 and 2020.

	At March 31,	
	2021	2020
	(In millions)	
Loan commitments	¥71,677,806	¥62,151,698
Financial guarantees and other credit-related contingent liabilities	9,872,696	9,204,996
Total	<u>¥81,550,502</u>	<u>¥71,356,694</u>

43 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

After initial recognition, financial assets and liabilities are measured either at fair value or amortized cost, within the measurement categories as defined in IFRS 9. The summary of significant accounting policies in Note 2 describes how these categories of financial assets and liabilities are measured, and how income and expenses are recognized either in profit or loss, or in other comprehensive income. The following tables present the carrying amounts of the financial assets and liabilities, by category and by line item, of the consolidated statements of financial position.

At March 31, 2021					
	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at amortized cost	Debt instruments at fair value through other comprehensive income	Equity instruments at fair value through other comprehensive income	Total
			(In millions)		
Financial assets:					
Cash and deposits with banks . . .	¥ —	¥ 73,090,816	¥ —	¥ —	¥ 73,090,816
Call loans and bills bought	—	2,553,468	—	—	2,553,468
Reverse repurchase agreements and cash collateral on securities borrowed	—	11,738,072	—	—	11,738,072
Trading assets	3,140,736	—	—	—	3,140,736
Derivative financial instruments	5,521,617	—	—	—	5,521,617
Financial assets at fair value through profit or loss	1,744,848	—	—	—	1,744,848
Investment securities	—	72,015	26,392,635	4,586,811	31,051,461
Loans and advances	—	97,714,938	—	—	97,714,938
Other financial assets ⁽¹⁾	—	4,250,454	—	—	4,250,454
Total	¥ 10,407,201	¥ 189,419,763	¥ 26,392,635	¥ 4,586,811	¥230,806,410
Financial liabilities:					
Deposits ⁽²⁾	¥ (2,004)	¥ 155,495,658	¥ —	¥ —	¥155,493,654
Call money and bills sold	—	1,368,515	—	—	1,368,515
Repurchase agreements and cash collateral on securities lent	—	18,509,906	—	—	18,509,906
Trading liabilities	2,080,826	—	—	—	2,080,826
Derivative financial instruments	4,949,433	—	—	—	4,949,433
Financial liabilities designated at fair value through profit or loss	239,519	—	—	—	239,519
Borrowings ⁽²⁾	514	19,422,841	—	—	19,423,355
Debt securities in issue ⁽²⁾	9,596	11,219,004	—	—	11,228,600
Other financial liabilities ⁽¹⁾	1,045	8,416,003	—	—	8,417,048
Total	¥ 7,278,929	¥ 214,431,927	¥ —	¥ —	¥221,710,856

At March 31, 2020

	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at amortized cost	Debt instruments at fair value through other comprehensive income	Equity instruments at fair value through other comprehensive income	Total
	(In millions)				
Financial assets:					
Cash and deposits with banks . . . ¥	— ¥	62,471,453 ¥	— ¥	— ¥	62,471,453
Call loans and bills bought	—	898,256	—	—	898,256
Reverse repurchase agreements and cash collateral on securities borrowed	—	13,745,996	—	—	13,745,996
Trading assets	2,785,016	—	—	—	2,785,016
Derivative financial instruments	6,279,801	—	—	—	6,279,801
Financial assets at fair value through profit or loss	1,478,356	—	—	—	1,478,356
Investment securities	—	320,771	18,054,164	3,489,451	21,864,386
Loans and advances	—	94,671,818	—	—	94,671,818
Other financial assets ⁽¹⁾	—	4,229,678	—	—	4,229,678
Total	¥ 10,543,173 ¥	176,337,972 ¥	18,054,164 ¥	3,489,451 ¥	208,424,760
Financial liabilities:					
Deposits ⁽²⁾ ¥	(5,041) ¥	138,436,459 ¥	— ¥	— ¥	138,431,418
Call money and bills sold	—	3,740,540	—	—	3,740,540
Repurchase agreements and cash collateral on securities lent	—	15,455,782	—	—	15,455,782
Trading liabilities	2,018,484	—	—	—	2,018,484
Derivative financial instruments	5,555,201	—	—	—	5,555,201
Borrowings ⁽²⁾	624	17,120,738	—	—	17,121,362
Debt securities in issue ⁽²⁾	(53,669)	11,038,717	—	—	10,985,048
Other financial liabilities ⁽¹⁾	537	7,149,714	—	—	7,150,251
Total	¥ 7,516,136 ¥	192,941,950 ¥	— ¥	— ¥	200,458,086

- (1) Other financial assets and liabilities comprise of those included in other assets and liabilities, which meet the definition of a financial asset and liability.
- (2) Embedded derivatives, which are separately accounted for, but presented together with the host contract in the consolidated statements of financial position under IFRS 9, are disclosed in this table within the category of “Financial assets and liabilities at fair value through profit or loss.” Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in this table as liabilities to be consistent with the line of the host contract.

44 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values stated below represent the best estimates based on a range of methods and assumptions. In determining the fair value of financial assets and liabilities, the Group gives the highest priority to a quoted market price in an active market. If such prices are not available, it establishes fair value using valuation techniques. The valuation techniques, if used, make maximum use of observable inputs, and rely as little as possible on unobservable inputs.

Financial Assets and Liabilities Carried at Fair Value

Valuation Process

The Group undertakes a valuation process based on its valuation control framework, which governs internal control standards, methodologies and procedures to ensure that the fair values are determined or validated independently of the front office.

The Group uses valuation techniques commonly used by market participants to price the financial instruments and they have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The valuation techniques include the DCF method, option pricing models and reference to the current fair value of another instrument that is substantially the same. Key adjustments, such as liquidity risk and credit risk adjustments are also taken into account to derive fair values.

Where valuation techniques are used to determine fair values, they are validated and reviewed. In principal subsidiaries, their risk management departments, which are independent from the business units, review significant valuation methodologies at least once a year, and recalibrate model parameters and inputs by comparing fair values derived from the valuation techniques to the external market data such as broker quotes. Where the data obtained from third-party sources such as brokers and pricing service providers are utilized in determining fair values, those departments also examine those data, taking into account the consistency among the different sources, the aging of the data and other factors. In addition, accounting departments in those principal subsidiaries are responsible for ensuring that the accounting policies and procedures to determine fair values are in compliance with relevant accounting standards.

Fair Value Hierarchy

Financial assets and liabilities measured at fair value are classified into one of three levels within a fair value hierarchy based on the inputs used in the fair value measurement. The three levels of the fair value hierarchy are as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- significant unobservable inputs for the asset or liability (Level 3).

The following tables present the carrying amounts of financial assets and liabilities carried at fair value based on the three levels of the fair value hierarchy at March 31, 2021 and 2020.

	At March 31, 2021			
	Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3	Total
	(In millions)			
Financial assets:				
Trading assets:				
Debt instruments	¥ 2,121,065	¥ 611,415	¥ —	¥ 2,732,480
Equity instruments	403,556	4,700	—	408,256
Total trading assets	2,524,621	616,115	—	3,140,736
Derivative financial instruments:				
Interest rate derivatives	47,289	3,049,703	289	3,097,281
Currency derivatives	104	2,325,254	507	2,325,865
Equity derivatives	48,283	2,908	15,411	66,602
Commodity derivatives	1,043	6,267	—	7,310
Credit derivatives	—	22,702	1,857	24,559
Total derivative financial instruments	96,719	5,406,834	18,064	5,521,617
Financial assets at fair value through profit or loss:				
Debt instruments	486,073	619,641	561,450	1,667,164
Equity instruments	44,836	71	32,777	77,684
Total financial assets at fair value through profit or loss	530,909	619,712	594,227	1,744,848
Investment securities at fair value through other comprehensive income:				
Japanese government bonds	14,293,611	—	—	14,293,611
U.S. Treasury and other U.S. government agency bonds	5,564,944	—	—	5,564,944
Other debt instruments	1,007,148	5,526,932	—	6,534,080
Total debt instruments	20,865,703	5,526,932	—	26,392,635
Equity instruments	4,123,247	15,959	447,605	4,586,811
Total investment securities at fair value through other comprehensive income	24,988,950	5,542,891	447,605	30,979,446
Total	¥28,141,199	¥12,185,552	¥1,059,896	¥41,386,647
Financial liabilities:				
Trading liabilities:				
Debt instruments	¥ 1,951,218	¥ 51,373	¥ —	¥ 2,002,591
Equity instruments	59,887	18,348	—	78,235
Total trading liabilities	2,011,105	69,721	—	2,080,826
Derivative financial instruments:				
Interest rate derivatives	22,165	2,623,917	3,877	2,649,959
Currency derivatives	10	2,169,202	5,848	2,175,060
Equity derivatives	79,008	3,211	8,279	90,498
Commodity derivatives	510	4,861	—	5,371
Credit derivatives	—	28,454	91	28,545
Total derivative financial instruments	101,693	4,829,645	18,095	4,949,433
Financial liabilities designated at fair value through profit or loss				
	—	72,623	166,896	239,519
Others ⁽²⁾⁽³⁾	—	8,047	1,104	9,151
Total	¥ 2,112,798	¥ 4,980,036	¥ 186,095	¥ 7,278,929

At March 31, 2020				
	Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3	Total
	(In millions)			
Financial assets:				
Trading assets:				
Debt instruments	¥ 2,191,635	¥ 354,068	¥ —	¥ 2,545,703
Equity instruments	234,725	4,588	—	239,313
Total trading assets	2,426,360	358,656	—	2,785,016
Derivative financial instruments:				
Interest rate derivatives	100,558	4,009,820	1,148	4,111,526
Currency derivatives	—	2,032,117	11,667	2,043,784
Equity derivatives	45,699	20,951	24,516	91,166
Commodity derivatives	181	16,642	—	16,823
Credit derivatives	—	15,819	683	16,502
Total derivative financial instruments	146,438	6,095,349	38,014	6,279,801
Financial assets at fair value through profit or loss:				
Debt instruments	209,545	682,019	562,823	1,454,387
Equity instruments	2,497	356	21,116	23,969
Total financial assets at fair value through profit or loss	212,042	682,375	583,939	1,478,356
Investment securities at fair value through other comprehensive income:				
Japanese government bonds	6,785,068	—	—	6,785,068
U.S. Treasury and other U.S. government agency bonds	4,494,686	—	—	4,494,686
Other debt instruments	746,557	6,027,853	—	6,774,410
Total debt instruments	12,026,311	6,027,853	—	18,054,164
Equity instruments	3,073,776	8,285	407,390	3,489,451
Total investment securities at fair value through other comprehensive income	15,100,087	6,036,138	407,390	21,543,615
Total	¥17,884,927	¥13,172,518	¥1,029,343	¥32,086,788
Financial liabilities:				
Trading liabilities:				
Debt instruments	¥ 1,880,605	¥ 35,082	¥ —	¥ 1,915,687
Equity instruments	50,773	52,024	—	102,797
Total trading liabilities	1,931,378	87,106	—	2,018,484
Derivative financial instruments:				
Interest rate derivatives	62,135	3,416,391	3,863	3,482,389
Currency derivatives	8	1,863,217	31,236	1,894,461
Equity derivatives	90,048	10,790	42,246	143,084
Commodity derivatives	389	14,326	—	14,715
Credit derivatives	—	19,126	1,426	20,552
Total derivative financial instruments	152,580	5,323,850	78,771	5,555,201
Others ⁽²⁾⁽³⁾	—	(6,534)	(51,015)	(57,549)
Total	¥ 2,083,958	¥ 5,404,422	¥ 27,756	¥ 7,516,136

- (1) Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the period. There were no significant transfers between Level 1 and Level 2 for the fiscal years ended March 31, 2021 and 2020.
- (2) Derivatives embedded in financial liabilities, except for financial liabilities designated at fair value through profit or loss, are separately accounted for, but presented together with the host contract in the consolidated statements of financial position. In these tables, the embedded derivatives whose host contracts are carried at amortized cost are presented within others. Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in these tables as liabilities to be consistent with the host contract. The separated embedded derivatives are measured at fair value using the valuation techniques described in “Derivative financial instruments (including embedded derivatives)” below.
- (3) Contingent consideration liabilities arising from business combinations, which are measured at fair value using discounted cash flow models, are presented as others.

The following tables present reconciliations from the beginning to the ending balances for financial assets and liabilities carried at fair value and categorized within Level 3 of the fair value hierarchy for the fiscal years ended March 31, 2021 and 2020.

	At April 1, 2020	Total gains (losses)			Purchases	Sales	Issuances	Settlement ⁽¹⁾	Transfers into Level 3 ⁽²⁾	Transfers out of Level 3 ⁽²⁾	At March 31, 2021	Changes in unrealized gains (losses) included in profit or loss related to assets and liabilities held at March 31, 2021
		Included in profit or loss	Included in other comprehensive income									
(In millions)												
Derivative financial instruments—net:												
Interest rate derivatives—net	¥ (2,715)	¥ 972	¥ —	¥ 9	¥ (1,361)	¥ —	¥ —	¥ —	¥ (493)	¥ (3,588)	¥ 324	
Currency derivatives—net	(19,569)	15,336	—	—	—	—	—	—	(1,108)	(5,341)	5,573	
Equity derivatives—net	(17,730)	25,619	—	5,533	(6,290)	—	—	—	—	7,132	7,229	
Credit derivatives—net	(743)	3,618	50	—	—	—	(1,159)	—	—	1,766	3,622	
Total derivative financial instruments—net	(40,757)	45,545	50	5,542	(7,651)	—	(1,159)	—	(1,601)	(31)	16,748	
Financial assets at fair value through profit or loss:												
Debt instruments	562,823	11,183	40	150,091	(69,210)	—	(65,137)	—	(28,340)	561,450	11,623	
Equity instruments	21,116	(376)	—	15,357	(841)	—	(1,532)	9	(956)	32,777	(831)	
Total financial assets at fair value through profit or loss	583,939	10,807	40	165,448	(70,051)	—	(66,669)	9	(29,296)	594,227	10,792	
Investment securities at fair value through other comprehensive income:												
Equity instruments	407,390	—	40,254	10,082	(8,889)	—	(1,342)	130	(20)	447,605	—	
Total investment securities at fair value through other comprehensive income	407,390	—	40,254	10,082	(8,889)	—	(1,342)	130	(20)	447,605	—	
Financial liabilities designated at fair value through profit or loss	—	947	(2,006)	—	—	(237,718)	71,881	—	—	(166,896)	947	
Others ⁽³⁾ —liabilities:	51,015	(55,659)	—	—	—	—	—	—	3,540	(1,104)	(14,848)	
Total	¥1,001,587	¥ 1,640	¥ 38,338	¥181,072	¥(86,591)	¥(237,718)	¥ 2,711	¥ 139	¥(27,377)	¥ 873,801	¥ 13,639	

	Total gains (losses)						Transfers		At March 31, 2020	Changes in unrealized gains (losses) included in profit or loss related to assets and liabilities held at March 31, 2020	
	At April 1, 2019	Included in profit or loss	Included in other comprehensive income	Purchases	Sales	Issuances	Settlement ⁽¹⁾	into Level 3 ⁽²⁾			Transfers out of Level 3 ⁽²⁾
(In millions)											
Derivative financial instruments—net:											
Interest rate derivatives—net	¥ (3,839)	¥ 2,376	¥ —	¥ 49	¥ (1,301)	¥ —	¥ —	¥ —	¥ —	¥ (2,715)	¥ 996
Currency derivatives—net	(21,474)	774	—	1,183	(52)	—	—	—	—	(19,569)	(3,530)
Equity derivatives—net	(12,438)	(5,135)	—	6,090	(6,247)	—	—	—	—	(17,730)	(11,843)
Credit derivatives—net	4,995	(3,405)	(89)	—	—	—	(2,244)	—	—	(743)	(3,520)
Total derivative financial instruments—net	(32,756)	(5,390)	(89)	7,322	(7,600)	—	(2,244)	—	—	(40,757)	(17,897)
Financial assets at fair value through profit or loss:											
Debt instruments	578,080	23,842	(2)	229,573	(175,793)	—	(92,334)	—	(543)	562,823	24,721
Equity instruments	18,711	(1,321)	—	6,761	(1,075)	—	(1,410)	10	(560)	21,116	(1,770)
Total financial assets at fair value through profit or loss	596,791	22,521	(2)	236,334	(176,868)	—	(93,744)	10	(1,103)	583,939	22,951
Investment securities at fair value through other comprehensive income:											
Equity instruments	412,347	—	(9,967)	9,447	(3,683)	—	(718)	365	(401)	407,390	—
Total investment securities at fair value through other comprehensive income	412,347	—	(9,967)	9,447	(3,683)	—	(718)	365	(401)	407,390	—
Others ⁽³⁾ —liabilities:	4,998	46,546	—	(341)	—	—	—	—	(188)	51,015	41,115
Total	¥981,380	¥63,677	¥ (10,058)	¥252,762	¥(188,151)	¥—	¥(96,706)	¥ 375	¥(1,692)	¥1,001,587	¥ 46,169

- (1) Settlements for equity instruments include redemption of preferred stocks and receipt of cash distributions which represent a return of equity instruments.
- (2) Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the period. For the fiscal years ended March 31, 2021 and 2020, transfers out of Level 3 amounted to ¥27,377 million and ¥1,692 million, respectively. These transfers out of Level 3 are primarily due to an increase in observability of certain investment funds.
- (3) Derivatives embedded in financial liabilities, except for financial liabilities designated at fair value through profit or loss, are separately accounted for, but presented together with the host contract in the consolidated statements of financial position. In these tables, the separated embedded derivatives whose host contracts are carried at amortized cost are presented within others. Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in these tables as liabilities to be consistent with the host contract.

The following table presents total gains or losses included in profit or loss for the Level 3 financial assets and liabilities, and changes in unrealized gains or losses included in profit or loss related to those financial assets and liabilities held at March 31, 2021 and 2020 by line item of the consolidated income statements.

