SMBC

SMBC Group

Pillar 3 disclosures

SMBC Bank International plc

As of 31 March 2025

Contents

- The purpose of the Pillar 3 disclosures as contained within this Disclosure Document is to explain how SMBC Bank International plc (SMBC BI or the Bank) complies with certain prudential requirements and to provide information about the management of risks relating to those requirements.
- This Disclosure Document does not constitute any form of financial statement on behalf of the Bank and should be read in conjunction with the Bank's annual report and financial statements, which can be found on the Bank's website at: EMEA – Corporate Disclosures (smbcgroup.com).
- This Disclosure Document reflects, where appropriate, information that is contained within the Bank's annual report and financial statements. Where reference is made to disclosures within the annual report and financial statements, such disclosures are incorporated by cross-reference.
- The information has been subject to internal review but has not been audited by the Bank's external auditor, KPMG.
- Although Pillar 3 disclosures are designed to provide transparent capital and liquidity disclosures by banks on a common basis, the information contained in this Disclosure Document may not be directly comparable with that made available by other banks. This may be due to several factors, such as:
  - the different approaches to calculating capital allowed under the prudential regulatory requirements;
  - the mix of exposure types between banks;
  - the different risk appetites and profiles of banks; and
  - the different waivers applied for and granted by the Prudential Regulation Authority (PRA).

1. Overview

1.1 Background

SMBC BI is authorised by the PRA and regulated by the Financial Conduct Authority (FCA) and the PRA in the UK from which it receives information for assessing capital and liquidity adequacy and setting capital and liquidity requirements.

The framework of the PRA requirements involves a three-pillar approach, with each individual pillar being an important and mutually reinforcing element in determining the overall capital which an institution needs to have in place:

– Pillar 1 is Minimum and Enhanced Capital Requirement (quantification of credit risk, market risk and operational risk).
– Pillar 2 is Supervisory Review (involving total capital requirement and assessment by the regulator based on consideration of individual bank risk, and business and control risk factors – this enables capture of other, wider general risks not captured sufficiently under Pillar 1).
– Pillar 3 is Market Discipline (requires disclosure to allow market participants to understand the Bank's risk profile).

The relevant Pillar 3 requirements are contained in the Capital Requirement Regulations (CRR) and, from 1 January 2022, in the 'Disclosure (CRR)' part of the PRA Rulebook for CRR firms in the UK. These requirements are designed to promote market discipline by providing market participants with key information on a firm's risk exposures, risk management processes and capital adequacy. Improved public disclosures of such information are intended to ensure increased transparency and hence more effective market discipline.

However, some Basel III standards were not implemented in the EU before the end of the transition period under the Withdrawal Agreement between the UK and the EU and so have been implemented in the UK, effective from 1 January 2022. The Bank has implemented those standards that are relevant, which include:

– revised Basel standards for calculating risk weighted exposures under the standardised approach;
– a new Basel standardised approach to counterparty credit risk (SA-CCR);
– Basel III standards for the net stable funding ratio (NSFR);
– revised Basel disclosure standards; and
– rules under the UK Leverage Ratio Framework, including the relevant disclosure requirements.

1.2 Disclosure overview

This Disclosure Document contains both qualitative and quantitative information, concerning the following areas:

– **Key metrics** (section 2)
– **Own funds** (sections 3 and 4)
– **Risk management**, both in relation to overall risk management issues and specific risk categories (sections 5, 6, 10, 12, 13, 14 and 16)
– **Credit risk exposures** (sections 7, 8 and 9)
– **Securitisations** (section 11)
– **Interest rate risk in the banking book (IRRBB)** (section 12)
– **Leverage ratio** (section 16)
– **Asset encumbrance** (section 18)
– **Remuneration disclosures** (section 19).

In line with Article 431(4) of the 'Disclosure (CRR)' part of the PRA Rulebook, prior-year comparative figures are provided, together with qualitative narratives (and any other supplementary information where necessary) on significant movements against prior year, except for new disclosures or enhanced disclosures made in the current year, if any. Table name references and row/column numbering in tables follow the Pillar 3 templates as prescribed in the PRA's 'Disclosure (CRR)' part of the Rulebook.

All the quantitative information contained in this Disclosure Document are in US Dollar millions unless otherwise stated.

1.3 Basis and frequency of disclosures

In accordance with the PRA's 'Disclosure (CRR)' part of the Rulebook, these disclosures are based on 31 March 2025 year-end data. The corporate governance disclosures can be found in the Bank's annual report and financial statements.

This Disclosure Document will be formally updated on an annual basis, to reflect the situation as at the end of each financial year. In addition, effective from 1 January 2022, SMBC BI is subject to both semi-annual and quarterly disclosure requirements under Article 433a of the 'Disclosure (CRR)' part of the PRA Rulebook.

1.4 Consolidation basis

There is no difference in the basis of consolidation for accounting and prudential purposes.

At the date of signing this Disclosure Document, the Bank had two branches, which are established in Paris, France, and in Abu Dhabi, United Arab Emirates.

1.5 Verification, attestation and approval

Under SMBC BI's Pillar 3 Policy, this Disclosure Document has been reviewed and approved by the Bank's Board of Directors but has not been subject to external audit. However, where data is equivalent to that included in the Bank's annual report and financial statements, such data has been subject to external audit during the formal review and verification process.

In accordance with Article 431(3), the written attestation from Mr Koichi Nunami, Chief Financial Officer, is attached below:

"I attest that SMBC Bank International plc Pillar 3 disclosures, to the best of my knowledge, are in line with the formal policies, internal processes, systems and controls in accordance with Part Eight of the UK CRR."

1.6 Location

The Disclosure Document is published on the Bank's corporate website, which is felt to be the most appropriate medium as per Article 434 of the 'Disclosure (CRR)' part of the PRA Rulebook.

This can be found at **www.smbcgroup.com/emea/notices-reporting/corporate-disclosures/**

2. Key metrics

The key metrics dashboard provides an overview of the Bank's prudential regulatory situation including its capital, leverage ratio and liquidity ratios.

On 7 October 2024, SMBC BI successfully completed a project involving: (i) the transfer to SMBC BI of the securities business of SMBC Nikko Capital Markets Limited, comprising a portfolio of debt securities and other fixed income assets; and (ii) the opening of a branch in the Abu Dhabi Global Market financial centre to support customers located in the Middle East.

Overall, the Bank's ratios have remained robust over the year. The decrease in capital ratio was driven by (i) an increase in Credit Risk Weighted Exposure Amounts (RWEAs) due to increases in the core lending business; and (ii) an increase in Market Risk RWEAs due to an increase in market risk arising from traded debt instruments as part of the transfer of securities business from another Group entity.

Table 2.1: KM1 – Key metrics

		31 Mar 2025	31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**5,786**	5,450	5,465	5,469	5,477
2	Tier 1 capital	**5,786**	5,450	5,465	5,469	5,477
3	Total capital	**5,786**	5,450	5,465	5,469	5,477
	Risk weighted exposure amounts					
4	Total risk weighted exposure amount	**33,891**	32,113	30,156	28,591	28,122
	Capital ratios (as a percentage of risk weighted exposure amount)					
5	CET1 ratio (%)	**17.1**	17.0	18.1	19.1	19.5
6	Tier 1 ratio (%)	**17.1**	17.0	18.1	19.1	19.5
7	Total capital ratio (%)	**17.1**	17.0	18.1	19.1	19.5
	Additional own funds requirements based on SREP* (as a percentage of risk weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	**1.0**	1.0	1.0	1.0	1.0
UK 7b	Additional Tier 1 SREP requirements (%)	**0.3**	0.3	0.3	0.3	0.3
UK 7c	Additional Tier 2 SREP requirements (%)	**0.5**	0.5	0.5	0.5	0.5
UK 7d	Total SREP own funds requirements (%)	**9.8**	9.8	9.8	9.8	9.8
	Combined buffer requirement (as a percentage of risk weighted exposure amount)					
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	2.5	2.5
9	Institution-specific countercyclical capital buffer (%)	**1.1**	1.1	1.1	1.1	1.1
11	Combined buffer requirement (%)	**3.6**	3.6	3.6	3.5	3.6
UK11a	Overall capital requirements (%)	**13.4**	13.4	13.5	13.4	13.4
12	CET1 available after meeting the total SREP own funds requirements (%)	**7.2**	7.1	8.3	9.3	9.6
	Leverage ratio					
13	Total exposure measure excluding claims on central banks	**57,267**	59,429	40,131	36,189	37,072
14	Leverage ratio excluding claims on central banks (%)	**10.1**	9.2	13.6	15.1	14.8
	Additional leverage ratio disclosure requirements					
14a	Fully loaded ECL** accounting model leverage ratio excluding claims on central banks (%)	**10.1**	9.2	13.6	15.1	14.8
14b	Leverage ratio including claims on central banks (%)	**7.0**	6.8	8.8	9.6	9.2
14c	Average leverage ratio excluding claims on central banks (%)	**9.9**	9.3	14.3	14.6	14.0
14d	Average leverage ratio including claims on central banks (%)	**7.1**	6.9	9.0	9.2	9.0
14e	Countercyclical leverage ratio buffer (%)	**0.4**	0.4	0.4	0.4	0.4

		31 Mar 2025	31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024
	Liquidity coverage ratio					
15	Total high quality liquid assets (HQLA) (weighted value – average)	**25,359**	24,939	25,369	25,342	25,071
UK 16a	Cash outflows – Total weighted value	**20,582**	19,357	18,932	19,184	19,489
UK 16b	Cash inflows – Total weighted value	**4,747**	3,973	3,281	3,329	3,380
16	Total net cash outflows (adjusted value)	**15,835**	15,384	15,651	15,855	16,110
17	Liquidity coverage ratio (%)	**160.1**	162.1	162.1	159.8	155.6
	Net stable funding ratio					
18	Total available stable funding	**22,673**	22,805	23,060	23,516	23,986
19	Total required stable funding	**17,827**	16,987	16,693	16,735	16,912
20	NSFR ratio (%)	**127.2**	134.3	138.1	140.5	141.8

* Supervisory Review and Evaluation Process.
** Expected credit loss.

3. Own funds

Table 3.1 CC1 – Composition of regulatory own funds

The Bank determines its own funds on the basis laid down in the CRR.

		(a)		(b)
		31 March 2025	31 March 2024	Balance sheet source in Table CC2
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	**3,200.1**	3,200.1	a
2	Retained earnings	**2,626.2**	2,275.9	b
3	Accumulated other comprehensive income (and other reserves)	**100.1**	103.8	c
6	**CET1 capital before regulatory adjustments**	**5,926.4**	5,579.8	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	**(6.1)**	(4.3)	h
8	Intangible assets (net of related tax liability)	**(107.2)**	(70.2)	d
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**0.1**	(3.6)	e
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**0**	0	
15	Defined benefit pension fund assets	**(26.4)**	(24.2)	f
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**(0.9)**	(0.8)	g
28	**Total regulatory adjustments to CET1**	**(140.5)**	(103.1)	
29	**CET1 capital**	**5,785.8**	5,476.7	
60	**Total risk exposure amount**	**33,891**	28,122.2	
Capital ratios and buffers				
61	CET1 (as a percentage of total risk exposure amount)	**17.1%**	19.5%	
62	Tier 1 (as a percentage of total risk exposure amount)	**17.1%**	19.5%	
63	Total capital (as a percentage of total risk exposure amount)	**17.1%**	19.5%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92(1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD (expressed as a percentage of risk exposure amount))	**9.1%**	9.1%	
65	of which: capital conservation buffer requirement	**2.5%**	2.5%	

		(a)		(b)
		31 March 2025	31 March 2024	Balance sheet source in Table CC2
66	of which: countercyclical buffer requirement	**1.1%**	1.1%	
68	**CET1 available to meet buffers (as a percentage of risk exposure amount)**	**7.9%**	10.4%	
Amounts below the thresholds for deduction (before risk weighting)				
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38(3) CRR are met)	**39**	47	

Table 3.2: CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements

The Bank's financial statements are prepared in accordance with IFRS, and regulatory own funds are prepared under prudential rules. The financial statements under the regulatory scope of consolidation forms the basis for the calculation of regulatory capital requirements. There is no difference in the regulatory and accounting scope of consolidation.

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to Table CC1
		31 March 2025		
Assets – Breakdown by asset class according to the balance sheet in the published financial statements				
1	Cash and balances at central banks	**25,294.6**		
2	Settlement balances	**397.9**		
3	Loans and advances to banks	**3,446.3**		
4	Loans and advances to customers	**19,279.8**		
5	Reverse repurchase agreements	**17,084.1**		
6	Investment securities	**2,261.8**		
7	Derivative assets	**1,757.9**		
	of which: subject to capital deduction (Prudential valuation adjustment)	**4.1**		h
8	Other assets	**1,461.4**		
9	Intangible assets and goodwill	**107.2**		
	of which: subject to capital deduction	**107.2**		d
10	Property and equipment	**216.2**		
11	Current tax asset	**8.2**		
12	Deferred tax asset	**34.6**		
13	Pensions surplus	**36.7**		
	of which: subject to capital deduction (Defined Benefit Pensions fund)	**36.7**		f
	Total assets	**71,386.7**		
Liabilities – Breakdown by liability class according to the balance sheet in the published financial statements				
1	Deposits by banks	**28,933.9**		
2	Customer accounts	**19,678.5**		
3	Debts securities in issue	**1,012.0**		
4	Repurchase agreements	**12,669.1**		
5	Derivatives liabilities	**1,768.1**		
	of which: subject to capital deduction (Prudential valuation adjustment)	**2.0**		h
	of which: subject to capital decrease (fair value gains from the institution's own credit risk)	**0.9**		g