	Total gains (losses) included in profit or loss for the fiscal year ended March 31,		Changes in unrealized gains (losses) included in profit or loss related to assets and liabilities held at March 31,	
	2021	2020	2021	2020
(In millions)				
Net interest income	¥ 15,462	¥ 8,674	¥ 2,668	¥ 5,620
Net trading income (loss)	(25,067)	32,429	(259)	17,545
Net income from financial assets and liabilities at fair value through profit or loss	11,754	22,521	11,739	22,951
Other income (expenses)	(509)	53	(509)	53
Total	¥ 1,640	¥63,677	¥13,639	¥46,169

The aggregate deferred day one profit yet to be recognized in profit or loss at the beginning and end of the fiscal years ended March 31, 2021 and 2020 and reconciliation of changes in the balances were as follows:

	For the fiscal year ended March 31,	
	2021	2020
	(In millions)	
Balance at beginning of period	¥ 6,079	¥ 5,285
Increase due to new trades	16,476	3,904
Reduction due to redemption, sales or passage of time	(4,163)	(3,110)
Balance at end of period	¥ 18,392	¥ 6,079

The Group has entered into transactions where the fair value is determined using valuation techniques for which not all inputs are observable in the market. The difference between the transaction price and the fair value that would be determined at initial recognition using a valuation technique is referred to as “day one profit and loss,” which is not recognized immediately in the consolidated income statements. The table above shows the day one profit and loss balances, all of which are derived from derivative financial instruments, financial assets at fair value through profit or loss and financial liabilities designated at fair value through profit or loss. The release to profit or loss results from the realization due to redemption or sales, and the amortization of the deferred day one profit and loss with the passage of time over the life of the instruments.

Valuation Techniques

Financial instruments which are classified as trading assets and liabilities, derivative financial instruments, financial assets at fair value through profit or loss, investment securities at fair value through other comprehensive income and financial liabilities designated at fair value through profit or loss are measured at fair value in the consolidated statements of financial position. These instruments are measured at fair value using a quoted market price, if they are traded in an active market, or, for others, using the fair value measurement techniques as discussed below.

Trading assets and trading liabilities

Debt and equity instruments traded in an active market are measured at fair value using a quoted market price in such a market and they are categorized within Level 1. If a quoted market price is not available, they are measured by using a price quoted by a third party, such as a pricing service or broker, or by reference to the current fair value of another instrument that is substantially the same, based on inputs such as prices obtained from brokers, observable interest rates and spreads. These financial instruments are categorized within Level 2. Debt instruments measured at fair value using the DCF method, where primary inputs are observable interest rates and credit spreads, inferred from the prevailing market rates, are also categorized within Level 2.

Derivative financial instruments (including embedded derivatives)

Listed derivatives (including interest rates, bonds, currencies, stocks and commodities) are measured at fair value using the settlement price announced by the major exchange on which transactions are traded because the settlement price in the exchange reflects the most current transaction price, and is readily and regularly available from the exchange. Listed derivatives are categorized within Level 1.

OTC derivatives (non-exchange-traded derivatives), including embedded derivatives that are separately accounted for from the host contracts, are measured at fair value using valuation techniques such as the present value of estimated future cash flows and option pricing models, generally based on observable interest rates, foreign exchange, commodities, stock prices and other factors as inputs. The valuation models for some transactions, such as yield curve spread options and equity options, use inputs which are not directly observable

in the market, including historical correlation coefficients and historical volatilities. If the impact of these unobservable inputs is significant to the fair value for those transactions, the Group categorizes the transactions within Level 3.

The credit loss protection scheme which the Group offers to Goldman Sachs (“GS”) is considered to be a credit derivative, where the underlying reference entities are the American and European corporate entities covered in the commitment line portfolio of the GS group. The fair value of this derivative is determined using an ordinary collateralized debt obligation (“CDO”) pricing model, commonly used in the financial markets. The Group takes some portions of the positions in subordinated and mezzanine tranches, which covers the first and second credit losses from the portfolio. The major inputs for this derivative are credit default swap (“CDS”) spread rates, correlation ratios of CDS indices for similar portfolios, and the expected additional commitment withdrawal ratio. Although CDS spread rates and correlation ratios are observable in an active market or available from brokers, this whole scheme is categorized within Level 3 as the expected additional withdrawal ratio, which is considered to be a significant input, is not observable in the market.

In addition, the fair value of OTC derivatives incorporates both counterparty credit risk in relation to OTC derivative assets and own credit risk in relation to OTC derivative liabilities. The Group calculates the credit risk adjustments by applying the probability of default that reflects the counterparty’s or its own credit risk to the OTC derivative exposures and multiplying the result by the loss expected in the event of default. For the probability of default, the Group uses observable market data, where possible. The fair value of OTC derivatives also incorporates adjustments reflecting funding costs to uncollateralized components of these derivatives, based on market-observable spreads on the Group’s funding transactions. The OTC derivative exposures used are determined taking into consideration the effect of master netting agreements and collateral. As the Group manages the OTC derivatives on the basis of its net credit risk exposure, the credit risk adjustments of those OTC derivatives are measured on a portfolio basis in accordance with the exception set forth in IFRS 13.

Financial assets at fair value through profit or loss

Non-trading bonds in this category are measured at fair value, using a valuation technique based on the observable prices in the market and they are categorized within Level 2. If they are measured at fair value using a valuation technique based mainly on significant unobservable inputs such as foreign exchange volatility, they are categorized within Level 3.

Publicly traded stocks, investment trusts and funds are measured at fair value using the market price and are categorized within Level 1 if they are traded in an active market. Instruments whose prices are not available in the market, such as privately offered investment trusts, are measured at fair value based on the unit price, which is usually regarded as an exit price, obtained from the fund administrator or investment management firm. In such a case, these investment trusts and funds are categorized within Level 2. Other investment funds included in financial assets at fair value through profit or loss, such as private equity funds and real estate investment funds, are generally measured at fair value based on net asset value, which includes significant unobservable inputs. These funds are categorized within Level 3.

Certain loans and advances are measured at fair value using discounted cash flow models taking into account certain factors including counterparties’ credit ratings, pledged collateral and market interest rates, which include significant unobservable inputs, and are categorized within Level 3.

Some equity and debt instruments in this category are hybrid instruments which have both equity and debt features. These include preferred stocks which are measured at fair value using the Monte Carlo Simulation valuation model, if they are indexed to the market prices in a stock exchange. The valuation model uses the historical volatility of the listed stocks as an input, which are not observable in the market, resulting in these instruments being categorized within Level 3. Other types of preferred stocks and other non-hybrid equity

instruments are evaluated using valuation techniques for unlisted stocks, which are normally used for private equity investments. The Group calculates the fair values of these instruments based on the market approach using market multiples or others in which significant unobservable inputs are used. These instruments are categorized within Level 3.

Investment securities at fair value through other comprehensive income

Debt instruments are measured at fair value using a quoted market price and categorized within Level 1 if they are traded in an active market. Debt instruments are categorized within Level 2 if they are measured at fair value using a price quoted by a third party, such as a pricing service or broker, or by reference to the current fair value of another bond that is substantially the same based on inputs such as prices obtained from brokers, observable interest rates and spreads.

As for equity instruments, listed stocks are measured at fair value based on the market price at a stock exchange and categorized within Level 1 if they are traded in an active market. Unlisted common and preferred stocks in this category are measured at fair value based on the market approach using market multiples or others in which significant unobservable inputs are used. These instruments are categorized within Level 3.

Financial liabilities designated at fair value through profit or loss

Certain financial liabilities containing embedded derivatives are measured at fair value using valuation techniques. The host contracts of those liabilities are measured at fair value based on the present values of the contractual cash flows for expected remaining maturities, using the relevant credit-adjusted rates based on observable market data on the Group's funding transactions. The embedded derivatives, which forms part of the contractual cash flows, are measured at fair value by using the same procedures as described in "Derivative financial instruments (including embedded derivatives)." Those financial liabilities are measured at fair value by combining the fair values of the host contracts and embedded derivatives. The valuation techniques for most of those liabilities use inputs which are not directly observable in the market, including historical correlation coefficients and historical volatilities. If the impact of these unobservable inputs is significant to the fair value for those liabilities, the Group categorizes those liabilities within Level 3.

Significant Unobservable Inputs

The following tables present quantitative information about significant unobservable inputs used in the fair value measurement for Level 3 financial assets and liabilities at March 31, 2021 and 2020.

At March 31, 2021					
	Assets	Liabilities	Valuation technique(s) ⁽¹⁾	Significant unobservable inputs ⁽¹⁾	Range of inputs ⁽¹⁾
	(In millions)				
Derivative financial instruments:					
Interest rate derivatives . . . ¥	289	¥ 3,877	Option model	Interest rate to interest rate correlation	15%-98%
				Quanto correlation	8%-30%
Currency derivatives	507	5,848	Option model	Interest rate to interest rate correlation	27%-98%
				Quanto correlation	7%-48%
				Foreign exchange volatility	7%-31%
Equity derivatives	15,411	8,279	Option model	Equity to equity correlation	36%-97%
				Quanto correlation	(33)%-35%
				Equity volatility	17%-61%
Credit derivatives	1,857	91	CDO pricing model	Additional withdrawal ratio	45%
			Credit Default model	Quanto correlation	15%-90%
Financial assets at fair value through profit or loss:					
Debt instruments	561,450	—	Monte Carlo Simulation	Equity volatility	26%-41%
			Option model	Foreign exchange volatility	9%-32%
			DCF model	Probability of default rate	0%-12%
				Loss given default rate	10%-100%
			Net asset value ⁽²⁾	—	—
Equity instruments	32,777	—	DCF model	Probability of default rate	0%-2%
				Loss given default rate	90%
			See note (3) below	—	—
Investment securities at fair value through other comprehensive income:					
Equity instruments	447,605	—	Market multiples	Price/Earnings multiple	9.4x-63.6x
				Price/Book value multiple	0.2x-2.9x
				EV/EBITDA multiple	3.1x-14.8x
				Liquidity discount	20%
			See note (3) below	—	—
Financial liabilities designated at fair value through profit or loss	—	166,896	Option model	Equity to equity correlation	36%-93%
				Interest rate to interest rate correlation	27%-98%
				Quanto correlation	(33)%-48%
				Equity volatility	17%-50%
			Credit Default model	Quanto correlation	15%-30%
Others ⁽⁴⁾	—	1,104	Option model	Equity to equity correlation	48%-97%
				Interest rate to interest rate correlation	15%-98%
				Quanto correlation	(27)%-48%
				Equity volatility	17%-53%
				Foreign exchange volatility	9%-32%
			Credit Default model	Quanto correlation	15%-90%

At March 31, 2020

	Assets	Liabilities	Valuation technique(s) ⁽¹⁾	Significant unobservable inputs ⁽¹⁾	Range of inputs ⁽¹⁾
	(In millions)				
Derivative financial instruments:					
Interest rate derivatives . . .	¥ 1,148	¥ 3,863	Option model	Interest rate to interest rate correlation	9%-100%
Currency derivatives	11,667	31,236	Option model	Interest rate to interest rate correlation	26%-98%
				Quanto correlation	8%-52%
				Foreign exchange volatility	7%-26%
Equity derivatives	24,516	42,246	Option model	Equity to equity correlation	32%-96%
				Quanto correlation	(39)%-(4)%
				Equity volatility	12%-113%
				Foreign exchange volatility	9%-14%
Credit derivatives	683	1,426	CDO pricing model	Additional withdrawal ratio	47%
			Credit Default model	Quanto correlation	15%-90%
Financial assets at fair value through profit or loss:					
Debt instruments	562,823	—	Monte Carlo Simulation	Equity volatility	25%-42%
			Option model	Interest rate to interest rate correlation	80%-99%
				Foreign exchange volatility	12%-28%
			DCF model	Probability of default rate	0%-39%
				Loss given default rate	5%-100%
			Net asset value ⁽²⁾	—	—
Equity instruments	21,116	—	See note (3) below	—	—
Investment securities at fair value through other comprehensive income:					
Equity instruments	407,390	—	Market multiples	Price/Earnings multiple	10.4x-35.4x
				Price/Book value multiple	0.2x-2.1x
				EV/EBITDA multiple	4.7x-16.3x
				Liquidity discount	20%
			See note (3) below	—	—
Others ⁽⁴⁾	—	(51,015)	Option model	Equity to equity correlation	31%-96%
				Interest rate to interest rate correlation	9%-100%
				Quanto correlation	(39)%-67%
				Equity volatility	12%-74%
				Foreign exchange volatility	7%-28%
			Credit Default model	Quanto correlation	15%-90%

(1) Valuation techniques and unobservable inputs for insignificant Level 3 financial assets and liabilities are excluded.

(2) The Group has determined that the net asset value represents fair values of certain investment funds.

(3) Fair values of certain equity instruments such as unlisted stocks are estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors. A range of key inputs is not provided in these tables as it is not practical to do so given the nature of such valuation techniques.

(4) Derivatives embedded in financial liabilities, except for financial liabilities designated at fair value through profit or loss, are separately accounted for, but presented together with the host contract in the consolidated statements of financial position. In these tables, the separated embedded derivatives whose host contracts are carried at amortized cost are presented within others. Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in these tables as liabilities to be consistent with the host contract.

Correlation

Correlation represents a measure of the relationship between the movements of two variables, which is expressed as a number between plus and minus one. A positive correlation indicates that two variables move in the same direction while a negative correlation indicates that they move in opposite directions. Correlations could be any combination of variables such as interest rates, foreign exchange rates, CDS spread and stock price movements. Thus, both same-asset correlation and cross-asset correlation are used. Interest rate correlation between two different tenors is an example of same-asset correlations while quanto correlation which is the correlation between foreign exchange rates and another variable is an example of cross-asset correlation. These

correlations are used in the valuation techniques of complex derivatives and estimated based on historical data. In general, a significant increase in the correlation in isolation would result in either a significantly higher or lower fair value measurement, depending on the terms of the instruments.

Volatility

Volatility represents a measure of how much a particular instrument, parameter or index is expected to change in value over time. The volatilities used in the valuation of some type of derivative instruments with optionality refer to the potential change in price or level of the underlying interest rates, foreign exchange rates or equity instruments. The volatilities of underlying listed stocks are used in the valuation of preferred stocks containing optionality. These volatilities are estimated based on historical data or information provided by third-party sources, together with other analytical techniques. In general, a significant increase in the volatility in isolation would result in a significantly higher fair value measurement.

Additional withdrawal ratio

Additional withdrawal ratio represents the expected additional withdrawal ratio of unfunded commitment lines in the reference portfolio (mainly revolving credit facilities for commercial paper backup) concerning the credit loss protection scheme offered to GS. The expected additional withdrawal ratio is estimated based on historical data of actual funded amounts at default for similar portfolios. In general, a significant increase in the additional withdrawal ratio in isolation would have a significant unfavorable impact (i.e., an increase in derivative liabilities or a decrease in derivative assets) on the fair value measurement.

Probability of default and loss given default rates

Probability of default rate represents the probability of default that reflects the counterparty's credit risk while loss given default rate represents the loss expected in the event of default. Those are estimated based on historical experiences. In general, a significant increase in probability of default rate or loss given default rate in isolation would result in a significantly lower fair value measurement.

Price/Earnings, price/book value multiples

Price/Earnings ("P/E") multiple represents the ratio of the equity value to the net income, while price/book value ("P/B") multiple represents the ratio of the equity value to the book value. These multiples are estimated based on comparable listed companies. In general, a significant increase in the P/E multiple or P/B multiple in isolation would result in a significantly higher fair value measurement.

EV/EBITDA multiple

EV/EBITDA multiple represents the ratio of the enterprise value ("EV") to earnings before interest, taxes, depreciation and amortization ("EBITDA"), where the EV is the aggregate value of equity and debt minus cash and cash equivalents. The multiple is estimated based on comparable listed companies. In general, a significant increase in the EV/EBITDA multiple in isolation would result in a significantly higher fair value measurement.

Liquidity discount

A liquidity discount is primarily applied in the valuation techniques for unlisted stocks to reflect the fact that these stocks are not actively traded. In general, a significant increase in the liquidity discount in isolation would result in a significantly lower fair value measurement.

Sensitivity Analysis

The fair value of certain financial assets and liabilities are measured using valuation techniques based on inputs such as prices and rates that are not observable in the market. The following tables present the impact of the valuation sensitivity, if these inputs fluctuate to the extent deemed reasonable and the volatility of such inputs has a significant impact on the fair value.

At March 31, 2021							
	Total fair value measured using valuation techniques	Effect recorded in profit or loss		Effect recorded directly in equity			
		Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes		
		(In millions)					
Financial instruments—net:							
Derivative financial instruments—net:							
Interest rate derivatives—net	¥ (3,588)	¥ 1	¥ 1	¥ —	¥ —		
Currency derivatives—net	(5,341)	9	8	—	—		
Equity derivatives—net	7,132	1,869	1,821	—	—		
Credit derivatives—net	1,766	140	481	—	—		
Financial assets at fair value through profit or loss:							
Debt instruments	561,450	2,495	7,060	—	—		
Equity instruments	32,777	111	227	—	—		
Investment securities at fair value through other comprehensive income:							
Equity instruments	447,605	—	—	13,753	12,833		
Financial liabilities designated at fair value through profit or loss ⁽¹⁾							
Others ⁽¹⁾⁽²⁾ —liabilities:	(1,104)	425	395	—	—		

At March 31, 2020						
	Total fair value measured using valuation techniques	Effect recorded in profit or loss		Effect recorded directly in equity		
		Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes	
		(In millions)				
Financial instruments—net:						
Derivative financial instruments—net:						
Interest rate derivatives—net	¥ (2,715)	¥ 1	¥ 1	¥ —	¥ —	
Currency derivatives—net	(19,569)	17	17	—	—	
Equity derivatives—net	(17,730)	493	718	—	—	
Credit derivatives—net	(743)	1,006	2,461	—	—	
Financial assets at fair value through profit or loss:						
Debt instruments	562,823	2,784	4,585	—	—	
Equity instruments	21,116	—	—	—	—	
Investment securities at fair value through other comprehensive income:						
Equity instruments	407,390	—	—	8,837	8,362	
Others ⁽¹⁾⁽²⁾ —liabilities:	51,015	3,664	4,610	—	—	

- (1) As part of risk management, the Group enters into transactions to offset the profit or loss of certain financial instruments, including embedded derivatives. Sensitivity of embedded derivatives related to these transactions is presented as derivative financial instruments or financial assets at fair value through profit or loss, according to the presentation of the financial instruments arising from these transactions.

- (2) Derivatives embedded in financial liabilities, except for financial liabilities designated at fair value through profit or loss, are separately accounted for, but presented together with the host contract in the consolidated statements of financial position. In these tables, the separated embedded derivatives whose host contracts are carried at amortized cost are presented within others. Although the separated embedded derivatives may have a positive or a negative fair value, they have been presented in these tables as liabilities to be consistent with the host contract.