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to Table CC1
		31 March 2025		
6	Trading liabilities	**294.3**		
7	Other liabilities	**1,066.7**		
8	Other provisions	**16.5**		
9	Deferred tax liability	**21.2**		
	of which: offsetting the pensions surplus	**10.3**		f
	Total liabilities	**65,460.4**		
Shareholders' equity				
1	Called up share capital	**3,200.1**		a
2	Retained earnings	**2,626.2**		b
3	Other reserves	**100.1**		c
	of which: subject to capital deduction (fair value reserves related to gains or losses on cash flow hedges)	**0.1**		e
	Total shareholders' equity	**5,926.4**		

Table 3.3: CCA – Main features of regulatory own funds instruments and eligible liabilities instruments

This table provides a description of the main features of regulatory instruments issued and included as capital in Table 2 as at 31 March 2025.

		a	b	c	d	e	f
1	Issuer			SMBC BI plc			
2	Unique identifier			n/a			
2a	Public or private placement			Private			
3	Governing law(s) of the instrument			English			
3a	Contractual recognition of write-down and conversion powers of resolution authorities			n/a			
	Regulatory treatment						
4	Current treatment taking into account, where applicable, transitional CRR rules			Common Equity Tier 1			
5	Post-transitional CRR rules			Common Equity Tier 1			
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated			Solo & consolidated			
7	Instrument type (types to be specified by each jurisdiction)			Ordinary Shares			
8	Amount recognised in regulatory capital or eligible liabilities (currency in millions, as of most recent reporting date)	USD 800 million	USD 800 million	USD 400 million	USD 1.2 billion	GBP 50 thousand	USD 1 thousand
9	Nominal amount of instrument	800,000	800,000	400,000	1,199,999	50,000	1
UK 9a	Issue price	USD 1,000 each	USD 1,000 each	USD 1,000 each	USD 1,000 each	GBP 1 each	USD 1,000
UK 9b	Redemption price			n/a			
10	Accounting classification			Shareholders' equity			

		a	b	c	d	e	f
11	Original date of issuance	28 May 2013	25 May 2012	27 May 2008	5 March 2003	31 July 2020	3 March 2003
12	Perpetual or dated			Perpetual			
13	Original maturity date			n/a			
14	Issuer call subject to prior supervisory approval			n/a			

4. Own funds requirements and risk weighted exposure amounts

Table 4.1: OV1 – Overview of risk weighted exposure amounts

This table provides a breakdown of RWEAs and the total own funds requirements, by exposure class and calculation approach, of SMBC BI as at 31 March 2025. Total own funds requirements are calculated as RWEAs multiplied by 8%.

		RWEAs		Total own funds requirements	
		31 March 2025	31 March 2024	**31 March 2025**	31 March 2024
1	Credit risk (excluding CCR)	**27,889**	24,153	**2,231**	1,932
2	of which: the standardised approach	**27,889**	24,153	**2,231**	1,932
6	Counterparty credit risk – CCR	**1,841**	1,759	**147**	141
7	of which: the standardised approach	**1,395**	1,492	**112**	141
UK 8a	of which: exposures to a CCP	**2.5**	0.2	**0.2**	0
UK 8b	of which: credit valuation adjustment – CVA	**222**	259	**18**	21
9	of which other CCR	**222**	7	**18**	0.1
15	Settlement risk	**0.1**	–	**0**	–
20	Position, foreign exchange and commodities risks (market risk)	**1,818**	195	**145**	16
21	of which: the standardised approach	**1,818**	195	**145**	16
UK 22a	Large exposures	**–**	–	**–**	–
23	Operational risk	**2,343**	2,016	**187**	161
UK 23a	of which: basic indicator approach	**–**	–	**–**	–
UK 23b	of which: standardised approach	**2,343**	2,016	**187**	161
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (for information)	**99**	117	**8**	9
29	**Total**	**33,891**	28,122	**2,711**	2,250

Increase in RWEAs due to increases in the core lending business. Market Risk RWEAs increased due to an increase in interest rate risk arising on traded debt instruments due to the transfer of securities trading business from another Group entity in October 2024.

Table 4.2: LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

This table provides information about the differences between the Bank's regulatory exposures and carrying amounts presented in the financial statements prepared in accordance with IFRS as at 31 March 2025.

			Carrying values of items			
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
Assets						
Cash and balances at central banks	25,295	25,295	25,295	–	–	–
Settlement balances	398	398	398	–	–	–
Loans and advances to banks	3,446	3,446	3,446	–	–	–
Loans and advances to customers	19,280	19,280	19,280	–	–	–
Reverse repurchase agreements	17,084	17,084	17,084	–	–	–
Investment securities	2,262	2,262	2,262	–	1,498	–
Derivative assets	1,758	1,758	–	1,758	1,671	–
Other assets	1,461	1,461	1,000	461	–	–
Intangible assets and goodwill	107	107	–	–	–	107
Property and equipment	216	216	216	–	–	–
Current tax asset	8	8	–	–	–	8
Deferred tax asset	35	35	35	–	–	–
Pensions surplus	37	37	–	–	–	37
Total assets	**71,387**	**71,387**	**67,517**	**2,219**	**3,168**	**152**
Liabilities						
Deposits by banks	28,934	28,934	–		–	28,934
Customer accounts	19,679	19,679	–		–	19,679
Debts securities in issue	1,012	1,012	–		–	1,012
Repurchase agreements	12,669	12,669	12,669			–
Derivatives liabilities	1,768	1,768	–	1,768	1,729	–
Trading liabilities	294	294	–		294	–
Other liabilities	1,067	1,067	–	147	–	920
Other provisions	16	16	16		–	
Deferred tax liability	21	21	–			21
Total liabilities	**65,460**	**65,460**	**12,686**	**1,915**	**2,023**	**50,566**

In addition, any assets and liabilities denominated in currencies that are not the Bank's reporting currency (i.e., US Dollar) are subject to foreign exchange market risk capital requirements.

Table 4.3: LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

This table provides a reconciliation between the assets' carrying values under the regulatory consolidation in Table 6 and the exposures used for regulatory purposes as at 31 March 2025, split by regulatory risk framework.

		Items subject to		
	Total	Credit risk framework	CCR framework	Market risk framework
Assets' carrying value amount under the scope of regulatory consolidation (as per template LI1)	72,904	67,517	2,219	3,168
Liabilities' carrying value amount under the regulatory scope of consolidation (as per template LI1)	16,623	12,686	1,915	2,023
Total net amount under the regulatory scope of consolidation	56,281	54,831	305	1,145
Off-balance sheet amounts	20,778	20,778		
Differences in valuations	(6)	(6)		
Differences due to different netting rules, other than those already included in row 2	(2,389)	(3,877)	1,488	
Differences due to consideration of provisions	(2)	(2)		
Differences due to the use of credit risk mitigation techniques (CRMs)	(6,418)	(6,418)		
Differences due to credit conversion factors	(8,958)	(8,958)		
Other differences	(209)	(209)		
Exposure amounts considered for regulatory purposes	59,495	56,557	1,792	1,145

Table 4.4: LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

There are no differences in the scope of consolidation between accounting and regulatory consolidation.