Derivative financial instruments (including embedded derivatives)

With respect to the credit loss protection scheme offered to GS, the anticipated losses will vary significantly depending on the expected additional withdrawal ratio of unfunded commitment lines in the reference portfolio. The tables above present the estimates of the impact of changing the expected additional withdrawal ratio from an optimistic (favorable) scenario to a pessimistic (unfavorable) scenario. For the other derivative instruments, including embedded derivatives that are separately accounted for from host contracts, that use correlation or volatility in the valuation techniques, the impact resulting from using a reasonable range of those inputs is estimated where it is expected to be significant.

Financial assets at fair value through profit or loss

With respect to preferred stocks convertible into listed stocks, for which historical volatilities of related listed stocks are used in the valuation techniques, the impact resulting from using a reasonable range for the volatility is statistically estimated where it is expected to be significant. With respect to certain loans and advances, for which the probability of default and loss given default rates are used in the valuation techniques, the impact resulting from using a reasonable range of those inputs is estimated where it is expected to be significant. Certain investment funds are measured at fair value determined based on net asset value per share, which includes significant unobservable inputs. Since those funds are managed by value at risk (“VaR”) based on historical gain or loss data, the impact of the valuation sensitivity is estimated using a one-day VaR of the portfolio, based on a one-sided confidence interval of 99.0%.

Investment securities at fair value through other comprehensive income

With respect to unlisted stocks which are measured at fair value based on a market approach, the impact of changing the market multiples within a reasonable range ($\pm 10\%$) is estimated.

Financial liabilities designated at fair value through profit or loss

Sensitivity analysis of the financial liabilities designated at fair value through profit or loss is calculated using the same procedures as described in “Derivative financial instruments (including embedded derivatives).”

Financial Assets and Liabilities Not Carried at Fair Value

The tables below present the carrying amounts and fair values by level within the fair value hierarchy, as described in “Financial Assets and Liabilities Carried at Fair Value—Fair Value Hierarchy,” of financial assets and liabilities not carried at fair value on the Group’s consolidated statements of financial position at March 31, 2021 and 2020. The tables below do not include the carrying amounts and fair values of financial assets and liabilities whose carrying amounts are reasonable approximations of fair values from this fiscal year.

		At March 31, 2021				
Notes	Carrying amount	Fair value				
		Total	Level 1	Level 2	Level 3	
(In millions)						
Financial assets:						
Investment securities:						
Debt instruments at						
amortized cost	a	¥ 72,015	¥ 71,894	¥ 22,240	¥ 49,654	¥ —
Loans and advances	b	97,714,938	100,324,891	—	299,422	100,025,469
Other financial assets	b	4,250,454	4,248,069	—	4,195,346	52,723

Financial liabilities:

Deposits:								
Non-interest-bearing								
deposits, demand								
deposits and deposits at								
notice	c	¥108,367,451	¥108,368,292	¥	—	¥108,368,292	¥	—
Other deposits	c	47,126,203	47,132,088		—	46,990,361		141,727
Borrowings	c	19,042,714	19,193,217		—	19,174,649		18,568
Debt securities in issue	c	11,228,600	11,375,401		—	11,176,631		198,770
Other financial liabilities . . .	c	8,416,003	8,416,002		—	8,381,775		34,227

		At March 31, 2020			
Notes	Carrying amount	Fair value			
		Total	Level 1	Level 2	Level 3
(In millions)					

Financial assets:

Investment securities:						
Debt instruments at						
amortized cost	a	¥ 320,771	¥ 321,057	¥282,520	¥ 38,537	¥ —
Loans and advances	b	94,671,818	97,428,956	—	356,570	97,072,386
Other financial assets	b	4,229,678	4,227,027	—	4,174,646	52,381

Financial liabilities:

Deposits:							
Non-interest-bearing deposits, demand deposits and deposits at notice	c	¥ 95,849,958	¥ 95,851,474	¥ —	¥ 95,851,474	¥ —	
Other deposits	c	42,581,460	42,594,532	—	42,339,787	254,745	
Borrowings	c	16,735,474	16,825,055	—	16,797,789	27,266	
Debt securities in issue	c	10,985,048	10,777,289	—	10,395,526	381,763	
Other financial liabilities . . .	c	7,149,714	7,149,704	—	7,107,189	42,515	

Notes:

- a. The fair values of debt instruments at amortized cost are determined using quoted prices in active markets or observable inputs other than quoted prices in active markets.
- b. (i) The carrying amounts of loans with no specified repayment dates represent a reasonable estimate of fair value, considering the nature of these financial instruments.
(ii) Short-term financial assets: The carrying amounts represent a reasonable estimate of fair value.
(iii) Long-term financial assets: Except for impaired loans and advances, the fair values are mostly determined using discounted cash flow models taking into account certain factors including counterparties' credit ratings, pledged collateral, and market interest rates. The fair values of impaired loans and advances are generally determined by discounting the estimated future cash flows over the time period they are expected to be recovered, and may be based on the appraisal value of underlying collateral as appropriate.
- c. Note that some of the financial liabilities in this category include embedded derivatives, which are separately accounted for, but presented together with the host contract.
(i) The carrying amounts of demand deposits and deposits without maturity represent a reasonable estimate of fair value, considering the nature of these financial instruments.
(ii) Short-term financial liabilities: The carrying amounts represent a reasonable estimate of fair value.
(iii) Long-term financial liabilities: The fair values are, in principle, based on the present values of future cash flows calculated using the refinancing rate applied to the same type of instruments for similar remaining maturities. The fair values of debt securities in issue are based on a price quoted by a third party, such as a pricing service or broker, or the present values of future cash flows calculated using the rate derived from yields of bonds issued by SMFG, SMBC and other subsidiaries and publicly offered subordinated bonds published by securities firms.
(iv) The carrying amounts and fair values of lease liabilities are not included in this table.

45 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following tables present the information about the impact of offsetting of financial assets and liabilities in the consolidated statements of financial position in accordance with the criteria described in Note 2 "Summary of Significant Accounting Policies," as well as the impact of netting of financial instruments that are subject to enforceable master netting arrangements or similar agreements but do not qualify for the offsetting criteria at March 31, 2021 and 2020.

At March 31, 2021						
	Gross amounts of recognized financial assets and liabilities	Gross amounts offset in statements of financial position ⁽¹⁾	Net amounts presented in statements of financial position	Related amounts not offset in statements of financial position ⁽²⁾		
			(In millions)	Financial instruments ⁽³⁾	Cash collateral	Net amounts
Financial assets⁽⁴⁾:						
Reverse repurchase agreements and cash collateral on securities borrowed	¥ 13,225,416	¥ (1,487,344)	¥ 11,738,072	¥(11,509,771)	¥ —	¥ 228,301
Derivative financial instruments	6,049,912	(528,295)	5,521,617	(2,987,052)	(513,900)	2,020,665
Total	¥ 19,275,328	¥ (2,015,639)	¥ 17,259,689	¥(14,496,823)	¥ (513,900)	¥2,248,966
Financial liabilities⁽⁴⁾:						
Repurchase agreements and cash collateral on securities lent	¥ 19,997,250	¥ (1,487,344)	¥ 18,509,906	¥(18,484,124)	¥ —	¥ 25,782
Derivative financial instruments	5,635,429	(685,996)	4,949,433	(2,907,549)	(687,340)	1,354,544
Total	¥ 25,632,679	¥ (2,173,340)	¥ 23,459,339	¥(21,391,673)	¥ (687,340)	¥1,380,326

At March 31, 2020						
	Gross amounts of recognized financial assets and liabilities	Gross amounts offset in statements of financial position ⁽¹⁾	Net amounts presented in statements of financial position	Related amounts not offset in statements of financial position ⁽²⁾		
			(In millions)	Financial instruments ⁽³⁾	Cash collateral	Net amounts
Financial assets⁽⁴⁾:						
Reverse repurchase agreements and cash collateral on securities borrowed	¥ 15,107,511	¥ (1,361,515)	¥ 13,745,996	¥(13,585,714)	¥ —	¥ 160,282
Derivative financial instruments	7,077,165	(797,364)	6,279,801	(3,439,440)	(692,856)	2,147,505
Total	¥ 22,184,676	¥ (2,158,879)	¥ 20,025,797	¥(17,025,154)	¥ (692,856)	¥2,307,787
Financial liabilities⁽⁴⁾:						
Repurchase agreements and cash collateral on securities lent	¥ 16,817,297	¥ (1,361,515)	¥ 15,455,782	¥(15,451,371)	¥ —	¥ 4,411
Derivative financial instruments	6,512,645	(957,444)	5,555,201	(3,419,951)	(808,797)	1,326,453
Total	¥ 23,329,942	¥ (2,318,959)	¥ 21,010,983	¥(18,871,322)	¥ (808,797)	¥1,330,864

- (1) Amounts offset for derivative financial instruments include cash collateral.
- (2) The amounts of financial instruments and cash collateral have been limited to the net amounts presented in the consolidated statements of financial position so as not to include any over-collateralization.
- (3) Financial instruments include non-cash collateral at fair value.
- (4) Financial assets and liabilities include amounts that are both subject to and not subject to enforceable master netting arrangements or similar agreements.

The “Gross amounts offset in statements of financial position” column in the above tables represents the impact of offsetting of financial assets and liabilities in the consolidated statements of financial position in accordance with the offsetting criteria. The Group presents financial assets and liabilities on a net basis in the consolidated statements of financial position only if it currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or realize the asset and settle the liability simultaneously.

The “Related amounts not offset in statements of financial position” column comprises (1) financial assets and liabilities subject to netting arrangements, such as the International Swaps and Derivatives Association’s (“ISDA”) Master Agreement, master repurchase agreements and master securities lending agreements, which allow all the outstanding transactions with a particular counterparty to be set off only if the event of default or other predetermined events occur, and (2) cash and non-cash collateral related to those transactions.

46 FINANCIAL RISK MANAGEMENT

The Group classifies risks into the following categories: credit risk, market risk, liquidity risk, operational risk and conduct risk. This note presents information about the Group’s exposure to credit risk, market risk, and liquidity risk, and its policies and processes for measuring and managing these risks.

Risk Management System

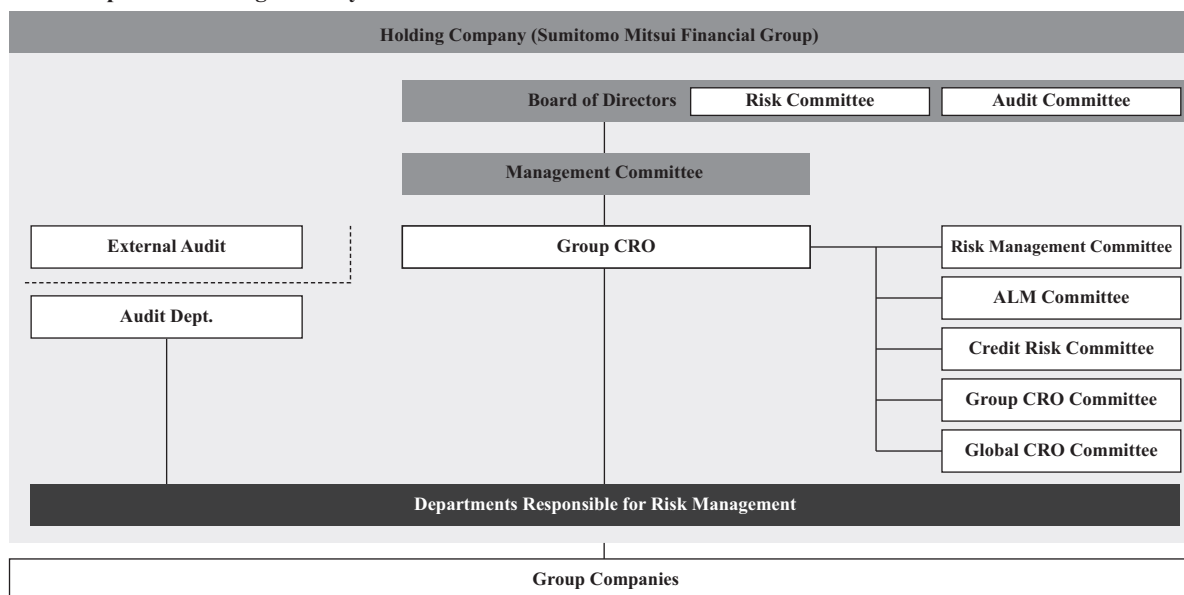
Based on the recognition of the importance of risk management, the Group-wide basic policies for risk management are determined by the Management Committee before being authorized by the board of directors in order to have top management play an active role in the risk management process.

In accordance with these basic policies for risk management, three lines of defense have been defined, and we have clarified related roles and responsibilities. Risk management systems have been established based on the characteristics of particular businesses, and measures are being put in place to strengthen and improve the effectiveness of these systems.

Furthermore, the Group is strengthening Group-wide risk management systems through the Group Chief Risk Officer (“CRO”) Committee and the Global CRO Committee.

The diagram below represents the risk management system of the Group.

The Group’s Risk Management System



Credit Risk

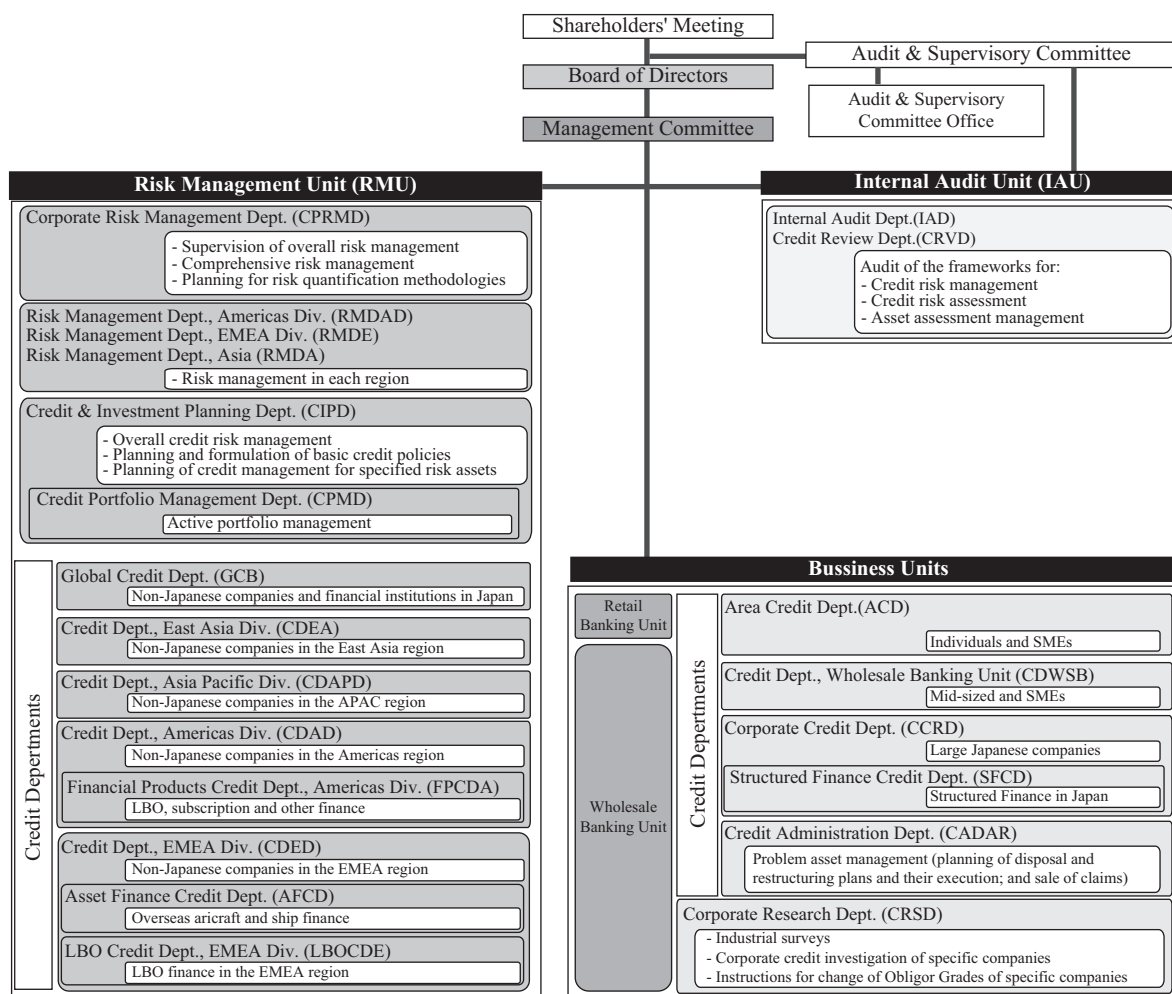
Credit risk is the risk of incurring losses from decline or loss of the value of an asset (including off-balance sheet items) that is caused by a credit event including but not limited to the deterioration of financial condition of a borrower. Overseas credits transactions also entail country risk, which is closely related to credit risk. Country risk is the risk of incurring losses caused by changes in political or economic conditions. Credit exposures arise primarily from lending activities such as loans and advances, acquiring investment securities, derivative transactions, and off-balance sheet transactions such as unused portion of loan commitments.

Credit risk management system

Credit risk is the most significant risk to which the Group is exposed. The purpose of credit risk management is to keep the credit risk exposure to a permissible level relative to capital, to maintain the quality of assets and to ensure returns commensurate with risk.

At the Group, the Group CRO formulates credit risk management policies each year on the basis of Group-wide basic policies for risk management. The Credit & Investment Planning Department, responsible for the comprehensive management of credit risk, drafts and administers credit risk regulations including the Group credit policies, manages non-performing loans (“NPLs”), and performs other aspects of credit portfolio management. Also, the Credit Risk Committee deliberates on matters related to Group-wide credit portfolios. The Group companies follow the fundamental principles established by the Group to assess and manage credit risk. Each of Group companies manages credit risk according to the nature of its business, and assesses and manages the credit risks of individual loans and credit portfolios quantitatively, using consistent standards.

The following chart shows the credit risk management system of SMBC, the Group's significant banking subsidiary.



At SMBC, the Credit & Investment Planning Department within the Risk Management Unit is responsible for the comprehensive management of credit risk. This department drafts and administers credit policies, the internal rating system, credit authority guidelines, and credit application guidelines, and manages NPLs, including impaired loans, and other aspects of credit portfolio management. The department also cooperates with the Corporate Risk Management Department in quantifying credit risk (risk capital and risk-weighted assets) and controls SMBC's entire credit risk. Further, the Credit Portfolio Management Department within the Credit & Investment Planning Department strives to stabilize the credit portfolio and manage the risk through credit derivatives, loan asset sales and other instruments.

The credit departments, in cooperation with branches, conduct credit risk management for loans and manage portfolios. The credit limits they use are based on the baseline amounts that the Credit & Investment Planning Department establishes for each grading category, with particular attention paid to evaluating and managing customers or loans perceived to have particularly high credit risk. The Corporate Research Department engages in research on industries and analyzes the business and financial conditions of borrower enterprises to detect early signs of problems or growth potential. The Credit Administration Department is responsible for handling NPLs of borrowers classified as potentially bankrupt or lower, and formulates plans for workouts, including

write-offs, and corporate rehabilitation. The department closely liaises with SMBC Servicer Co., Ltd., a Group company, which engages in related services to efficiently reduce the amount of NPLs, including through the sale of loans.

The Internal Audit Unit of SMBC, operating independently of the business units, audits asset quality, accuracy of grading and state of credit risk management, and reports the results directly to the board of directors, the Management Committee and Audit & Supervisory Committee.

SMBC has established the Credit Risk Committee to undertake control of credit risk and to ensure the overall soundness of the loan operations.

Credit risk management methods

To effectively manage the risk involved in individual loans as well as the credit portfolio as a whole, the Group first acknowledges that every loan entails credit risk, assesses the credit risk posed by each borrower and loan using an internal rating system, and quantifies that risk for control purposes.

Credit risk evaluation

At SMBC, the Credit & Investment Planning Department manages an internal rating system for each asset control category set according to portfolio characteristics. For example, credits to commercial and industrial (“C&I”) companies, individuals for business purposes (domestic only), sovereigns, public sector entities, and financial institutions are assigned an “obligor grade,” which indicates the borrower’s creditworthiness, and/or “facility grade,” which indicates the collectability of assets taking into account the transaction conditions such as guarantee/collateral, and tenor. The business units determine an obligor grade by first assigning a financial grade using a financial strength grading model and data obtained from the obligor’s financial statements, including net worth and cash flows. The financial grade is then adjusted taking into account the actual state of the obligor’s financial position and qualitative factors to derive the obligor grade. The qualitative factors mainly include the expected future cash flows taking into account factors such as historical loss information, the appropriateness of the borrower’s business plan or operational improvement plan, the status of progress of its plan, and the overall support from financial institutions. In the event that the borrower is domiciled overseas, internal ratings for credit are made after taking into consideration the country rank, which represents an assessment of the credit quality of each country based on its political and economic situation, as well as its current account balance and external debt. Obligor grades and facility grades are reviewed once a year and as otherwise necessary, such as when there are changes in the credit situation. The Group’s subsidiaries carry out credit risk evaluations in line with SMBC.

The tables below show the corporate obligor grading system of SMBC.

Obligor Grade	Definition	Borrower Category
Domestic (C&I), etc.		
J1	Very high certainty of debt repayment	Normal Borrowers
J2	High certainty of debt repayment	
J3	Satisfactory certainty of debt repayment	
J4	Debt repayment is likely but this could change in cases of significant changes in economic trends or business environment depending on the situation	
J5	No problem with debt repayment over the short term, but not satisfactory over the mid to long term and the situation could change in cases of any changes in economic trends or business environment	
J6	Currently no problem with debt repayment, but it is highly likely that this could change in cases of significant changes in economic trends or business environment	
J7	Close monitoring is required due to problems in meeting loan terms and conditions, sluggish/unstable business, or financial problems	Borrowers Requiring Caution
J7R	Obligors with loans that are more than three months past due or with restructured loans within the “Borrowers Requiring Caution” category	Substandard Borrowers
J8	Currently not bankrupt, but experiencing business difficulties, making insufficient progress in restructuring, and highly likely to go bankrupt	Potentially Bankrupt Borrowers
J9	Though not yet legally or formally bankrupt, has serious business difficulties and rehabilitation is unlikely; thus, effectively bankrupt	Virtually Bankrupt Borrowers
J10	Legally or formally bankrupt	Bankrupt Borrowers

Obligor Grade	Definition	Borrower Category
Overseas (C&I), etc.		
G1	Very high certainty or high certainty of debt repayment	Normal Borrowers
G2	Satisfactory certainty of debt repayment	
G3	Debt repayment is likely but this could change in cases of significant changes in economic trends or business environment depending on the situation	
G4	Debt repayment is likely but this could change in cases of significant changes in economic trends or business environment	
G5	No problem with debt repayment over the short term, but not satisfactory over the mid to long term and the situation could change in cases of any changes in economic trends or business environment	
G6	Currently no problem with debt repayment, but it is highly likely that this could change in cases of significant changes in economic trends or business environment	Borrowers Requiring Caution
G7	Close monitoring is required due to problems in meeting loan terms and conditions, sluggish/unstable business, or financial problems	
G7R	Obligors with loans that are more than three months past due or with restructured loans within the “Borrowers Requiring Caution” category	Substandard Borrowers
G8	Currently not bankrupt, but experiencing business difficulties, making insufficient progress in restructuring, and highly likely to go bankrupt	Potentially Bankrupt Borrowers
G9	Though not yet legally or formally bankrupt, has serious business difficulties and rehabilitation is unlikely; thus, effectively bankrupt	Virtually Bankrupt Borrowers
G10	Legally or formally bankrupt	Bankrupt Borrowers

There are also grading systems for loans to individuals such as housing loans and structured finance including project finance, where the repayment source is limited to the cash flows generated by a particular business or asset. For example, the obligor grade of housing loans is determined taking into account various relevant factors such as proportion of the repayment to revenue, proportion of down payment to the value and past due information.

The Credit & Investment Planning Department of SMBC centrally manages the internal rating systems, and designs, operates, supervises and validates the grading models. It validates the grading models (including statistical validation) of main assets following the procedure manual once a year to ensure their effectiveness and suitability.

Quantification of credit risk

At SMBC, credit risk quantification refers to the process of estimating the degree of credit risk of a portfolio or individual loan taking into account not just the obligor’s probability of default (“PD”), but also the concentration of risk in a specific customer or industry and the loss impact of fluctuations in the value of collateral, such as real estate and securities.

Specifically, the PD by grade, loss given default (“LGD”), credit quality correlation among obligors, and other parameter values are estimated using the historical data of obligors and facilities stored in a database to calculate the credit risk. Then, based on these parameters, SMBC runs a simulation of simultaneous default using the Monte Carlo Simulation to calculate SMBC’s maximum loss exposure to the estimated amount of the maximum losses that may be incurred. Based on these quantitative results, SMBC allocates risk capital.

Risk quantification is also executed for purposes such as to determine the portfolio’s risk concentration or to simulate economic movements (stress tests), and the results are used for making optimal decisions across the whole range of business operations, including formulating business plans and providing a standard against which individual credit applications are assessed.

Credit assessment

At SMBC, the credit assessment of corporate loans involves a variety of financial analyses, including cash flows, to predict an enterprise’s capability of loan repayment and its growth prospects. These quantitative measures, when combined with qualitative analyses of industrial trends, the enterprise’s research and development capabilities, the competitiveness of its products or services, and its management caliber, result in a comprehensive credit assessment. The loan application is analyzed in terms of the intended utilization of the funds and the repayment schedule. In the assessment of housing loans for individuals, SMBC employs a credit assessment model based on credit data amassed and analyzed by SMBC over many years, taking into account various relevant factors including proportion of the repayment to revenue, proportion of down payment to the value and past due information.

Credit monitoring

At SMBC, in addition to analyzing loans at the application stage, the Credit Monitoring System is utilized to reassess obligor grades, and review credit policies for each obligor so that problems can be detected at an early stage, and quick and effective action can be taken. The system includes annual monitoring that is carried out each time the financial results of the obligor enterprise are obtained, as well as ad-hoc monitoring that is performed each time credit conditions change.

Credit portfolio management

Risk-taking within the scope of capital

To keep the credit risk exposure to a permissible level relative to capital, the Corporate Risk Management Department of the Group sets a credit risk capital limit for internal control purposes. Under this limit, sub-limits are set for each business unit. The Corporate Risk Management Department conducts monthly monitoring to make sure that these limits are being followed.

Controlling concentration risk

As the Group’s equity capital may be materially impaired in the event that the credit concentration risk becomes apparent, the Credit & Investment Planning Department of the Group therefore takes measures to manage concentration risks, such as introducing large exposure limits and conducting intensive loan reviews for obligors with large exposures, with an increased focus on industrial sectors with an excessive concentration of credit risk. Further, to manage country risk, SMBC’s Global Credit Department has credit limit guidelines based on each country’s creditworthiness.

Toward active portfolio management

SMBC’s Credit Portfolio Management Department makes use of credit derivatives, loan asset sales, and other instruments to proactively and flexibly manage its portfolio to stabilize credit risk.

Maximum exposure to credit risk before collateral held or other credit enhancements

The following table shows the maximum exposure to credit risk before taking into account any collateral held or other credit enhancements at March 31, 2021 and 2020.

	At March 31,	
	2021	2020
	(In millions)	
Credit risk exposures relating to assets on the consolidated statements of financial position:		
Deposits with banks	¥ 72,311,473	¥ 61,626,567
Call loans and bills bought	2,553,468	898,256
Reverse repurchase agreements and cash collateral on securities borrowed	11,738,072	13,745,996
Trading assets	2,732,480	2,545,703
Derivative financial instruments	5,521,617	6,279,801
Financial assets at fair value through profit or loss	1,667,164	1,454,387
Investment securities:		
Debt instruments at amortized cost	72,015	320,771
Debt instruments at FVOCI	26,392,635	18,054,164
Loans and advances	97,714,938	94,671,818
Other financial assets	4,250,454	4,229,678
Credit risk exposures relating to off-balance sheet items⁽¹⁾:		
Loan commitments	71,677,806	62,151,698
Financial guarantees and other credit-related contingent liabilities	9,872,696	9,204,996
Total	¥306,504,818	¥275,183,835

(1) The off-balance sheet items represent the nominal amounts of undrawn loan commitments, financial guarantees and other credit-related contingent liabilities.

Based on the table above, excluding loan commitments (refer to Note 42 “Contingency and Capital Commitments”), the majority of the total exposure to credit risk is derived from “Loans and advances.”

Collateral and other credit enhancements

The Group considers the acquisition of collateral and guarantees as a secondary repayment source to further enhance loan recovery and minimize credit risk. Based on the assessment of a borrower’s real financial condition and potential future cash flows, the Group shall analyze the borrower’s repayment ability and require sufficient collateral in the form of an asset or third-party obligation. This serves to mitigate the inherent credit risk in the exposure, by either improving recoveries in the event of a default or transferring the borrower’s obligation to guarantors. Collateral received is mainly segregated into (1) financial collateral such as cash, deposits and securities, (2) real estate collateral such as land and buildings, and (3) guarantees received from sovereigns, municipal corporations, credit guarantee corporations and other public entities, financial institutions, and other companies.

The Group’s credit risk management is mainly based on an analysis of the repayment ability from the cash flows of the borrower’s business performance, and the collateral and other credit enhancements are considered as secondary repayment sources in the Group’s business practice. At the time of the primary lending decision, the Group evaluates the collateral on an individual borrower basis to consider its financial effect for mitigating credit risk. The re-evaluation of the collateral and other credit enhancements will be performed regularly, depending on the borrower’s creditworthiness. In case there is a significant change in the borrower’s repayment ability due to a deterioration in its creditworthiness and/or its cash flows, the Group may utilize the collateral and other credit enhancements as a source of repayment.

The following table shows the financial effect of collateral and other credit enhancements on impaired loans and advances at March 31, 2021 and 2020. The maximum collateral amounts included in the disclosure are limited to the carrying value of loans and advances where the credit exposure is over-collateralized.

	At March 31,	
	2021	2020
	(In millions)	
Impaired loans and advances	¥1,171,576	¥845,329
Financial effect of collateral and other credit enhancements	394,819	281,382

Concentration of risks of loans and advances with credit risk exposure

An analysis of concentrations of credit risk from loans and advances by geographical sector and industry sector at March 31, 2021 and 2020 is shown below. The concentration by geographical sector is measured based on the domicile of the borrower.

Geographical sector

	At March 31,	
	2021	2020
	(In millions)	
Domestic	¥63,307,158	¥60,184,755
Foreign:		
Americas	12,688,446	13,866,321
Europe	7,056,152	6,552,895
Asia	11,432,361	11,010,138
Others	4,341,438	4,028,641
Total foreign	35,518,397	35,457,995
Gross loans and advances	98,825,555	95,642,750
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net	(261,330)	(264,527)
Less: Allowance for loan losses	(849,287)	(706,405)
Carrying amount	¥97,714,938	¥94,671,818

Industry sector

	At March 31,	
	2021	2020
	(In millions)	
Domestic:		
Manufacturing	¥10,174,683	¥ 8,787,566
Agriculture, forestry, fisheries and mining	277,471	280,233
Construction	886,539	919,043
Transportation, communications and public enterprises	5,878,522	5,637,560
Wholesale and retail	6,014,746	5,375,802
Finance and insurance	3,423,625	3,217,545
Real estate and goods rental and leasing	11,760,698	10,666,446
Services	4,831,938	4,452,195
Municipalities	625,639	839,878
Lease financing	24,678	8,380
Consumer ⁽¹⁾	15,274,719	15,691,638
Others	4,133,900	4,308,469
Total domestic	63,307,158	60,184,755
Foreign:		
Public sector	309,372	335,071
Financial institutions	7,241,844	6,220,956
Commerce and industry	24,659,663	25,597,599
Lease financing	306,988	309,531
Others	3,000,530	2,994,838
Total foreign	35,518,397	35,457,995
Gross loans and advances	98,825,555	95,642,750
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net	(261,330)	(264,527)
Less: Allowance for loan losses	(849,287)	(706,405)
Carrying amount	¥97,714,938	¥94,671,818

(1) The balance in Consumer mainly consists of housing loans. The housing loan balances amounted to ¥10,736,709 million and ¥10,913,869 million at March 31, 2021 and 2020, respectively.

The following tables show a disaggregation of the structured finance loans and advances balances, where the repayment source is limited to the cash flows generated by a particular business or asset, and the balances of secured or unsecured consumer loans at March 31, 2021 and 2020. These loans and advances are included in the preceding tables.

Structured finance:

	At March 31,	
	2021	2020
	(In millions)	
Real estate finance	¥2,980,521	¥2,601,130
Project finance	4,755,671	4,243,862
Other structured finance	513,813	473,436
Total structured finance	¥8,250,005	¥7,318,428

Consumer:

	At March 31,	
	2021	2020
	(In millions)	
Secured loans ⁽¹⁾	¥11,340,676	¥11,538,195
Unsecured loans	3,934,043	4,153,443
Total consumer	¥15,274,719	¥15,691,638

(1) The secured loans and advances mainly represent housing loans. The housing loan balances amounted to ¥10,736,709 million and ¥10,913,869 million at March 31, 2021 and 2020, respectively.

Credit quality analysis

The following tables set forth information about the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts by stage allocation and internal rating grades of SMBC. Refer to Note 2 “Summary of Significant Accounting Policies” for information on stage allocation. Also refer to Note 46 “Financial Risk Management” for information on obligor grading system of SMBC.

	At March 31, 2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	(In millions)			
Loans and advances at amortized cost:				
Normal				
J1-6	¥42,556,624	¥ 489,127	¥ —	¥ 43,045,751
G1-6	26,374,296	922,810	—	27,297,106
Japanese government and local municipal corporations	2,804,786	—	—	2,804,786
Other ⁽¹⁾	22,419,540	104,469	—	22,524,009
Requiring caution				
J7	—	1,107,499	—	1,107,499
G7	—	707,272	—	707,272
Other ⁽¹⁾	—	167,556	—	167,556
Impaired ⁽²⁾	—	—	1,171,576	1,171,576
Gross loans and advances	94,155,246	3,498,733	1,171,576	98,825,555
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net				(261,330)
Less: Allowance for loan losses	(170,156)	(255,909)	(423,222)	(849,287)
Carrying amount				¥ 97,714,938

(1) The balance of “Other” includes housing loans, which amounted to ¥10,615,897 million and ¥20,789 million for the borrower category of Normal and Requiring Caution, respectively.

(2) “Impaired” refers to loans and advances to borrowers with obligor grades not higher than 7R.

	At March 31, 2020			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	(In millions)			
Loans and advances at amortized cost:				
Normal				
J1-6	¥39,631,009	¥ 198,143	¥ —	¥ 39,829,152
G1-6	27,437,173	522,780	—	27,959,953
Japanese government and local municipal corporations	3,091,323	—	—	3,091,323
Other ⁽¹⁾	22,837,826	111,801	—	22,949,627
Requiring caution				
J7	—	579,539	—	579,539
G7	—	202,207	—	202,207
Other ⁽¹⁾	—	185,620	—	185,620
Impaired ⁽²⁾	—	—	845,329	845,329
Gross loans and advances	92,997,331	1,800,090	845,329	95,642,750
Adjust: Unearned income, unamortized premiums—net and deferred loan fees—net				(264,527)
Less: Allowance for loan losses	(203,286)	(147,382)	(355,737)	(706,405)
Carrying amount				¥ 94,671,818

(1) The balance of “Other” includes housing loans, which amounted to ¥10,799,400 million and ¥21,898 million for the borrower category of Normal and Requiring Caution, respectively.

(2) “Impaired” refers to loans and advances to borrowers with obligor grades not higher than 7R.

Modified loans and advances that were subject to lifetime ECL measurement amounted to ¥100,789 million and ¥42,420 million for the fiscal years ended March 31, 2021 and 2020, respectively. The net modification gain or loss is not material.

	At March 31, 2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	(In millions)			
Loan commitments and financial guarantees⁽¹⁾:				
Gross carrying amount	¥35,035,453	¥721,955	¥41,173	¥35,798,581
Allowance for off-balance sheet items	33,034	35,480	7,181	75,695

	At March 31, 2020			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	(In millions)			
Loan commitments and financial guarantees⁽¹⁾:				
Gross carrying amount	¥29,711,738	¥276,070	¥24,820	¥30,012,628
Allowance for off-balance sheet items	46,118	21,423	3,713	71,254

(1) Loan commitments are the undrawn components of loan commitments on which ECL can be separately identified from those on the drawn components.

Movements in ECL allowance

The following tables show reconciliations from the opening balance to the closing balance of the ECL allowance by class of financial instrument.