5. Risk management framework

5.1 Risk management strategy

The risk strategy has been developed to support the corporate strategy, and it comprises four pillars, being the foundations upon which the Bank seeks to achieve its strategic objectives:

Business Model (Sustainable Growth)

– We generate revenue as a direct result of taking credit risk through our lending portfolio and intend to grow revenue generated from capital markets and investment banking activities. Therefore, we have appetite for well-controlled credit risk and market risk.
– We ensure that the Bank's pricing for risk is appropriate for maintaining a sustainable business.
– We seek to manage the volatility of the Bank's earnings to ensure that under a moderate stress, we don't make a loss.
– We will actively manage sustainability risks, while growing Sustainable Finance business, and supporting the Bank's clients in their just transition to a low carbon economy.

Maintaining Solvency & Liquidity

– We aim to ensure we are robust from a capital and liquidity perspective, in excess of regulatory minimum and risk appetite levels.
– In addition to controlling earnings volatility, we need to manage more extreme stresses to ensure we are capitalised in line with regulatory expectations.
– We maintain sufficient cash and liquid assets to cover plausible but extreme stresses. We will consider the key liquidity risks and ensure that the balance sheet is robust to cover the resulting stresses.
– Resolvability is demonstrated through the maintenance of a liquidity structure that can plausibly support the Solvent Wind Down Plan (SWDP).

Conducting Business

- Through our robust risk management framework, including effective systems and controls, we will seek to ensure that we do not, through action, inaction or behaviours, cause poor outcomes for our customers and stakeholders, damage the integrity of the financial markets or undermine effective competition, and that we do not adversely impact our reputation.
- We seek to manage our business at all times with the aim of meeting applicable financial crime regulatory requirements of all bodies and countries within which we operate.
- We are determined to minimise regulatory and conduct risk by meeting both the spirit and letter of all applicable regulation and by cultivating a positive compliance culture that provides effective risk identification, accountability, engagement and challenge in order to eliminate deliberate misconduct.
- Our staff and the culture of the Bank are key strengths in achieving sustainable growth, guided by the Bank's five values and each one of us being accountable for the risks, including non-financial misconduct risk and reputational risk, in our activities, decision-making and behaviours.
- We will maintain a 'customer first' focus through fair and transparent dealings with them, whilst ensuring that there is a strong and embedded accountability for risk sensitivity and conservatism.

Maintaining Operational Risk Management & Resilience

- Our systems, processes and infrastructure should have strong market standard defences and be able to withstand plausible operational risk scenarios such as cyber-attacks, supplier failure, natural disasters, pandemic and terrorist activity, etc.
- This will include actionable recovery plans such as Business Continuity Plans, Disaster Recovery Plans and Incident Management that minimise recovery times and limit disruption.
- We will ensure that critical services can be maintained during resolution.

5.2 Risk management objectives

The Risk Management function, under the leadership of the Chief Risk Officer (CRO), supports the Board and the Risk Committee (Risk Co) to perform the role of risk oversight, framework development, policy and methodology formulation, and independent monitoring and reporting of key risk issues. Specifically, the UK risk management objectives are:

- to coordinate the implementation of a Board-approved Risk Management Framework which ensures effective identification, assessment, measurement, management and reporting of existing key risks and emerging risks;
- to ensure an appropriate Risk Appetite Framework is in place which is observed and maintained in the pursuance of the strategic objectives;
- to ensure the maintenance of sufficient quality and quantity of capital resources consistent with the level and nature of risks being taken;
- to ensure that prudent levels of liquidity are in place to fund the Bank even under stressed conditions;
- to assess aggregate risk against risk appetite based on individual assessments provided by subject matter experts in different departments to the Risk Management Department (RMD). This will, for instance, include Compliance Department (CPD) undertaking and providing assessments for financial crime and conduct risk or IT Security Department undertaking and providing assessments for IT and cyber risk;
- to maintain an adequate and effective control environment;
- to ensure adherence to the letter and spirit of laws and regulations governing its business;
- to review and alert the Boards regarding aggregate risks across the Bank, and to review and challenge the end-to-end control framework;
- to keep the Boards and management informed of the latest development pertaining to risk management matters in international standards and practices on risk management (in general and specific to financial institutions);
- to provide technical advice and support to the Boards and management in improving and advancing the risk management system as the legal and regulatory environment, standards and/or the business focus changes; and
- to ensure coverage of both the base case and downside risks that may have implications on the Bank's ability to meet its objectives. This encompasses all risks, e.g., on- and off-balance sheet and at a Group-wide, portfolio and business-line level. This includes the banking risks defined under Basel Accord, e.g., credit risk, market risk, liquidity, operational risk and through working with other bank departments, compliance, reputational risk, legal risk and cyber risk.

The Chief Risk Officer Senior Management Function (SMF 4) holds certain prescribed, overall and additional responsibilities under the Senior as set out in the Statement of Responsibilities (amended from time to time).

5.3 Risk Management Framework components

SMBC BI's Risk Management Framework provides the fundamental structure for the management of the risks that it faces, i.e., the governance arrangements, roles and responsibilities, appetites and limits, processes and reporting.

SMBC BI understands the importance of establishing and embedding a robust risk management culture. Therefore, the framework is designed to ensure effective risk governance and management is in place across all business activities.

The framework can be described through following components, each outlined below and described in more detail in subsequent sections:

– Risk Governance Structure – who is responsible for risk management and what authorities are given;
– Risk Identification and Assessment – what risks the region faces and how important each risk is;
– Risk Measurement & Monitoring – how risks are individually and collectively measured and monitored;
– Risk Management (Control and Mitigation) – how risks are controlled and mitigated;
– Risk Reporting and Escalation – how risks are reported and escalated to the Board/executive management and business owners; and
– Risk Appetite – what level of risk for each risk type and on an aggregate basis the region is prepared to take in the pursuit of its strategic objectives.

Risk governance

SMBC BI has in place a governance structure that ensures sound overall management and oversight of risk management. The relevant Board retains all decision-making powers except those which it has delegated to either a committee or an individual. In the UK, the Senior Managers and Certification Regime is in place and senior managers have been appointed for all relevant SMF functions to ensure clear management accountability.

Risk management governance arrangements in the region are typically comprised of:

– a Committee structure to oversee and manage the risks of the Firm;
– an organisational structure that utilises a three lines of defence (3 LOD) model for the management of risks, and clearly establishes the responsibilities for the various lines of defence; and
– a policy framework that defines the mandatory minimum requirements for the management of risks.