	12-month ECL		Lifetime ECL not credit- impaired		Lifetime ECL credit-impaired		Total	
	(In millions)							
Loans and advances at amortized cost⁽¹⁾:								
Balance at April 1, 2019	¥	158,094	¥	92,446	¥	354,448	¥	604,988
Transfer to 12-month ECL		880		(829)		(51)		—
Transfer to lifetime ECL not credit-impaired		(2,414)		4,264		(1,850)		—
Transfer to lifetime ECL credit-impaired		(1,650)		(7,938)		9,588		—
Net transfers between stages		(3,184)		(4,503)		7,687		—
Provision for loan losses ⁽²⁾		52,085		60,724		136,669		249,478
Charge-offs ⁽³⁾		—		—		153,992		153,992
Recoveries		—		—		12,413		12,413
Net charge-offs		—		—		141,579		141,579
Others ⁽⁴⁾		(3,709)		(1,285)		(1,488)		(6,482)
Balance at March 31, 2020	¥	203,286	¥	147,382	¥	355,737	¥	706,405
Transfer to 12-month ECL		6,126		(5,770)		(356)		—
Transfer to lifetime ECL not credit-impaired		(10,899)		13,261		(2,362)		—
Transfer to lifetime ECL credit-impaired		(3,248)		(25,771)		29,019		—
Net transfers between stages		(8,021)		(18,280)		26,301		—
Provision (credit) for loan losses ⁽⁵⁾		(29,279)		123,622		182,742		277,085
Charge-offs ⁽³⁾		—		—		161,603		161,603
Recoveries		—		—		12,801		12,801
Net charge-offs		—		—		148,802		148,802
Others ⁽⁴⁾		4,170		3,185		7,244		14,599
Balance at March 31, 2021	¥	170,156	¥	255,909	¥	423,222	¥	849,287

- (1) "Loans and advances at amortized cost" includes allowance for undrawn components of loan commitments issued to retail customers which cannot be separately identified from that for the drawn components.
- (2) The increase of allowance for 12-month ECL and lifetime ECL not credit-impaired for the fiscal year ended March 31, 2020 is primarily due to the incorporation of forward-looking macroeconomic information reflecting the impact of the COVID-19 economic outlook.
- (3) Charge-offs for lifetime ECL credit-impaired are primarily related to those for consumer loans.
- (4) Others mainly include foreign exchange translations.
- (5) The increase in the balance of the total ECL allowance at March 31, 2021 is primarily due to both an increase in loans and advances to corporate borrowers who were severely affected by the COVID-19 pandemic and, as a result, whose obligor grades were downgraded to the extent that the credit risk on loans and advances to such borrowers was determined to be significantly increased since initial recognition, and additional adjustments to the ECL allowance for some portfolios of loans and advances, offset by the release of part of the ECL allowance due to the improved macroeconomic forecast. For additional information, refer to Note 3 "Critical Accounting Estimates and Judgments."

For the fiscal year ended March 31, 2021, the ECL allowance significantly increased by ¥142,882 million from ¥706,405 million at March 31, 2020 to ¥849,287 million at March 31, 2021. This increase was due to the reflection of the current and forward-looking impact of the COVID-19 pandemic.

During the fiscal year ended March 31, 2021, the obligor grades of many corporate borrowers severely affected by the COVID-19 pandemic were downgraded to the extent that the credit risk on loans and advances to

such borrowers was determined to be significantly increased since initial recognition and their ECL allowance was measured at an amount equal to the lifetime ECL.

The Japanese and global economy was assumed to recover from the fiscal year ending March 31, 2022 and reach pre-COVID-19 level by the end of the fiscal year ending March 31, 2023, and this reflected the release of part of the ECL allowance.

However, additional ECL adjustments were made for certain industry-related portfolios selected based on changes in factors such as the market conditions and bankruptcy trends as a result of the reduction in economic activity by requests for voluntary restraint on movement and business closure requests to commercial facilities.

As for the allowance for 12-month ECL, it decreased by ¥33,130 million for the fiscal year ended March 31, 2021, due to a release of part of the ECL allowance as a result of reflecting the improved economic forecast, which was partially offset by an increase in the ECL allowance due to the additional adjustments made for some industry-related portfolios. On the other hand, the allowance for lifetime ECL not credit-impaired and credit-impaired increased by ¥108,527 million and ¥67,485 million, respectively for the fiscal year ended March 31, 2021, due to an increase in loans and advances to corporate borrowers who were severely affected by the COVID-19 pandemic. As a result, the total ECL allowance increased by ¥142,882 million for the fiscal year ended March 31, 2021. For additional information, refer to Note 3 “Critical Accounting Estimates and Judgments.”

	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	(In millions)			
Loan commitments and financial guarantees⁽¹⁾:				
Balance at April 1, 2019	¥ 36,795	¥18,289	¥ 5,761	¥60,845
Net transfers between stages	(87)	(173)	260	—
Provision (credit) for off-balance sheet items	9,461	3,307	(2,308)	10,460
Others	(51)	—	—	(51)
Balance at March 31, 2020	<u>¥ 46,118</u>	<u>¥21,423</u>	<u>¥ 3,713</u>	<u>¥71,254</u>
Net transfers between stages	(632)	(55)	687	—
Provision (credit) for off-balance sheet items	(11,492)	14,112	2,781	5,401
Others	(960)	—	—	(960)
Balance at March 31, 2021	<u>¥ 33,034</u>	<u>¥35,480</u>	<u>¥ 7,181</u>	<u>¥75,695</u>

(1) ECL allowance for loan commitments is that for the undrawn components of loan commitments, which can be separately identified from that for the drawn components.

Trading assets, financial assets at fair value through profit or loss and investment securities

The following tables show an analysis of trading assets, financial assets at fair value through profit or loss and debt instruments at amortized cost and at fair value through other comprehensive income based on the external rating system at March 31, 2021 and 2020, excluding instruments with equity features. Collateral is generally not obtained directly from the issuers.

At March 31, 2021				
	Trading assets ⁽¹⁾	Financial assets at fair value through profit or loss ⁽¹⁾	Debt instruments at amortized cost ⁽¹⁾⁽²⁾	Debt instruments at fair value through other comprehensive income ⁽¹⁾⁽²⁾
	(In millions)			
AAA	¥ 132,666	¥ 8,010	¥ —	¥ 8,444,814
AA- to AA+	2,132,634	38,662	22,300	16,135,234
A- to A+	249,114	24,397	—	932,467
Lower than A-	137,305	91,862	48,181	782,352
Unrated	15,439	1,081	1,534	136,063
Total	¥ 2,667,158	¥ 164,012	¥ 72,015	¥ 26,430,930

At March 31, 2020				
	Trading assets ⁽¹⁾	Financial assets at fair value through profit or loss ⁽¹⁾	Debt instruments at amortized cost ⁽¹⁾⁽²⁾	Debt instruments at fair value through other comprehensive income ⁽¹⁾⁽²⁾
	(In millions)			
AAA	¥ 101,336	¥ 10,005	¥ —	¥ 8,104,653
AA- to AA+	2,125,095	346,039	282,379	8,236,637
A- to A+	135,445	23,981	—	763,612
Lower than A-	98,275	106,682	38,299	694,051
Unrated	7,193	559	93	26,627
Total	¥ 2,467,344	¥ 487,266	¥ 320,771	¥ 17,825,580

(1) The amounts represent fair value for trading assets and financial assets at fair value through profit or loss, whereas they represent the gross carrying amount for debt instruments at amortized cost and at fair value through other comprehensive income.

(2) There were no debt instruments at amortized cost or debt instruments at fair value through other comprehensive income subject to lifetime ECL at March 31, 2021 and 2020.

Credit risk from derivative financial instruments

The Group maintains control limits on derivative positions, by both amount and term. At any one time, the amount subject to credit risk is limited to the fair value of derivative financial instruments that are favorable to the Group (i.e., assets where their fair value is positive).

The Group's credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. Netting agreements, such as the ISDA master agreement, allow the netting of obligations arising under all of the derivative transactions that the agreement covers upon the counterparty's default, regardless of maturity and currency, resulting in a single net claim against the counterparty. The Group's credit risk is also mitigated by collateral arrangements through the credit support annex, resulting in collateral delivered or received regularly based on the replacement costs of derivatives.

Market Risk and Liquidity Risk

Market risk is the possibility that fluctuations in interest rates, foreign exchange rates, stock prices or other market prices will change the market value of financial products, leading to a loss. The purpose of market risk management is to keep the market risk exposure to a permissible level relative to capital.

Liquidity risk is defined as the uncertainty around the ability to meet debt obligations without incurring unacceptably large losses. An example of such risk is the possible inability to meet current and future cash flow/collateral needs, both expected and unexpected. In such cases, the Group may be required to raise funds at less than favorable rates or be unable to raise sufficient funds for settlement. The purpose of liquidity risk management is to ensure that the Group is in a position to address its liquidity obligations through monitoring the liquidity gap between assets and liabilities, and by maintaining highly liquid supplementary funding resources.

On the basis of the Group-wide basic policies for risk management, the Group has a quantitative management process to control market and liquidity risks on a Group-wide basis. The Group at least annually reviews and identifies which companies primarily carry the market and liquidity risks within the Group. The Group sets permissible levels and upper limits of risk for each identified company in consideration of those companies' business plans. The Group ensures that each identified company establishes a risk management system that is appropriate to the risks it faces, and has built-in transparent risk management processes which clearly separate front, middle and back office operations, and establishes a control system of mutual checks and balances.

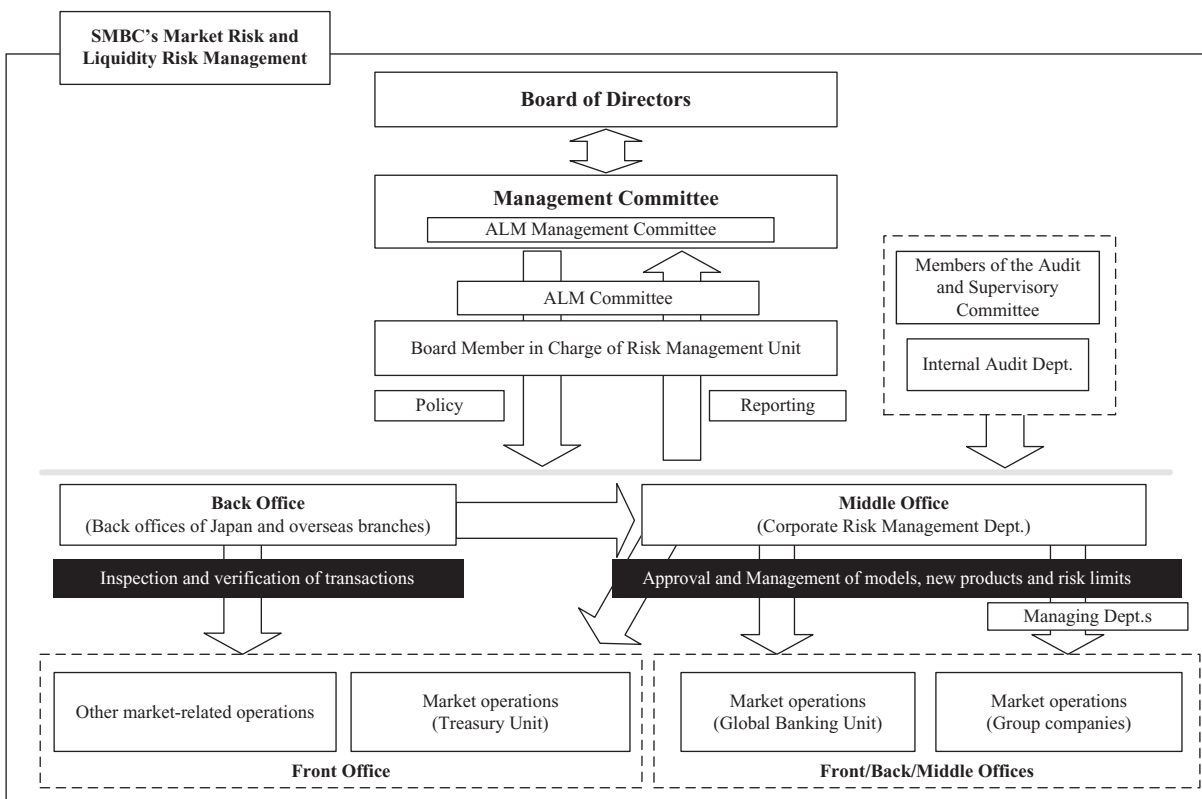
Framework for market and liquidity risk management

The board of directors authorizes important matters relating to the management of market and liquidity risks, such as the basic policies and risk appetite, which are decided by the Management Committee. The Corporate Risk Management Department, which is independent of the business units that directly handle market transactions, manages market and liquidity risks in an integrated manner. The Corporate Risk Management Department not only monitors the current risk situations but also reports regularly to the Management Committee and the board of directors.

Additionally, the Asset Liability Management ("ALM") Committee meets on a quarterly basis to examine reports on the state of market and liquidity risk management and to discuss the Group's ALM operation policies. Furthermore, SMBC's ALM Committee meets on a monthly basis to examine reports on the state of market and liquidity risks, and to discuss SMBC's ALM operations.

Under the Group's internal audit system, internal audits are also periodically performed to verify that the risk management framework is functioning properly.

The following chart shows the market and liquidity risk management system of SMBC.



Market risk management methods

The Group manages market risk capital derived from trading activities and non-trading activities, including strategic shareholding investments and other transactions in the Risk Appetite Framework by taking into account SMFG's shareholders' equity and other principal indicators of the financial position. The Group also establishes an upper limit on VaR and losses as Risk Appetite Measures.

The Group's market risk can be divided into various factors: interest rates, foreign exchange rates, equity prices and option risks. The Group manages each of these risks by employing the VaR method as well as supplemental indicators suitable for managing each risk, such as the basis point value ("BPV").

VaR is the largest predicted loss that is possible given a fixed confidence interval. For example, the Group's VaR indicates the largest loss that is possible for a holding period of one day and a confidence interval of 99.0%. BPV is the amount of change in assessed value as a result of a one-basis-point (0.01%) movement in interest rates.

Value at risk

The principal Group companies' internal VaR model makes use of historical data to prepare scenarios for market fluctuations and, by conducting simulations of gains and losses on a net position basis, the model estimates the maximum losses that may occur. The VaR calculation method the Group employs for both trading and non-trading activities is based mainly on the following:

- the historical simulation method;
- a one-sided confidence interval of 99.0%;

- a one-day holding period (a one-year holding period for the strategic shareholding investment portfolio); and
- an observation period of four years (ten years for the strategic shareholding investment portfolio).

This method is reviewed periodically and refined, if necessary.

The relationship between the VaR calculated by the model and the actual profit and loss data is back-tested periodically. There were no significant excess losses in the back-testing results including the trading accounts. The back-testing results are reviewed by management, which also monitors the ongoing suitability of the VaR model.

The following tables show the Group's VaR by risk category and these figures are prepared based on the internal reporting provided to management. The Group's material market risk exposure categories consist of interest rate risk, foreign exchange risk, equities and commodities risk and others. The section headed "VaR for Trading Activity" shows VaR for instruments entered into for trading purposes and the VaR model for the trading book includes principal consolidated subsidiaries. The section headed "VaR for Non-Trading Activity" shows VaR for instruments entered into for purposes other than trading purposes. "Strategic Shareholding Investment" in the "VaR for Non-Trading Activity" section is a portfolio that consists principally of publicly traded Japanese equities. This portfolio, like that of other financial institutions in Japan, has historically included shares of the Group's customers.

(a) VaR for Trading Activity

	Interest rate risk	Foreign exchange risk	Equities and commodities risk	Others	Total ⁽¹⁾
	(In billions)				
For the fiscal year ended March 31, 2021:					
SMBC Consolidated					
Maximum	¥ 6.1	¥ 8.8	¥ 1.7	¥ 3.9	8.1
Minimum	3.7	6.1	0.0	2.5	5.5
Daily average	5.1	7.3	0.5	3.2	6.5
At March 31, 2021	5.5	8.1	0.1	3.5	6.2
SMFG Consolidated					
Maximum	¥ 15.1	¥ 9.9	¥ 8.8	¥ 3.9	24.4
Minimum	11.7	6.6	1.9	2.5	15.6
Daily average	13.2	8.4	4.7	3.2	19.5
At March 31, 2021	14.6	8.8	5.1	3.5	20.7

	Interest rate risk	Foreign exchange risk	Equities and commodities risk	Others	Total ⁽¹⁾
	(In billions)				
For the fiscal year ended March 31, 2020:					
SMBC Consolidated					
Maximum	¥ 6.0	¥ 9.6	¥ 2.9	¥ 4.7	10.2
Minimum	3.7	4.0	0.0	2.6	6.2
Daily average	4.5	5.6	0.7	4.0	7.3
At March 31, 2020	5.4	8.9	0.0	2.6	6.4
SMFG Consolidated					
Maximum	¥ 13.7	¥ 10.6	¥ 9.4	¥ 4.7	22.4
Minimum	9.2	4.4	1.6	2.6	13.8
Daily average	10.6	6.2	3.7	4.0	16.7
At March 31, 2020	12.6	9.5	2.4	2.6	16.2

(1) Total for “Maximum,” “Minimum,” and “Daily average” represent the maximum, minimum and daily average of the total of the trading book. For certain subsidiaries, the Group employs the standardized method and/or the historical simulation method for the VaR calculation method.

(b) VaR for Non-Trading Activity

(i) Banking

	Interest rate risk	Foreign exchange risk	Equities and commodities risk (In billions)	Others	Total ⁽¹⁾
For the fiscal year ended March 31, 2021:					
SMBC Consolidated					
Maximum	¥ 55.5	¥ 0.6	¥ 27.1	¥ 0.0	58.5
Minimum	43.1	0.0	7.5	0.0	45.5
Daily average	49.3	0.3	15.0	0.0	51.7
At March 31, 2021	50.3	0.0	17.4	0.0	54.5
SMFG Consolidated					
Maximum	¥ 56.1	¥ 0.6	¥ 27.1	¥ 0.0	59.0
Minimum	43.9	0.0	7.5	0.0	46.2
Daily average	49.9	0.3	15.0	0.0	52.3
At March 31, 2021	50.8	0.0	17.4	0.0	55.0

	Interest rate risk	Foreign exchange risk	Equities and commodities risk (In billions)	Others	Total ⁽¹⁾
For the fiscal year ended March 31, 2020:					
SMBC Consolidated					
Maximum	¥ 46.8	¥ 0.0	¥ 30.2	¥ 0.0	51.5
Minimum	32.7	0.0	10.8	0.0	35.6
Daily average	40.6	0.0	20.4	0.0	44.3
At March 31, 2020	45.4	0.0	15.4	0.0	49.6
SMFG Consolidated					
Maximum	¥ 47.6	¥ 0.0	¥ 30.2	¥ 0.0	52.4
Minimum	33.6	0.0	10.8	0.0	36.5
Daily average	41.5	0.0	20.4	0.0	45.1
At March 31, 2020	46.2	0.0	15.4	0.0	50.5

(1) Total for “Maximum,” “Minimum,” and “Daily average” represent the maximum, minimum and daily average of the total of the banking book.