Governance structure

The annual report and financial statements set out further information on SMBC BI's governance structure which complements the information that can be found in this Pillar 3 Disclosure Document. The annual report and financial statements can be found on SMBC BI's website here: **www.smbcgroup.com/emea/notices-reporting/corporate-disclosures**

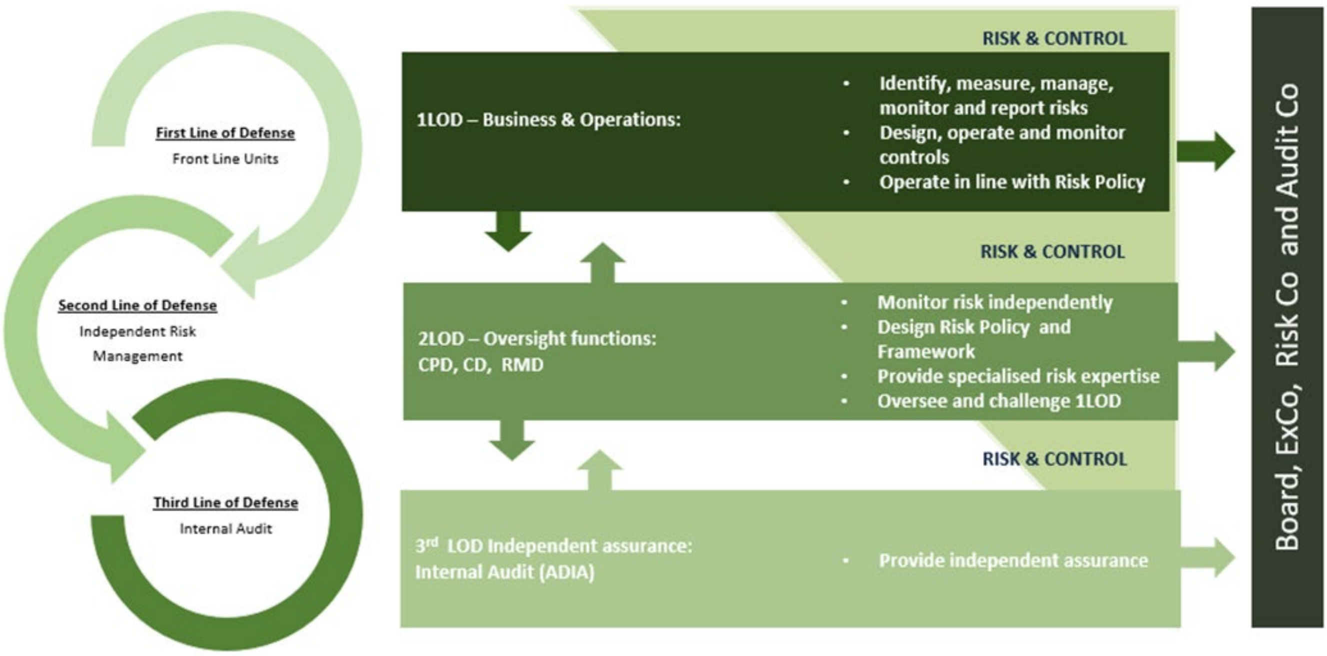
	Annual report references	
Governance disclosure	Page number	Paragraph
Number of directorships held by members of the management body	34–37	Director biographies
Recruitment policy for selection of members of the management body and their actual knowledge, skills and expertise	44	Board composition
	43–47	Director biographies
Policy on diversity with regard to selection of members of the management body, its objectives and relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	44	Board composition
Information on the Risk Committee and the number of times that Committee has met	40	Risk Committee
Information flow on risk to the management body	47	Opportunity and risk
Information on sustainability risk management	20, 25–26	Sustainability risk management

Three lines of defence

The Bank has adopted the three lines of defence model. This approach separates the ownership and management of risk from the functions that oversee risk and the function that provides independent assurance.

The model is illustrated in the diagram below:

Figure 5.1 SMBC EMEA 3 LOD model



First line of defence

Senior management in the first line of defence are responsible for each of the risks and controls that fall within their area of responsibility and are responsible for ensuring that appropriate controls are in place to mitigate the risks. Each department operates within the risk appetite threshold in the context of its own strategy, taking into account the overall Risk Management Framework and corporate strategy. This approach is designed to ensure that the risk appetite is cascaded down to where risk is directly taken.

Second line of defence

The Risk Management Department, Compliance Department and Credit Department are collectively the Bank's second line of defence. These departments are independent from the business areas that generate risk and operate within a governance framework that allows them to exercise professional judgement and make recommendations in an effective and impartial manner.

Risk Management Department (RMD) supervises all major risks to which the entity/branch is, or could potentially be, exposed and assists business in identifying risk and developing frameworks to manage, monitor and control those risks. RMD also oversees the risk appetite and owns the policy framework, limits and guidelines for Credit, Market, Liquidity, Sustainability Risk, and certain Operational Risks including Reputational Risk.

Compliance Department (CPD) is responsible for the formation and execution of Bank-wide compliance risk strategies and policies that are consistent with the Risk Appetite measures and business strategy in the areas of Financial Crime, Conduct Risk and Regulatory Change and therefore is responsible for overseeing that the Bank maintains external and internal regulatory compliance in accordance with the policies, rules and regulations for financial crime and conduct as set out by the PRA and the Financial Conduct Authority (FCA), the Bank and the SMBC Group.

Credit Department (CD) is responsible for assessment and approval of individual credit transactions/decisions against the Bank's Risk Appetite Framework. CD is also responsible for ongoing management of credit exposures, including special credits and self-assessment and impairment provisioning.

Third line of defence

Audit Department is the third line of defence and comprises an Internal Audit Group and a Credit Review Group. The objective of Internal Audit is to provide reasonable assurance to the Board, management and other stakeholders that an effective internal control environment has been established to protect the Bank's assets, reputation and sustainability. To achieve this objective, the Internal Audit Group conducts audits and provides related services using a risk-based approach and through meeting the Global Institute of Internal Auditors Standards and following the Guidance on Effective Internal Audit in the Financial Services Sector issued by the Chartered Institute of Internal Auditors. Audit Department acts independently of the Bank's business units. The two Co-General Managers of Audit Department report to the Audit Committee at its quarterly meetings.

Additional assurance is provided by the Credit Review Group, which acts similarly to a credit quality assurance function and is responsible for reviewing the credit grading process.

Risk identification and assessment

The key principles for risk identification and assessment are:

- to identify the major risks that could impact long-term sustainability;
- to assess the likelihood and impact of the risks materialising; and
- to assess the robustness of the controls that mitigate the risks.

Several key processes are in place to ensure risks are identified and assessed, as tabulated below.

Table 5.2 Key risk identification and assessment processes

		Individual risk category[1]				
Processes	Enterprise level	Credit Risk	Market Risk	Liquidity Risk	Operational Risk (*)	Non- financial Risk (**)
Risk Register/Taxonomy Inventory	√	√	√	√	√	√
Principal and Emerging Risks	√					
Key Risk Indicators		√	√	√	√	√
Stress testing (***)		√	√	√	√	√
Reverse stress testing (***)		√	(√)	(√)	√	√
Scenario analysis					√	√

1 Sustainability risk is recognised as cross-cutting risk – see the Sustainability Risk Framework for further details.
(*) Including outsourcing risk.
(**) Including conduct and culture risk.
(***) Applicability based on materiality assessment.

More information on these processes is continued below and on subsequent pages.

Enterprise Risks

There are two key complementary processes for enterprise-wide risk identification purposes: the Risk Register/Taxonomy considers the risk expressed in the Bank's risk inventory, e.g., credit, market, etc., and the Principal and Emerging Risks Process considers specific threats which may impact one or many of the risks identified in the Risk Register.

Risk Register

The Risk Register/Taxonomy and inventory reflects the key risks facing the Bank which could impact on the achievement of their primary strategic objectives, as set out in the corporate strategy. Using the Risk Register/Taxonomy and inventory enables the implementation of controls for those risks that are either most likely to materialise and/or may have the greatest impact. Risk Register components include risks categories and their inherent risk, controls and residual risk for each risk category, which collectively inform the overall level of risk in the Bank.

An overview of the process is summarised below:

- For each Risk category, the inherent risk (i.e., the level of risk without controls) is assessed; this is determined by liaising with the business and understanding their current risk profile.
- After inherent risk is determined, an overall assessment of the effectiveness of the control environment is made at both the business unit level and overall entity level.
- The residual risk (i.e., the level of risk remaining after controls) is then derived from the assessments of inherent risk and controls effectiveness.
- The ownership and effectiveness of the control environment is subject to independent audit and is reviewed and agreed by each General Manager (GM).
- The Risk Register/Taxonomy is reviewed and challenged by the Enterprise Risk Management Committee (ERMC).
- The Risk Register/Taxonomy is reviewed at least annually, and changes may be considered throughout the year.
- There is a monthly refresh of non-financial control effectiveness ratings that are presented to the Operational Risk and Resilience Committee (ORRC).

- The outcome of the annual Risk Register/Taxonomy review is presented to the relevant Risk Committees and Board for approval.

Senior Managers and Certification Regime (SMCR): RMD supports the Bank in facilitating the governance of the SMCR by enabling senior managers that are subject to the regime to formulate a comprehensive view of their respective risk and control environments by using the Risk Register assessment process as an input.

Principal and Emerging Risks

- Principal and Emerging Risks are risks identified and assessed by senior management as being particularly pertinent to the Bank at a given time.
- Principal Risks are identified as those with the potential to affect the Region's strategy, operations and sustainability of the long-term business model; Emerging Risks are those with unknown elements, and their affects could materialise over different time frames.
- The objective of the Principal and Emerging Risks listing is to inform management of the most important risks regionally allowing mitigating actions or changes in risk appetite to occur. Each month, senior management in RMD, Financial Markets Department (FMD), Planning Department (PD), CPD and CD review the existing Principal and Emerging Risks and evaluate any potential (new or changes to existing) items for inclusion.
- The selection of Principal and Emerging Risks involves comprehensive screening of risk factors, evaluation of each risk scenario's possibility of occurrence and potential impact on management, and discussion by Senior Management. Principal and Emerging Risks are utilised to enhance risk management by being incorporated into discussions of the Risk Appetite Framework and the formulation of business strategies and into the creation of risk scenarios for stress testing.
- Principal and Emerging Risks are presented to ExCo and Board/Risk Committees and are subject to challenge and debate as appropriate.
- Any controls/mitigation to offset Principal and Emerging Risks are documented, with progress discussed at the monthly meetings.
- The process is a dynamic and proactive part of risk assessment, which promotes debate and challenge, and helps prioritise mitigation measures.

Risk measurement and monitoring

Key principles for risk measurement and monitoring are:

- Measure risk exposure by loss modelling, enterprise-level Key Risk Indicators (KRIs), Risk Register execution and scenarios.
- Provide capital methodology and implementation.
- Facilitate senior management understanding of the severity of the risk.
- Ensure appropriate reporting to Board/ relevant executive/senior management committee, e.g., ExCo, of inherent and post-mitigation risk via KRIs to facilitate any mitigation and/or changes to the risk appetite.
- Maintain a record of accepted risks.

At the core of the risk measurement and monitoring framework sits a limit system embedded in the risk appetite which implements limits, ratios and other quantitative measures used to monitor the risks at various levels. These include:

- Risk Appetite measures
- Control measures and thresholds
- Recovery triggers if relevant
- KRIs and Early Warning Indicators
- Risk limits

The fundamental approach to risk quantification is through loss modelling, using a variety of techniques including stress testing, reverse stress testing and scenario analyses. The capital and liquidity planning and assessment exercises (beyond the risk quantification for Pillar 1 capital) are comprehensive strategic exercises to quantify the risks and ensuring the adequacy of capital and liquidity resources.

Risk management (control and mitigation)

As part of ongoing efforts to enhance risk management, a 3 LOD/NFR project was established focusing on uplifting 1 LOD risk management capabilities and ensuring role clarity between the 1 LOD and 2 LOD. For the Bank, this means:

- **Enhanced Risk and Control Management** Developing comprehensive risk and control inventories with new taxonomies, improving management processes, and strengthening governance through self-assessments, issue management and event tracking.

The risk control and mitigation undertaken may include:

- Tangible security;
- financial collateral;
- guarantees;
- risk governance, policy and procedures;
- individual and collective controls; and
- other mitigation and control actions.

The control and mitigation are articulated in the key policy documents for the main risk types that support this policy. These key policy documents are underpinned by relevant procedure manuals for the Bank's operational processes.

Risk reporting and escalation

The key principles for risk reporting and escalation are as follows:

- Ensuring that senior management is provided with the necessary information regarding the region's principal risks so that an informed view of the regional risk profile can be made.
- Ensuring that RMD has properly reported all material risks and delivered a complete view of the whole range of risks facing the region.
- The principal risks facing the region are reported at the appropriate monthly Risk and Control Committee meetings (for example ALMCo, Credit and Counterparty Credit Risk Committee (CCRMC), ORRC and ERMC). The Risk and Control Committees have responsibility for the principal risk categories and related risk management matters.
- Delivering a Risk Report that incorporates the key themes/messages from the Risk and Control Committees to the Executive or other appropriate senior management committee on a monthly basis.
- The format of the Risk Report is regularly reviewed to ensure it continues to appropriately meet senior management information requirements.
- Ensuring a robust escalation framework for risk indicators

Risk Appetite setting

The purpose of Risk Appetite is to define the broad-based level of risk that the entity is willing to accept in pursuit of its strategic objectives. The risk appetite and risk strategy are complementary, aligning with and supportive of the corporate strategy. The Risk Appetite ensures formal identification and consensus about the strategic level risks which the Bank is facing and is a key tool for the business.