(ii) Strategic Shareholding Investment

	<u>Equities risk</u> (In billions)
For the fiscal year ended March 31, 2021:	
SMBC Consolidated	
Maximum	¥1,161.7
Minimum	784.1
Daily average	966.1
At March 31, 2021	1,111.2
SMFG Consolidated	
Maximum	¥1,337.5
Minimum	911.2
Daily average	1,122.2
At March 31, 2021	1,284.1
	<u>Equities risk</u> (In billions)
For the fiscal year ended March 31, 2020:	
SMBC Consolidated	
Maximum	¥1,030.0
Minimum	717.4
Daily average	941.3
At March 31, 2020	808.2
SMFG Consolidated	
Maximum	¥1,180.6
Minimum	840.5
Daily average	1,092.7
At March 31, 2020	942.4

Stress tests

The market occasionally undergoes extreme fluctuations that exceed projections. Therefore, to manage market risk, it is important to run simulations of situations that may occur only once in many years, or so-called stress tests. To prepare for unexpected market swings, the Group performs stress tests on a monthly basis based on various scenarios.

The limitations of the VaR methodology include the following:

- The use of historical data as a proxy for estimating future events may underestimate the probability of extreme market movements. Past market movement is not necessarily a good indicator of future events;
- The use of a holding period assumes that all positions can be liquidated or hedged in that period of time. This assumption does not fully capture the market risk arising during periods of illiquidity, when liquidation or hedging in that period of time may not be possible;
- The use of a confidence level neither takes account of, nor makes any statement about, any losses that might occur beyond this level of confidence; and
- VaR does not capture all of the complex effects of the risk factors on the value of positions and portfolios and could underestimate potential losses.

Additional information for the certain risks

(a) Interest rate risk

To supplement the above limitations of VaR methodologies, the Group adopts various indices to measure and monitor the sensitivity of interest rates, including delta, gamma and vega risks. The Group considers BPV as one of the most significant indices to manage interest rate risk. BPV is the amount of change in the value to the banking and trading book as a result of a one-basis-point (0.01%) movement in interest rates. The principal Group companies use BPV to monitor interest rate risk, not only on a net basis, but also by term to prevent the concentration of interest rate risk in a specific period. In addition, as previously addressed, the Group enhances the risk management methods of VaR and BPV by using them in combination with back-testing and stress tests.

Interest rate risk substantially changes depending on the method used for recognizing the expected maturity dates of demand deposits that can be withdrawn at any time, or the method used for estimating the timing of cancellation prior to maturity of time deposits and consumer housing loans. At SMBC, the maturity of demand deposits that are expected to be left with the bank for a prolonged period is regarded to be, at the longest, five years (2.5 years on average), and the cancellation prior to maturity of time deposits and consumer housing loans is estimated based on historical data.

Based on the new standards for interest rate risk in the banking book issued by the Basel Committee on Banking Supervision (“BCBS”) in April 2016, the FSA revised the related regulatory guidelines pertaining to monitoring of interest rate risks in the banking book in December 2017. The revised disclosure requirements with respect to the changes in economic value of equity (“ Δ EVE”) in the banking book as a result of interest rate shocks have been applied from March 31, 2018. Δ EVE is defined as a decline in economic value as a result of an interest rate shock. It is calculated by multiplying the interest rate sensitivity (excluding credit spread) and interest rate change. The FSA implements a “materiality test” to identify banks taking excessive interest rate risks. Under the materiality test, the FSA monitors the ratio of Δ EVE to Tier 1 capital based on a set of prescribed interest rate shock scenarios. The threshold applied by the FSA is 15% and the ratios for SMBC on a consolidated basis at March 31, 2021 and 2020 were 9.6% and 11.1%, respectively and those for SMFG on a consolidated basis at March 31, 2021 and 2020 were 8.1% and 9.6%, respectively.

(b) Foreign exchange risk

The principal Group companies set risk limits for each currency to manage the concentration of the foreign currency position. The foreign exchange risk is immaterial as shown above in VaR by risk category.

(c) Strategic shareholding investment risk

The Group establishes limits on allowable risk for strategic shareholding investments and monitors the observance of those limits to keep stock price fluctuation risk within acceptable parameters. The Group has been reducing its strategic shareholding investments, and the balance is within a permitted level, which is less than 100% of the Group’s Tier 1 Capital.

Liquidity risk management methods

At Group, liquidity risk is regarded as one of the major risks. The Group’s liquidity risk management is based on a framework consisting of setting Risk Appetite Measures and establishing contingency plans.

The Risk Appetite Measures are measures for selecting the types and levels of risk that the Group is willing to take on or tolerate. As the level of liquidity risk is evaluated based on cash flow and balance sheet conditions, Risk Appetite Measures have been set for both of these areas. These measures include the Liquidity Coverage Ratio, a liquidity regulation, as well as a measure of the periods for which it will be possible to maintain funding levels even under stress due to deposit outflows or other factors, and the ratio which shows how much the stable funding covers the funding for loans and other assets.

The tolerated levels of risk are set based on account funding status, cash management planning, economic environments and other factors, and measures are monitored on a daily or monthly basis in order to limit reliance on short-term funding and appropriately manage liquidity.

As a framework to complement the Risk Appetite Measures, upper limits are set in place on both a Group company basis and an individual branch bases with regard to funding gaps, which is defined as a maturity mismatch between the source of funds and use of funds.

Furthermore, contingency plans are established in preparation for emergency situations. These plans contain information on chains of command and lines of reporting as well as detailed action plans depending on the existing situation (i.e., normal, concerned, or crisis). Meanwhile, SMBC carries out quantitative management of alert indications based on early warning indicators established to assist the bank in promptly and systematically detecting liquidity risks.

Maturity analysis of financial liabilities at March 31, 2021 and 2020

The following tables show a maturity analysis of the contractual undiscounted cash flows for financial liabilities at March 31, 2021 and 2020. The amount of interest on debt instruments is not included in the maturity tables below due to its insignificance.

		At March 31, 2021						
	On demand	Not later than three months	Later than three months and not later than one year	Later than one year and not later than three years	Later than three years and not later than five years	Later than five years	Total	
(In millions)								
Non-derivative financial instruments:								
Deposits	¥102,997,450	¥ 35,126,538	¥ 13,139,583	¥ 3,031,727	¥ 648,342	¥ 552,018	¥155,495,658	
Call money and bills sold	2,678	1,350,926	14,911	—	—	—	1,368,515	
Repurchase agreements and cash collateral on securities lent	202,934	18,243,737	—	63,235	—	—	18,509,906	
Trading liabilities	2,080,826	—	—	—	—	—	2,080,826	
Financial liabilities designated at fair value through profit or loss	—	1,050	91,691	51,183	18,746	73,869	236,539	
Borrowings	118,408	2,181,321	5,530,491	4,615,101	4,800,771	1,792,917	19,039,009	
Debt securities in issue	—	1,969,168	1,557,662	1,959,596	2,072,760	3,533,304	11,092,490	
Lease payable	—	19,666	62,571	106,129	72,848	134,738	395,952	
Other financial liabilities	3,350,086	5,058,851	3,322	1,045	—	3,744	8,417,048	
Off balance sheet items:								
Loan commitments	71,677,806	—	—	—	—	—	71,677,806	
Financial guarantee contracts	9,872,696	—	—	—	—	—	9,872,696	
Total non-derivative financial instruments	¥190,302,884	¥ 63,951,257	¥ 20,400,231	¥ 9,828,016	¥ 7,613,467	¥6,090,590	¥298,186,445	
Derivative financial instruments								
	¥ 4,900,077	¥ —	¥ —	¥ 608	¥ 8,578	¥ 40,170	¥ 4,949,433	

At March 31, 2020							
	On demand	Not later than three months	Later than three months and not later than one year	Later than one year and not later than three years	Later than three years and not later than five years	Later than five years	Total
(In millions)							
Non-derivative financial instruments:							
Deposits	¥ 90,576,919	¥ 31,586,693	¥ 11,729,113	¥ 3,460,144	¥ 504,408	¥ 579,182	¥138,436,459
Call money and bills sold	8,282	3,690,507	41,751	—	—	—	3,740,540
Repurchase agreements and cash collateral on securities lent	354,639	15,090,564	10,579	—	—	—	15,455,782
Trading liabilities	2,018,484	—	—	—	—	—	2,018,484
Financial liabilities designated at fair value through profit or loss . .	—	—	—	—	—	—	—
Borrowings	188,553	5,350,849	4,865,354	2,527,554	1,923,192	1,872,774	16,728,276
Debt securities in issue . .	—	1,821,902	1,226,153	2,241,586	1,916,987	3,512,194	10,718,822
Lease payable	—	18,890	59,829	107,638	68,788	145,722	400,867
Other financial liabilities	2,655,310	4,487,488	3,997	537	—	2,919	7,150,251
Off balance sheet items:							
Loan commitments	62,151,698	—	—	—	—	—	62,151,698
Financial guarantee contracts	9,204,996	—	—	—	—	—	9,204,996
Total non-derivative financial instruments	¥167,158,881	¥ 62,046,893	¥ 17,936,776	¥ 8,337,459	¥ 4,413,375	¥6,112,791	¥266,006,175
Derivative financial instruments							
	¥ 5,555,201	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 5,555,201

Notes:

1. Embedded derivatives which are separately accounted for, but presented together with the host contract in the consolidated statements of financial position are not included in the contractual tables above as they relate to the interest cash flow of the host contract, which are also not included in the tables above.
2. Derivative financial instruments are recorded at fair value. Except for items designated as hedging instruments for fair value hedge, they are included in the column "On demand."

Balance of loans and advances, and deposits at March 31, 2021 and 2020

The following table presents the balance of loans and advances, and deposits at March 31, 2021 and 2020. The balance of deposits, which was mainly composed of individual customer deposits at March 31, 2021 and 2020, exceeded the balance of loans and advances at the same time due to the stable deposit base in Japan.

	At March 31,	
	2021	2020
	(In millions)	
Loans and advances	¥ 97,714,938	¥ 94,671,818
Deposits	155,493,654	138,431,418

The following table presents a breakdown of deposits by domestic and foreign offices. Domestic inter-bank money is classified as “Call money and bills sold” and not included in “Deposits” in the consolidated statements of financial position. Over half of domestic deposits is composed of individual customer deposits.

	At March 31,	
	2021	2020
	(In millions)	
Domestic offices:		
Non-interest-bearing demand deposits	¥ 26,509,136	¥ 23,804,054
Interest-bearing demand deposits	63,810,233	56,650,510
Deposits at notice	732,564	779,514
Time deposits	17,833,960	17,759,453
Negotiable certificates of deposit	5,603,154	4,081,741
Others	8,578,530	7,198,447
Total domestic offices	123,067,577	110,273,719
Foreign offices:		
Non-interest-bearing demand deposits	1,760,079	1,503,721
Interest-bearing demand deposits	4,825,345	3,122,179
Deposits at notice	10,730,094	9,989,980
Time deposits	7,985,027	7,264,055
Negotiable certificates of deposit	6,967,464	6,098,695
Others	158,068	179,069
Total foreign offices	32,426,077	28,157,699
Total deposits	¥155,493,654	¥138,431,418

Capital Management

The Group manages its capital by taking into consideration regulatory compliance and business development.

The Group’s capital management objectives are to maintain sufficient capital resources to meet the capital adequacy requirements and to maintain a strong capital base to support the development of its business.

External regulatory capital requirement

The Group, the Company and its principal banking subsidiaries in Japan rigidly abide by the capital adequacy guidelines set by the FSA. Japan’s capital adequacy guidelines are based on the Basel Capital Accord, which was proposed by the BCBS for uniform application to all banks which have international operations in industrialized countries. Japan’s capital adequacy guidelines may be different from those of central banks or supervisory bodies of other countries because they have been designed by the FSA to suit the Japanese banking environment. The Group’s banking subsidiaries outside of Japan are also subject to the local capital ratio requirements.

In December 2010, the BCBS published the new Basel III rules text to implement the Basel III framework, which sets out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build-up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards. The main measures of the minimum capital requirements in the Basel III framework began in January 2013 and have been fully applied from January 2019. The minimum common equity requirement, the minimum Tier 1 capital requirement and the total minimum capital requirement have been 4.5%, 6% and 8%, respectively since January 2015. Moreover, banks

have been required to hold a capital conservation buffer of 2.5% to withstand future periods of stress since January 2019. As a result, taking the capital conservation buffer into account, the minimum common equity requirement, the minimum Tier 1 capital requirement and the total minimum capital requirement have been 7%, 8.5% and 10.5%, respectively since January 2019. Furthermore, a countercyclical buffer within a range of 0% to 2.5% of common equity or other fully loss-absorbing capital has been implemented according to national circumstances.

In addition to the above-mentioned minimum capital requirements and capital buffer requirements under Basel III, organizations identified by the Financial Stability Board (“FSB”) as Global Systemically Important Banks (“G-SIBs”), which includes the Group, are required to maintain an additional 1% to 2% of Common Equity Tier 1 capital as a percentage of risk-weighted assets based on the organization’s size, interconnectedness, substitutability, complexity and cross-jurisdictional activity as determined by the FSB. The amount of G-SIB capital surcharge that applies to the Group based on the FSB’s determination is 1%. The FSB updates its list of G-SIBs on an annual basis.

To reflect the Basel III framework, the FSA changed its capital adequacy guidelines. The minimum Common Equity Tier 1 capital requirement, Tier 1 capital requirement and total capital requirement have been 4.5%, 6% and 8%, respectively since March 2015. The capital conservation buffer, countercyclical buffer and the G-SIB capital surcharge started to be phased in from March 2016 and have been fully applied from March 2019 under the FSA capital adequacy guidelines.

In accordance with the changes of the FSA capital adequacy guidelines, the Group changed its classification of capital into three tiers, referred to as Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital as follows:

Common Equity Tier 1 capital consists primarily of capital stock, capital surplus and retained earnings relating to common shares, and non-controlling interests that meet the criteria for inclusion in Common Equity Tier 1 capital.

Additional Tier 1 capital consists primarily of perpetual subordinated bonds.

Tier 2 capital consists primarily of subordinated debt securities.

The capital adequacy guidelines permit Japanese banks to choose from the standardized approach, the foundation internal ratings-based (“IRB”) approach and the advanced IRB approach for credit risk, and the basic indicator approach, the standardized approach (“TSA”) and the advanced measurement approach (“AMA”) for operational risk. To be eligible to adopt the foundation IRB approach or the advanced IRB approach for credit risk, and TSA or AMA for operational risk, a Japanese bank must establish advanced risk management systems and receive prior approval from the FSA.

Adopting these approved approaches, the Group has complied with all externally imposed capital requirements throughout the period.

Failure of a Japanese bank, bank holding company or other financial institution to maintain the required risk-weighted capital ratios, may result in administrative actions or sanctions imposed by the FSA.

Regulatory capital

The table below presents the Group's total capital ratio, total capital and risk-weighted assets under Japanese GAAP at March 31, 2021 and 2020 based on the Basel III rules.

	At March 31,	
	2021	2020
	(In billions, except percentages)	
SMFG Consolidated:		
Total risk-weighted capital ratio	18.61%	18.75%
Tier 1 risk-weighted capital ratio	16.96%	16.63%
Common Equity Tier 1 risk-weighted capital ratio	16.00%	15.55%
Total capital (Common Equity Tier 1 capital + Additional Tier 1 capital + Tier 2 capital)	¥ 12,289.3	¥ 11,552.0
Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital)	11,199.3	10,249.9
Common Equity Tier 1 capital	10,562.8	9,581.3
Risk-weighted assets	66,008.0	61,599.1
The amount of minimum total capital requirements ⁽¹⁾	5,280.6	4,927.9

(1) The amount of minimum total capital requirements is calculated by multiplying risk-weighted assets by 8%.

47 RELATED-PARTY TRANSACTIONS

Transactions with Related Parties

The Group considers that its related parties include subsidiaries, associates, joint ventures, key management personnel and close family members of key management personnel. Any transactions between the Group and its subsidiaries meet the definition of related-party transactions. However, because these transactions are eliminated on consolidation, they are not disclosed as related-party transactions. Transactions between the Group and its related parties are conducted on substantially the same terms as third-party transactions.

The transaction amounts included in the accounts, in aggregate, by category of related party were as follows:

Transactions with associates, joint ventures and other entities

	At March 31,		
	2021	2020	
	(In millions)		
Assets:			
Loans and advances	¥1,857,585	¥1,693,161	
Others	78,410	115,885	
Liabilities:			
Deposits	¥ 192,010	¥ 208,978	
Others	74,907	116,015	
	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Income statements:			
Income (interest income, fee and commission income, and others)	¥55,409	¥68,752	¥38,713
Expense (interest expense and others)	34,811	26,049	25,799

Financial guarantees issued by the Group for its associates at March 31, 2021 and 2020 were ¥349,323 million and ¥330,366 million, respectively.

Loan commitments to associates and joint ventures at March 31, 2021 and 2020 were ¥1,050,006 million and ¥848,536 million, respectively.

Transactions with key management personnel and their close family members

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the board of directors and corporate executive officers of SMFG to constitute key management personnel for the purpose of this disclosure required under IAS 24 “Related Party Disclosures.”

		At March 31,	
		2021	2020
		(In millions)	
Assets:			
Loans and advances	¥	4	¥ —
Liabilities:			
Deposits	¥	2,259	¥ 2,078
Others		80	84

Compensation of Key Management Personnel

The following table presents the compensation expenses of key management personnel.

		For the fiscal year ended March 31,		
		2021	2020	2019
		(In millions)		
Short-term employee benefits		¥1,506	¥1,206	¥1,102
Share-based compensation		383	316	304

The details of the share-based compensation plan are described in Note 40 “Share-Based Payment.”