The key principles for Risk Appetite Framework are as follows:

- The regional risk appetite is set on an annual basis as part of the strategic planning process.
- The Risk Appetite is driven by both top-down senior leadership and bottom-up involvement of business units and second line teams
- To facilitate embedding of risk appetite into SMBC EMEA culture.
- To evaluate opportunities for appropriate risk taking and act as a defence against excessive risk taking.
- To promote robust discussions about the regional risk profile as a result of its activities.
- To be adaptive, where appropriate, to changes in business and market conditions.
- To cover all regional activities.
- To be monitored regularly.
- To be governed effectively.

Stress testing and scenario analysis

RMD uses a range of stress testing methodologies across most of the risk categories. Stress testing is a key forward-looking tool to calculate the impact of several scenarios over differing timeframes. Stress testing models the impact of low frequency, downside and extreme impact events that might not be sufficiently captured by other risk management techniques. Stress testing involves both regular stress testing in particular as part of the capital and liquidity planning and assessment processes but also ad-hoc exercises. In terms of techniques, they range from sensitivity analysis to scenario-based modelling.

Stress testing and scenario analysis are used across the Principal Risks to ensure that RMD can adequately understand and quantify not only risks as they currently exist, but as they develop in times of stress. Stress testing is an effective means to facilitate risk identification control and enhance communication on a region-wide basis. As such, scenario designs are realistic and credible and supported by a suitably robust and flexible infrastructure, e.g., resources, data and methodologies. RMD functions across the region coordinate and facilitate stress test designs to address all the relevant risk stripes and facilitate appropriate challenge of stated risk mitigation techniques.

Reverse stress testing

Reverse Stress Testing (RST) is utilised to identify any factors and stress levels that have the potential to cause SMBC EMEA's business model to become unviable. RST is seen as an important part of the overall EMEA Risk Management Framework since it can aid understanding of key vulnerabilities within the business model and help to identify potential control enhancements.

The UK PRA Supervisory Statement (SS 31/15) requires that, "in carrying out its reverse stress testing, a firm should consider scenarios in which the failure of one or more of its major counterparties or a significant market disruption arising from the failure of a major market participant, whether combined, would cause the firm's business to fail."

RST analysis is undertaken within the Bank's Internal Capital Adequacy Assessment Process (ICAAP) documents and includes an assessment of counterparty failure impact on capital adequacy.

The Bank's RST assessment demonstrates the relationship between movements in capital and liquidity and includes potential financial and non-financial causes of business model failure.

The Bank's RST is developed in conjunction and alignment with the Risk Assessment processes (Risk Register and Top and Emerging Risks) and is included in the ICAAP.

Model Risk Management Framework

The Model Risk Management (MRM) Framework provides a structured and comprehensive approach to managing the risks associated with models across SMBC EMEA. It establishes policies, procedures and standards to ensure models are developed, implemented, validated and maintained with accuracy and appropriate rigour, thereby minimising potential risks. By systematically identifying, assessing, mitigating and monitoring model risk, the framework ensures compliance with regulatory requirements and industry best practices. Additionally, it seeks to enhance the understanding of model risk across SMBC EMEA and position it as a distinct risk discipline.

The MRM Framework was updated through the Model Risk Management project to align with the regulatory expectations outlined in the PRA's Supervisory Statement (SS1/23), expanding its scope beyond stress testing, IFRS9, and regulatory models covered under SS3/18. The project addressed key gaps in governance, data usage, documentation and model inventory systems, ensuring compliance with evolving regulations. Delivered on time and within budget, the project concluded successfully in December 2024, with PricewaterhouseCoopers LLC (PwC's) assurance confirming regulatory alignment.

As at January 2025, the framework transitioned into business-as-usual (BAU) operations, supporting ongoing model risk oversight and management.

Risk management training

The key principles for risk management training are as follows:

- To facilitate colleague understanding and engagement with key risk management topics and processes.
- To ensure an appropriate and up-to-date framework is in place so that the required skill sets are updated and refreshed regularly, thereby reinforcing the 3 LOD.
- To communicate and embed risk culture and framework throughout the Bank.

Training modules on risk management are targeted to senior management (MD1, MD2, MD) but are made available to all regional employees on EMEA Insight to ensure continuing effectiveness of the oversight of the Risk Management Framework.

The delivery and content of the risk management modules are reviewed and updated at least annually, which promotes skill development at the senior level and sets the tone from the top.

5.4 Risk profile

This policy applies to all activities undertaken by SMBC BI and across the risk spectrum. The Bank's management objective is to achieve long-term sustainable growth. To support achievement of this objective, proactive management of risk and optimisation of risk/return within appetite is undertaken. This means optimising risk/reward for the risks taken proactively such as Credit, Market, Liquidity and minimising/mitigating the impact of risks assumed as a by-product of business activity such as Conduct Risk and Operational Risk. SMBC BI categorise risks as follows:

- **Credit Risk** – the risk of loss from a borrower or counterparty failing to meet its obligations under a credit agreement leading to a reduction or loss in the Bank's value of assets (including off-balance sheet assets).
- **Counterparty Credit Risk** – the risk that the counterparty to a transaction could default before the final settlement of the transaction in cases where there is a bilateral risk of loss (e.g., derivatives, repo, stock borrow/lending and long settlement transactions).
- **Liquidity Risk** – the risk that the Bank cannot meet its liabilities, unwind, or settle its positions as they become due.
- **Market Risk** – the possibility that fluctuations in interest rates, foreign exchange rates, credit spreads or equity prices will change the market value of financial products, leading to a loss.
- **Conduct Risk** – the risk of our actions, inactions or behaviours resulting in poor outcomes for our customers and/or stakeholders, damaging the integrity of the financial markets or undermining effective competition.
- **Operational Risk** – the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks.
- **Model Risk** – the risk of loss because of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or uses of such models.
- **Sustainability Risk** – the risk resulting from environmental, social or governance (ESG) issues, events or conditions that have the potential to impact (financially, reputationally or physically) the Bank, its clients, the environment or society.
- **Reputational Risk** – the risk of current and prospective impact on earnings and capital arising from litigation or a decline in customer base from negative public opinion regarding the Bank's business practices and, therefore, inability to establish new relationships or continue serving existing relationships.
- **Other non-financial risks** – e.g., regulatory change risk.
- **Principal and Emerging Risks** – the risks resulting from macroeconomic, geopolitical or other external events with unknown elements that could materialise over the longer time period, and therefore have the potential to affect the Banks's strategy, operations and sustainability of the long-term business model.

The complete comprehensive set of risks identified by the firm (business units and support/control functions) is detailed in the Risk Register/Taxonomy and Inventories which are updated at least annually.

5.5 Strategic planning

As part of the overall strategic and risk governance, the Bank undertake and produce several key internal processes and documents, which are outlined below.

5.5.1 Capital planning

As part of the ICAAP/capital assessment, the Board critically assess the capital resources available to support the capital requirements determined through the corporate strategy development process. This covers a three-year horizon in both BAU and stressed market conditions. This is documented through the ICAAP and is available to regulators on request.

Credit risk: The Bank uses the standardised approach for all credit exposures under Pillar 1.