There were no post-employment benefits, other long-term benefits and termination benefits for the fiscal years ended March 31, 2021, 2020 and 2019.

48 PRINCIPAL SUBSIDIARIES

Principal Subsidiaries

The Group’s principal subsidiaries at March 31, 2021 are shown in the list below. The Group consolidates all entities that the Group controls. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Principal domestic subsidiaries

<u>Company Name</u>	<u>Proportion of Ownership Interest⁽¹⁾</u> (%)	<u>Proportion of Voting Rights⁽¹⁾</u> (%)	<u>Main Business</u>
Sumitomo Mitsui Banking Corporation	100.0	100.0	Commercial banking
SMBC Trust Bank Ltd.	100.0	100.0	Trust banking
SMBC Guarantee Co., Ltd.	100.0	100.0	Credit guarantee
SMBC Nikko Securities Inc.	100.0	100.0	Securities
Sumitomo Mitsui Card Company, Limited	100.0	100.0	Credit card
SMBC Finance Service Co., Ltd.	100.0	100.0	Credit card, consumer credit and installment transaction
SMBC Consumer Finance Co., Ltd.	100.0	100.0	Consumer lending
SMBC Mobit Co., Ltd.	100.0	100.0	Consumer lending
The Japan Research Institute, Limited	100.0	100.0	System development, data processing, management consulting and economic research
Sumitomo Mitsui DS Asset Management Company, Limited	50.1	50.1	Investment management, and investment advisory and agency
Alternative Investment Capital Limited	60.0	60.0	Investment management and investment advisory
NCore Co., Ltd.	51.0	51.0	Data processing service and consulting
SMBC Venture Capital Co., Ltd.	40.0	40.0	Venture capital
SMBC Consulting Co., Ltd.	98.3	98.3	Management consulting and information services
Japan Pension Navigator Co., Ltd.	69.7	69.7	Operational management of defined contribution pension plans

(1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.

Principal foreign subsidiaries

<u>Company Name</u>	<u>Country of Incorporation</u>	<u>Proportion of Ownership Interest⁽¹⁾</u> (%)	<u>Proportion of Voting Rights⁽¹⁾</u> (%)	<u>Main Business</u>
SMBC Bank International plc	U.K.	100.0	100.0	Commercial banking
Sumitomo Mitsui Banking Corporation (China) Limited	China	100.0	100.0	Commercial banking
PT Bank BTPN Tbk	Indonesia	98.4	93.5 ⁽²⁾	Commercial banking
SMBC Americas Holdings, Inc.	U.S.A.	100.0	100.0	Bank holding company
Manufacturers Bank	U.S.A.	100.0	100.0	Commercial banking
Banco Sumitomo Mitsui Brasileiro S.A. ...	Brazil	100.0	100.0	Commercial banking
JSC Sumitomo Mitsui Rus Bank	Russia	100.0	100.0	Commercial banking
SMBC Bank EU AG	Germany	100.0	100.0	Commercial banking
Sumitomo Mitsui Banking Corporation Malaysia Berhad	Malaysia	100.0	100.0	Commercial banking
SMBC Leasing and Finance, Inc.	U.S.A.	100.0	100.0	Leasing
SMBC Nikko Securities America, Inc.	U.S.A.	100.0	100.0	Securities
SMBC Nikko Capital Markets Limited ...	U.K.	100.0	100.0	Securities
SMBC Capital Markets, Inc.	U.S.A.	100.0	100.0	Derivatives
TT International Asset Management Ltd ..	U.K.	100.0	100.0	Investment management, and investment advisory and agency

-
- (1) Percentages of proportion of ownership interest and proportion of voting rights have been truncated.
- (2) During the fiscal year ended March 31, 2020, the Group disposed of 4.9% equity interest in PT Bank BTPN Tbk to a third party investor. The disposal was undertaken to ensure that PT Bank BTPN Tbk is compliant with the free float requirement under the Indonesia Stock Exchange's Rule. The Group had also entered into a commercial arrangement where the economic exposure resulting from the disposal is being retained. Therefore, the disposal has not resulted in a decrease in the Group's ownership interests.

SMBC Venture Capital Co., Ltd. is accounted for as subsidiaries, despite the Group's holdings of less than 50% of the voting rights, because the Group is able to govern the financial and operating policies of this company under a statute or an agreement.

The Group does not control some entities despite the fact that the Group holds more than 50% of their share capital, because the Group has entered into agreements with other investors to share or give those investors the power to govern the entities' financial and operating policies over these investees.

Some of the Group's subsidiaries may be subject to restrictions on the ability to transfer funds to the Company in the form of cash dividends or to repay loans or advances, which include capital adequacy requirements imposed by the governments and central banks, and the Companies Act of Japan restrictions relating to dividends. In addition, the Group pledges assets as collateral to secure payables under repurchase agreements, securities lending transactions and securitizations, borrowings or for cash settlements, margins on derivative transactions and certain other purposes. The details of assets pledged are described in Note 39 "Assets Pledged and Received as Collateral."

49 STRUCTURED ENTITIES

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. It often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support; or
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

During the normal course of business, the Group engages in numerous transactions involving structured entities. These structured entities are primarily used to provide the Group and its clients with efficient access to funds or investment opportunities, mainly through securitizations, investment funds and structured finance.

Consolidated Structured Entities

Structured entities are consolidated if they are controlled by the Group in accordance with the accounting policy as described in Note 2 "Summary of Significant Accounting Policies."

The consolidated structured entities include asset backed commercial paper ("ABCP") conduits which purchase financial assets such as trade accounts receivable and lease receivables by issuing commercial paper to third-party investors. The Group has contractual agreements to provide liquidity and credit enhancement facilities which can be utilized by those structured entities upon their request.

At March 31, 2021 and 2020, the consolidated ABCP conduits had total assets of ¥786,433 million and ¥726,070 million, respectively. The total notional amounts of the liquidity and credit enhancement facilities provided by the Group to the consolidated ABCP conduits at March 31, 2021 and 2020 were ¥1,226,930 million and ¥1,275,529 million, respectively, part of which was drawn at March 31, 2020.

The Group did not provide any financial or other support, without having a contractual obligation to do so, to consolidated structured entities during the fiscal years ended March 31, 2021 and 2020.

Unconsolidated Structured Entities

The following tables represent the carrying amounts of the Group's interests in unconsolidated structured entities recognized in its consolidated statements of financial position by line item and the maximum exposure to loss from its interests at March 31, 2021 and 2020.

At March 31, 2021						
	Securitizations	Investment funds	Structured finance	Others	Total	
			(In millions)			
Interests in unconsolidated structured entities recognized in:						
Trading assets	¥ 14,447	¥ 43,693	¥ —	¥ —	¥ 58,140	
Financial assets at fair value through profit or loss	260	1,115,719	126,210	—	1,242,189	
Investment securities	98,430	36,477	—	337	135,244	
Loans and advances	2,729,910	—	6,057,533	556,426	9,343,869	
Total	¥2,843,047	¥1,195,889	¥6,183,743	¥556,763	¥10,779,442	
Maximum exposure to loss from interests in unconsolidated structured entities						
	¥3,902,125	¥1,197,191	¥6,986,116	¥710,918	¥12,796,350	
At March 31, 2020						
	Securitizations	Investment funds	Structured finance	Others	Total	
			(In millions)			
Interests in unconsolidated structured entities recognized in:						
Trading assets	¥ 14,112	¥ 53,490	¥ —	¥ —	¥ 67,602	
Financial assets at fair value through profit or loss	240	628,177	128,823	—	757,240	
Investment securities	25,153	25,668	—	466	51,287	
Loans and advances	2,608,076	—	5,741,542	672,306	9,021,924	
Total	¥2,647,581	¥707,335	¥5,870,365	¥672,772	¥ 9,898,053	
Maximum exposure to loss from interests in unconsolidated structured entities						
	¥3,208,568	¥708,636	¥6,699,939	¥812,060	¥11,429,203	

An interest in a structured entity refers to contractual and non-contractual involvement that exposes the Group to variability of returns from the performance of the structured entity. Such interests include the holding of equity or debt instruments as well as the provision of loans, loan commitments and guarantees. Interest rate and currency derivatives that expose the Group mainly to market risk, or CDS that are designed to transfer risk from the Group to a structured entity are not regarded as an interest in a structured entity since they do not expose the Group to variability of returns from the performance of the structured entity. These derivatives are therefore not included in the tables above.

The maximum exposure to loss from the Group's interests in unconsolidated structured entities represents the maximum amount of potential loss to which the Group is exposed through its involvement with unconsolidated structured entities. It is determined by the Group's carrying amounts and the notional amounts of loan commitments and guarantees, without considering the probability of loss being incurred, or effects of collateral or other credit protection.

The Group did not provide any financial or other support, without having a contractual obligation to do so, to unconsolidated structured entities during the fiscal years ended March 31, 2021 and 2020.

Securitizations

Structured entities for this product are established to securitize third-parties' assets which mainly consist of auto loan receivables, residential and commercial mortgage loans and trade accounts receivables. These entities purchase those assets through loans or notes issued with multiple tranches. The Group provides loans and loan commitments to these entities or holds notes issued by them, in some cases with credit loss protection through guarantees or other credit enhancements provided by the sellers.

Investment Funds

These funds are established for providing investment opportunities to investors by pooling money from them and investing mainly in equity and debt instruments based on a predetermined investment policy. The Group has invested in a number of these funds.

Structured Finance

Structured entities for this product are typically established to raise funds for the development of infrastructure, the production of natural resources, the development or acquisition of real estate properties, and the purchase of certain equipment such as vessels or aircrafts for lease transactions. The Group provides financing to these entities mainly in the form of loans, loan commitments, or notes, which are typically secured by entities' assets or cash flows generated primarily by entities' projects.

Others

The Group provides financing to other types of structured entities such as third-party structured entities and repackaging vehicles to facilitate its clients' funding requirements. The Group provides loans and loan commitments to these entities.

Sponsored Unconsolidated Structured Entities with No Interest Held by the Group

The Group sponsors certain structured entities in which it has no interest. The Group is deemed to be a sponsor of a structured entity when the Group takes a leading role in determining its purpose and design, while providing operational support to ensure its continued operation.

The income received from such sponsored unconsolidated structured entities was ¥36,823 million and ¥39,734 million for the fiscal years ended March 31, 2021 and 2020, respectively. The majority of the income was management fees included in "Fee and commission income" and was from investment funds managed by SMDAM, the Group's asset management subsidiary. The carrying amount of assets transferred to these entities, which mainly consisted of investment funds, was ¥2,777,918 million and ¥813,442 million for the fiscal years ended March 31, 2021 and 2020, respectively.

50 ACQUISITIONS

Fiscal Year Ended March 31, 2021

There were no material acquisitions that were accounted for as business combinations during the fiscal year ended March 31, 2021.

Fiscal Year Ended March 31, 2020

Daiwa SB Investments Ltd. (currently merged into Sumitomo Mitsui DS Asset Management Company, Limited)

On April 1, 2019, Sumitomo Mitsui Asset Management Company, Limited (“SMAM”), the Group’s subsidiary, merged with Daiwa SB Investments Ltd. (“DSBI”), previously the Group’s associate, to form Sumitomo Mitsui DS Asset Management Company, Limited (“SMDAM”). The Group’s equity interest in SMDAM resulting from the merger is 50.12%, and as such, SMDAM is the Group’s subsidiary. This merger was made for the purpose of establishing an asset management company that combines the strengths and expertise of SMAM and DSBI, and offers high quality investment management performance and services in order to properly address client needs.

The fair values of assets and liabilities of DSBI at the date of acquisition and the consideration paid were as follows:

	<u>At April 1, 2019</u> (In millions)
Assets:⁽¹⁾	
Cash and deposits with banks	¥ 22,798
Intangible assets	20,078
Trading assets	14,019
All other assets	8,284
Total assets	<u>¥ 65,179</u>
Liabilities	<u>¥ 18,038</u>
Net assets	¥ 47,141
Non-controlling interests measured at their proportionate share of the identifiable net assets and others	<u>(23,093)</u>
Net assets acquired	24,048
Goodwill	<u>17,022</u>
Consideration	<u>¥ 41,070</u>
Consideration:	
Fair value of total consideration transferred	¥ 959
Fair value of the equity interest in DSBI held before the acquisition	<u>40,111</u>
Total	<u>¥ 41,070</u>
Acquisition related costs recognized as an expense in “General and administrative expenses” in the consolidated income statement	<u>¥ 9</u>

(1) The fair value of DSBI’s assets at the date of acquisition included the outstanding balance arising from the transactions made between the Group and DSBI, which included deposits with the Group amounting to ¥21 billion.

The fair value of consideration transferred represents the fair value of the reduction of the Group's interest in SMAM. The Group's interest in SMAM decreased from 51.19% to 50.12% and its interest in DSBI increased from 48.96% to 50.12% substantially as a result of a stock issuance from SMDAM to the shareholders of DSBI at the date of the business combination.

The goodwill was attributable to the profitability of the acquired business and the synergies expected to arise after the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Group recognized a profit of ¥21,998 million on this step acquisition, which was included in "Other income" in the consolidated income statements.

The revenue and profit or loss relating to DSBI since the acquisition date to March 31, 2020 is immaterial to the consolidated financial statements.

Cash consideration paid and cash acquired by obtaining control of the subsidiaries

The total amount of cash consideration paid and cash acquired by obtaining control of subsidiaries during the fiscal year ended March 31, 2020 were as follows:

	For the fiscal year ended March 31, 2020
	(In millions)
Cash consideration paid	¥ (17,797)
Cash and cash equivalents transferred as a result of the acquisitions	1,855
Cash consideration paid, net of cash and cash equivalents acquired by obtaining control of the subsidiaries	¥ (15,942)

The amounts of assets and liabilities other than cash or cash equivalents in these subsidiaries were ¥72,642 million and ¥21,330 million, respectively.

Fiscal Year Ended March 31, 2019

PT Bank Tabungan Pensiunan Nasional Tbk

On January 30, 2019, SMBC, the Group's wholly owned subsidiary, acquired an additional share of PT Bank Tabungan Pensiunan Nasional Tbk, previously an associate bank of SMBC in Indonesia. As a result of the acquisition, the Group increased its equity interest in PT Bank Tabungan Pensiunan Nasional Tbk from 40.58% to 98.50% and obtained control of PT Bank Tabungan Pensiunan Nasional Tbk. Subsequently, on February 1, 2019, PT Bank Tabungan Pensiunan Nasional Tbk merged with PT Bank Sumitomo Mitsui Indonesia, a consolidated subsidiary of SMBC also in Indonesia, and the merged company changed its corporate name to PT Bank BTPN Tbk. This merger was made for the purpose of operating a full-fledged commercial banking business in Indonesia and further developing its franchise to offer broader financial services to its customers.

The fair values of assets and liabilities of BTPN at the date of acquisition and the consideration paid were as follows:

	At January 30, 2019
	(In millions)
Assets:	
Cash and deposits with banks	¥ 149,331
Loans and advances	522,918
Intangible assets	57,803
All other assets	107,471
Total assets	¥ 837,523
Liabilities:	
Deposits	¥ 538,529
All other liabilities	104,817
Total liabilities	¥ 643,346
Net assets	194,177
Non-controlling interests measured at their proportionate share of the identifiable net assets and others	(9,494)
Net assets acquired	184,683
Goodwill	4,707
Consideration	¥ 189,390
Consideration:	
Cash	¥ 111,365
Fair value of the equity interest in BTPN held before the acquisition	78,025
Total	¥ 189,390
Acquisition related costs recognized as an expense in “General and administrative expenses” in the consolidated income statement	¥ 776

The fair value of the financial assets acquired included ¥522,918 million of loans and advances.

The gross contractual amounts receivable were ¥517,840 million, of which ¥12,404 million were expected to be uncollectible.

The goodwill was attributable to the profitability of the acquired business and the synergies expected to arise after the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Group recognized a loss of ¥25,744 million on this step acquisition, which was included in “Other expenses” in the consolidated income statements.

The revenue and profit or loss since the acquisition date to March 31, 2019 and pro forma financial information relating to PT Bank Tabungan Pensiunan Nasional Tbk are immaterial to the consolidated financial statements.

Cash consideration paid and cash acquired by obtaining control of the subsidiaries

The total amount of cash consideration paid and cash acquired by obtaining control of subsidiaries during the fiscal year ended March 31, 2019 were as follows:

	For the fiscal year ended March 31, 2019
	(In millions)
Cash consideration paid	¥ (111,365)
Cash and cash equivalents transferred as a result of the acquisitions	149,331
Cash consideration paid, net of cash and cash equivalents acquired by obtaining control of the subsidiaries	¥ 37,966

The amounts of assets and liabilities other than cash or cash equivalents in these subsidiaries were ¥688,192 million and ¥643,346 million, respectively.

51 CURRENT AND NON-CURRENT DISTINCTION

The following tables present an analysis of financial assets and liabilities, excluding cash and deposits with banks, trading assets and liabilities, and derivative financial instruments, by amounts recovered or settled, not more than twelve months or more than twelve months, at March 31, 2021 and 2020.

	At March 31, 2021		
	Amounts recovered or settled		
	Not more than twelve months	More than twelve months	Total
		(In millions)	
Assets:			
Call loans and bills bought	¥ 2,455,982	¥ 97,486	¥ 2,553,468
Reverse repurchase agreements and cash collateral on securities borrowed	11,666,696	71,376	11,738,072
Financial assets at fair value through profit or loss	1,905	1,742,943	1,744,848
Investment securities:			
Debt instruments at amortized cost	36,133	35,882	72,015
Debt instruments at fair value through other comprehensive income	8,247,653	18,144,982	26,392,635
Equity instruments at fair value through other comprehensive income	—	4,586,811	4,586,811
Loans and advances	35,544,062	62,170,876	97,714,938
Other financial assets	4,076,649	173,805	4,250,454
Liabilities:			
Deposits	¥151,262,640	¥ 4,231,014	¥155,493,654
Call money and bills sold	1,368,515	—	1,368,515
Repurchase agreements and cash collateral on securities lent	18,446,671	63,235	18,509,906
Financial liabilities designated at fair value through profit or loss	97,768	141,751	239,519
Borrowings	7,911,265	11,512,090	19,423,355
Debt securities in issue	3,533,310	7,695,290	11,228,600
Other financial liabilities	8,412,259	4,789	8,417,048

At March 31, 2020				
	Amounts recovered or settled			
	Not more than twelve months	More than twelve months		Total
	(In millions)			
Assets:				
Call loans and bills bought	¥ 854,548	¥ 43,708	¥	898,256
Reverse repurchase agreements and cash collateral on securities borrowed	13,676,260	69,736		13,745,996
Financial assets at fair value through profit or loss	298,350	1,180,006		1,478,356
Investment securities:				
Debt instruments at amortized cost	287,432	33,339		320,771
Debt instruments at fair value through other comprehensive income	5,578,741	12,475,423		18,054,164
Equity instruments at fair value through other comprehensive income	—	3,489,451		3,489,451
Loans and advances	32,884,236	61,787,582		94,671,818
Other financial assets	4,109,546	120,132		4,229,678
Liabilities:				
Deposits	¥133,891,776	¥ 4,539,642	¥	138,431,418
Call money and bills sold	3,740,540	—		3,740,540
Repurchase agreements and cash collateral on securities lent	15,455,782	—		15,455,782
Borrowings	10,482,673	6,638,689		17,121,362
Debt securities in issue	3,009,936	7,975,112		10,985,048
Other financial liabilities	7,146,795	3,456		7,150,251

52 CONDENSED FINANCIAL INFORMATION OF REGISTRANT (SMFG)

Condensed Statements of Financial Position

	At March 31,	
	2021	2020
	(In millions)	
Assets:		
Deposits with SMBC	¥ 221,993	¥ 174,641
Investments in SMBC	4,613,790	4,613,790
Loans to SMBC	8,195,888	7,445,175
Investments in other subsidiaries, associates and joint ventures	1,785,519	1,733,095
Other assets	207,701	136,040
Current tax assets	4,380	127,542
Total assets	<u>¥15,029,271</u>	<u>¥14,230,283</u>
Liabilities and equity:		
Short-term borrowings from SMBC	¥ 1,278,030	¥ 1,228,030
Long-term borrowings	249,060	231,276
Debt securities in issue due to other subsidiaries	5,585	6,085
Debt securities in issue	6,778,540	6,013,305
Other liabilities	66,090	85,580
Total liabilities	<u>8,377,305</u>	<u>7,564,276</u>
Shareholders' equity	6,002,211	5,985,688
Other equity instruments holders' equity	649,755	680,319
Total equity	<u>6,651,966</u>	<u>6,666,007</u>
Total equity and liabilities	<u>¥15,029,271</u>	<u>¥14,230,283</u>

Condensed Income Statements

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Income:			
Interest income from SMBC	¥170,777	¥165,322	¥145,075
Dividends from SMBC	272,952	637,703	325,333
Dividends from other subsidiaries, associates and joint ventures	31,914	21,726	46,473
Fees and commission income from subsidiaries	7,777	9,048	5,666
Other income	794	19	106,712
Total income	<u>484,214</u>	<u>833,818</u>	<u>629,259</u>
Expense:			
Interest expense to SMBC	4,313	4,328	4,298
Interest expense to other subsidiaries	4,320	14,502	13,663
Interest expense	154,298	148,177	128,360
Operating and other expense	<u>31,806</u>	<u>22,812</u>	<u>24,857</u>
Total expense	<u>194,737</u>	<u>189,819</u>	<u>171,178</u>
Profit before tax	289,477	643,999	458,081
Income tax expense	<u>(5,710)</u>	<u>(6,416)</u>	<u>(28,517)</u>
Net profit	<u>¥295,187</u>	<u>¥650,415</u>	<u>¥486,598</u>
Profit attributable to:			
Shareholders	282,065	638,051	474,723
Other equity instruments holders	13,122	12,364	11,875

Condensed Statements of Cash Flows

	For the fiscal year ended March 31,		
	2021	2020	2019
	(In millions)		
Operating Activities:			
Profit before tax	¥ 289,477	¥ 643,999	¥ 458,081
Income taxes paid—net	79,396	7,043	(17,440)
Other operating activities—net	267,159	(3,023)	(108,622)
Net cash and cash equivalents provided by operating activities	636,032	648,019	332,019
Investing Activities:			
Loans provided to SMBC	(750,713)	(1,338,045)	(626,746)
Investments in subsidiaries	(7,418)	(255,468)	—
Investments in associates and joint ventures ⁽¹⁾	(52,849)	—	(22,400)
Proceeds from sale of investment in subsidiaries	—	—	184,122
Other investing activities—net ⁽¹⁾	(46,282)	(16,495)	15,852
Net cash and cash equivalents used in investing activities	(857,262)	(1,610,008)	(449,172)
Financing Activities:			
Net increase of short-term borrowings	50,000	—	—
Proceeds from issuance of long-term borrowings	10,625	5,053	35,002
Redemption of long-term borrowings	—	(8,000)	—
Proceeds from issuance of debt securities	921,603	1,255,939	591,744
Proceeds from issuance of other equity instruments	99,400	84,073	—
Redemption of debt securities	(403,025)	(266,700)	—
Redemption of other equity instruments	(130,000)	—	—
Dividends paid to shareholders	(267,119)	(255,771)	(245,595)
Coupons paid to other equity instruments holders	(13,122)	(12,364)	(11,875)
Purchases of treasury stock and proceeds from sale of treasury stock—net	220	(99,605)	(69,799)
Net cash and cash equivalents provided by financing activities	268,582	702,625	299,477
Net increase (decrease) of cash and cash equivalents	47,352	(259,364)	182,324
Cash and cash equivalents at beginning of period	174,641	434,005	251,681
Cash and cash equivalents at end of period	¥ 221,993	¥ 174,641	¥ 434,005

(1) Prior period amounts have been reclassified to conform to the current presentation.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are stated at cost. The Company recognizes dividend income from these companies when its right to receive payment is established.

Investments in other subsidiaries, associates and joint ventures included equity investments in SMBC Nikko Securities Inc., Sumitomo Mitsui Card Company, Limited, SMBC Consumer Finance Co., Ltd., Sumitomo Mitsui DS Asset Management Company, Limited (“SMDAM”), Sumitomo Mitsui Finance and Leasing Company, Limited (“SMFL”) and others at March 31, 2021 and 2020. These companies are incorporated in Japan, and the proportion of ownership interest of the Company in these companies was the same as described in Note 11 “Investments in Associates and Joint Ventures,” and Note 48 “Principal Subsidiaries.”

Long-term obligations

The Company had subordinated long-term borrowings amounting to ¥41 billion and ¥41 billion at March 31, 2021 and 2020, respectively, and had unsubordinated long-term borrowings amounting to ¥208 billion and ¥190 billion at March 31, 2021 and 2020, respectively. The Company also had subordinated bonds amounting to ¥948 billion and ¥969 billion, including ¥2 billion and ¥0.3 billion outstanding to its subsidiary, at March 31, 2021 and 2020, respectively, and had senior bonds amounting to ¥5,836 billion and ¥5,050 billion, including ¥4 billion and ¥6 billion outstanding to its subsidiary, at March 31, 2021 and 2020, respectively. For additional information, refer to Note 19 “Borrowings” and Note 20 “Debt Securities in Issue.”

Guarantees

The Company provided guarantee of ¥324 billion and ¥254 billion at March 31, 2021 and 2020, respectively, to the Deposit Protection Fund of the Association of German Banks with regard to the deposits of the SMBC Dusseldorf branch and SMBC Bank EU AG.

(Translation)

This document has been translated from the Japanese original for reference purposes only.

**Regulations of the Board of Directors
of
Sumitomo Mitsui Financial Group, Inc.**

(Amended as of March 1, 2021)

(Purpose)

Article 1

These Regulations provide for matters regarding the Board of Directors of the Corporation, based on applicable laws and ordinances and the Articles of Incorporation.

(Composition)

Article 2

The Board of Directors of the Corporation shall consist of all the directors of the Corporation currently in office.

(Authority)

Article 3

The Board of Directors shall make decisions by resolutions for the execution of the Corporation's business and supervise the execution of the duties of the executive officers and directors.

(Meeting of the Board of Directors)

Article 4

Meetings of the Board of Directors shall be held at least once every three months and from time to time whenever necessary.

(Persons Entitled to Convene a Meeting and the Chairman)

Article 5

Unless otherwise provided for in applicable laws and ordinances, the Chairman of the Board shall convene, and act as chairman at, all meetings of the Board of Directors. Should the office of the Chairman of the Board be vacant, or should the Chairman of the Board fail or be unable to act, another of the directors shall act as chairman in accordance with the seniority established in advance by the Board of Directors.

(Convocation Notice)

Article 6

Notice of a meeting of the Board of Directors shall be given to each director at least three days prior to the day set for such meeting; provided, however, that in case of emergency, such period of notice may be shortened.

(Requirement for Board Resolutions)

Article 7

1. Unless otherwise provided for in applicable laws and ordinances, all resolutions of the Board of Directors shall be adopted at a meeting of the Board of Directors at which a majority of all of the directors entitled to vote at the meeting is present, by a majority of such directors present at such meeting.
2. In the event that a director made a proposal with respect to a matter to be resolved at a meeting of the Board of Directors and all directors who are entitled to vote on such matter agree affirmatively in writing or by electronic means, it shall be deemed that a resolution of a meeting of the Board of Directors has been made to approve such proposal.

(Matters Subject to Board Resolutions)

Article 8

1. The Board of Directors shall resolve the following matters:
 - (1) Matters relating to the basic management policy of the Corporation and the SMFG Group as a whole;
 - (2) Matters relating to convocation of a general meeting of shareholders and the proposals to be submitted to such a meeting (excluding those regarding the election and dismissal of directors and accounting auditors, and the refusal to reelect accounting auditors);
 - (3) Approval of the Financial Statements and business reports, and the annexed detailed statements thereof, and Temporary Financial Statements and Consolidated Financial Statements;
 - (4) Appointment of directors with titles;
 - (5) Appointment and removal of the members and chairmen of the internal committees provided for in the following Article;
 - (6) Election and dismissal of executive officers;
 - (7) Appointment and removal of representative executive officers;
 - (8) Appointment of executive officers with titles;
 - (9) Determining matters regarding the assignments of, the allocation of duties and command hierarchy relationship of, and any other interrelationship between, the executive officers;
 - (10) Delegation of business execution to outside directors when there is a conflict of interest between the Corporation and an executive officer and there is concern that the interests of shareholders will be impaired;
 - (11) Authorization of the executive officers and directors to engage in transactions competitive with those engaged in by the Corporation;
 - (12) Approval of transactions between the Corporation and executive officers, directors or major shareholders;
 - (13) Decisions regarding the contents of indemnity agreements and directors and officers liability insurance contracts;
 - (14) Matters relating to interim dividends;
 - (15) Matters relating to the issuance of new shares and the Corporation's own shares;
 - (16) Matters relating to the transfer or acquisition of businesses and other transactions;
 - (17) Matters relating to merger agreements, absorption-type company split agreements, incorporation-type company split plans, share exchange agreements, share transfer plans and share delivery plans;
 - (18) Appointment of directors to receive requests for the calling of a meeting of the Board of Directors;
 - (19) Development of systems necessary to ensure that the audit work of the Auditing Committee is carried out effectively;

- (20) Development of systems necessary to ensure that the execution of the executive officers' duties shall conform to laws and ordinances or the Articles of Incorporation and other systems necessary to ensure the appropriateness of the Corporation's work, and the work of corporate groups consisting of the Corporation and subsidiaries of the Corporation;
 - (21) Appointment of representatives of the Corporation in litigation between members of the Audit Committee and the Corporation;
 - (22) Matters relating to the establishment, amendment and repeal of any important regulations (limited to regulations regarding the supervision of management); and
 - (23) Any other matters required by laws and ordinances, and matters considered important in the execution of the Corporation's business.
- 2. When resolving the appointment and removal of members of internal committees provided for in Item 5 of the preceding paragraph, the Board of Directors shall be considerate of the continuity of each committee.
 - 3. The Board of Directors shall delegate the decisions of other matters not provided for in Paragraph 1 to executive officers.

(Internal Committees)

Article 9

- 1. The Corporation shall form a Nominating Committee, an Audit Committee, a Compensation Committee, and a Risk Committee as internal committees of the Board of Directors.
- 2. In addition to statutory matters, each committee shall make decisions or deliberate matters provided for in its regulations.
- 3. In addition to the committees provided for in Paragraph 1, the Board of Directors may form other optional committees by resolution of the Board of Directors.

(Matters to be Reported)

Article 10

- 1. The Nominating Committee, the Audit Committee, the Compensation Committee, and the Risk Committee shall each select a member of its committee, and that member shall report without delay to the Board of Directors on the status of the execution of duties of the committee.
- 2. Executive officers shall report to the Board of Directors on the following matters, as well as on the status of the execution of their duties:
 - (1) Status of operations and the financial status of the Corporation and the SMFG Group as a whole;
 - (2) Status of risk management and compliance-related matters of the Corporation and throughout the SMFG Group; and
 - (3) The existence or occurrence of problems that are deemed to have a material effect on management.
- 3. Any director or executive officer who has engaged in a transaction competitive with the Corporation's business shall report to the Board of Directors on the important facts relating to such transaction.
- 4. If any director, executive officer or major shareholder has engaged in a transaction with the Corporation, such person shall report to the Board of Directors on the important facts relating to such transaction.
- 5. If any executive officer or director has indemnified or received indemnity pursuant to an indemnity agreement, such executive officer or director shall report to the Board of Directors on the important facts relating to such indemnification.
- 6. If requested to by the Board of Directors, an executive officer shall attend a meeting of the Board of Directors and provide to the Board of Directors an explanation on requested matters.

7. If a director, accounting auditor, or executive officer notifies all directors on the matters to be reported at a meeting of the Board of Directors, such matters need not be reported at such meeting. However, this does not include matters provided for in Paragraph 2.

(Minutes)

Article 11

The proceedings at each meeting of the Board of Directors shall be recorded in the minutes of the meeting, and the directors present thereat shall affix their names and seals thereto.

(Amendment and Repeal)

Article 12

Any amendment or repeal of these Regulations shall be made by a resolution of the Board of Directors.

(End)

LIST OF SUBSIDIARIES OF SUMITOMO MITSUI FINANCIAL GROUP, INC.

List of Subsidiaries at March 31, 2021

<u>Company Name</u>	<u>Jurisdiction</u>
Sumitomo Mitsui Banking Corporation	Japan
Alternative Investment Capital Limited	Japan
Banco Sumitomo Mitsui Brasileiro S.A.	Brazil
Japan Pension Navigator Co., Ltd.	Japan
JSC Sumitomo Mitsui Rus Bank	Russia
Manufacturers Bank	U.S.A.
NCore Co., Ltd.	Japan
Plari Town, Inc.	Japan
plus medi corp	Japan
Polarify, Inc.	Japan
PT Bank BTPN Tbk	Indonesia
Sakura Finance Asia Limited	Hong Kong
SFVI Limited	British Virgin Islands
SMBC Advisory Services Saudi Arabia LLC	Saudi Arabia
SMBC Americas Holdings, Inc.	U.S.A.
SMBC Asset Management Services (UK) Limited	U.K.
SMBC Bank EU AG	Germany
SMBC Bank International plc	U.K.
SMBC Capital Markets, Inc.	U.S.A.
SMBC Capital Partners Co., Ltd.	Japan
SMBC Cayman LC Limited	Cayman Islands
SMBC CLOUDSIGN, Inc.	Japan
SMBC Consulting Co., Ltd.	Japan
SMBC Consumer Finance Co., Ltd.	Japan
SMBC DIP Limited	Cayman Islands
SMBC Electronic Monetary Claims Recording Co., Ltd.	Japan
SMBC Finance Service Co., Ltd.	Japan
SMBC GMO PAYMENT, Inc.	Japan
SMBC Guarantee Co., Ltd.	Japan
SMBC HUMAN CAREER Co., Ltd.	Japan
SMBC International Finance N.V.	Netherlands Antilles
SMBC Leasing and Finance, Inc.	U.S.A.
SMBC Loan Business Planning Co., Ltd.	Japan
SMBC Mobit Co., Ltd.	Japan
SMBC Nikko Capital Markets Limited	U.K.
SMBC Nikko Securities America, Inc.	U.S.A.
SMBC Nikko Securities Inc.	Japan
SMBC REIT Management Co., Ltd.	Japan
SMBC ReSolutions Inc.	Japan
SMBC Servicer Co., Ltd.	Japan
SMBC Trust Bank Ltd.	Japan
SMBC VALUE CREATION CO., LTD.	Japan
SMBC Venture Capital Co., Ltd.	Japan
Sumitomo Mitsui DS Asset Management Company, Limited	Japan
Sumitomo Mitsui Banking Corporation Malaysia Berhad	Malaysia
Sumitomo Mitsui Banking Corporation (China) Limited	China
Sumitomo Mitsui Card Company, Limited	Japan
Sumitomo Mitsui Finance Dublin Limited	Ireland
The Japan Research Institute, Limited	Japan
TT International Asset Management Ltd	U.K.

CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jun Ohta, certify that:

1. I have reviewed this annual report on Form 20-F of Sumitomo Mitsui Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 29, 2021

/s/ Jun Ohta

Name: Jun Ohta

Title: President and Group Chief Executive Officer

CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Toru Nakashima, certify that:

1. I have reviewed this annual report on Form 20-F of Sumitomo Mitsui Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 29, 2021

/s/ Toru Nakashima

Name: Toru Nakashima

Title: Senior Managing Corporate Executive Officer
Group Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with the annual report of Sumitomo Mitsui Financial Group, Inc. on Form 20-F for the year ended March 31, 2021 (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Jun Ohta, President and Group Chief Executive Officer of Sumitomo Mitsui Financial Group, Inc., certify that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Sumitomo Mitsui Financial Group, Inc. and its subsidiaries.

Date: June 29, 2021

/s/ Jun Ohta

Name: Jun Ohta

Title: President and Group Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with the annual report of Sumitomo Mitsui Financial Group, Inc. on Form 20-F for the year ended March 31, 2021 (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Toru Nakashima, Senior Managing Corporate Executive Officer and Group Chief Financial Officer of Sumitomo Mitsui Financial Group, Inc., certify that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Sumitomo Mitsui Financial Group, Inc. and its subsidiaries.

Date: June 29, 2021

/s/ Toru Nakashima

Name: Toru Nakashima

Title: Senior Managing Corporate Executive Officer
Group Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statement (No. 333-228913) on Form F-3 of our reports dated June 28, 2021, with respect to the consolidated financial statements of Sumitomo Mitsui Financial Group, Inc. and the effectiveness of internal control over financial reporting.

/s/ KPMG AZSA LLC

Tokyo, Japan
June 29, 2021