Market risk: The Bank follows the standardised methodology for calculating market risk capital under Pillar 1 for its foreign exchange and interest rate risk positions.

Operational risk: The Bank follows the standardised approach for assessing Pillar 1 capital for operational risk.

Risk category	Pillar 1 approach
Credit risk	
Credit risk weighted assets	Standardised approach under Chapter 2, Title II, Part Three of the UK CRR
Funded credit risk mitigation	UK CRR Article 220
Counterparty credit risk	Standardised approach for counterparty credit risk in section 3, Chapter 6, Title II, Part Three of the UK CRR
Long Settlement Transactions	Original Exposure Method UK CRR Article 275
Market risk	
Interest rate general market risk	Maturity-based approach under UK CRR Article 339
Interest rate-specific market risk	UK CRR Article 336
Securitisation-specific market risk	External ratings based approach per UK Securitisation Regulation Article 263 and 264
Foreign exchange risk	Standardised approach under UK CRR Article 352
Operational risk	Standardised approach under Chapter 3, Title III, Part Three of the UK CRR
Credit valuation adjustment risk	Standardised method under UK CRR Article 384
Settlement risk	UK CRR Article 378

See sections 6, 10 and 11 for further details.

5.5.2 Liquidity planning

As part of the corporate strategy process the Board critically assess the liquidity and funding needs to support the business plan and those requirements under stress. This is documented through the Internal Liquidity Adequacy Assessment Process (ILAAP), and is available to regulators on request.

5.5.3 Recovery and resolution planning

The Board also considers, on an annual basis, crisis preparedness: assuming extreme but plausible stress scenarios which can be systemic or idiosyncratic in nature and would result in the invocation of the Recovery Plan, which documents the crisis monitoring and escalation procedure, stress testing, and credible recovery options that could be taken to weather a financial crisis situation.

The Bank is included in the Sumitomo Mitsui Financial Group (SMFG) resolution strategy, i.e., Single point of Entry (SPE). If SMFG were to enter resolution, according to the total loss absorbing capacity (TLAC) positions paper published by the Japanese Financial Services Agency (JFSA) in April 2016 and reviewed in April 2018, a SPE approach is the preferred strategy to be adopted. In this case, the SMFG holding company will be resolved while the operational banks including SMBC, Nikko and their subsidiaries will utilise TLAC to resolve their capital shortage and continue their operations after their transfer to a Bridge Bank owned by the Deposit Insurance Corporation of Japan (DICJ) until their eventual re-privatisation.

6. Credit risk management

Credit risk is the risk of any losses the Bank may incur due to a reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing.

6.1 The framework

The identification and assessment of credit risk is undertaken through the following processes and tools:

- A fully comprehensive credit assessment is undertaken at a transaction and client level including analysis of a variety of financial measures (e.g., cash flow) and quantitative analysis of industrial trends such as the competitiveness of a borrower's products, services and management calibre.
- Having strong rating systems to measure the risk of individual transactions.
- Having thorough risk analysis and reporting functions, conducted by a Credit Management team with the capabilities and resources to evaluate and monitor the exposures and limits.
- Implementation of the credit risk appetite.
- Understanding of vulnerabilities through stress testing and reverse stress testing.

6.2 Credit assessment

The Bank assesses and manages credit risk of individual loans and credit portfolios on a consistent quantitative basis utilising an internal rating system.

The rating system consists of two indicators, namely:

- the obligor grading, which indicates the credit-worthiness of the borrower; and
- the facility grading, which indicates the probability of repayment of each facility. Facility grades are assigned based on the borrower's obligor grading and transaction terms such as guarantee, maturity and collateral taken as credit mitigation.

Where a borrower is domiciled overseas, internal ratings for credit include consideration of the country rank, which represents an assessment of the credit quality of each country, based on its political and economic situation.

The Bank follows the standardised approach for each of the exposure classes.

The Bank's internal obligor grading, and borrower categories are used for the purposes of determining the Bank's credit quality of obligors.

In addition to the internal rating assessment, to ensure a fully comprehensive credit assessment, further analysis is undertaken, including:

- analysis of a variety of financial measures (e.g., cash flow); and
- quantitative analyses of industrial trends, such as the competitiveness of a borrower's products, services and management calibre.

The results of the credit risk assessments are used to make optimal business decisions across the whole range of operations, such as pricing, reporting, stress testing, formulating business plans or providing a standard against which individual credit applications are assessed.

6.3 Credit monitoring

Credit monitoring is carried out through an ongoing reassessment of obligor grades, involving:

- annual monitoring following financial results disclosures; and
- ad-hoc monitoring should credit conditions change.

Should a customer be downgraded or considered a likely candidate for future downgrade(s) to below 'Normal borrowers' category, the customer is added to the special credit borrower list and reported to management.

To minimise the potential loss that may arise from any model failure and/or inadequate usage of the models and systems, the Bank has appropriate policies in place to manage its models and grading systems. The Bank's Credit Risk Management Department performs validation of the grading models at least annually to ensure the appropriateness and conservatism of the grading models.

The Bank regularly monitors the credit risks associated with wider aspects of its business, such as specific country exposure, products, industries, etc., on a portfolio basis. The Bank also undertakes regular stress tests on its portfolio to ensure adequate capital is kept at all times to cover potential losses incurred during extreme but plausible events.

The scope and definitions of 'past due' and 'impaired' exposures are contained in notes 2 and 4 to the financial statements.

6.4 Industry exposures

The exposure by major industrial sectors of cash and balances at central banks, advances and loans to banks and customers, and debt securities can be analysed and found in note 4 to the financial statements.

6.5 Geographical exposures

Please refer to note 4 to the financial statements for analysis of the geographical spread of cash and balances at central banks, advances and loans to banks and customers, and debt securities. This is based on country of domicile of the counterparty.

6.6 Maximum exposure to credit risk

Please refer to note 4 to the financial statements which shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross and does not consider collateral or other credit enhancements.

6.7 Use of credit risk mitigation techniques

Depending on the situation, the Bank's corporate lending is secured by fixed and floating charges on the assets of borrowers. Frequency of the revaluation varies on the types of collateral, and the collateral is valued on a continuous basis. Collateral takes various forms, and the value of this security will vary over time and is dependent on the types of assets and the jurisdiction of the borrowers as well as the ability to dispose of the collateral.

The use of credit risk mitigation techniques is described in the Bank's Security Management procedures. These contain the policies and processes for collateral valuation and management.

SMBC BI conducts ongoing monitoring of collateral provided by SMBC to mitigate the intra-group exposures.

6.8 Offsetting of financial assets and financial liabilities

The Bank receives or gives collateral against certain derivative transactions with such collateral subject to standard industry terms including the International Swaps and Derivatives Association (ISDA) Credit Support Annex.

The Bank also enters ISDA and similar master netting agreements which only allow offsetting on certain events, such as following an event of default. These do not meet the criteria for offsetting in the statement of financial position.

The disclosures set out in note 13 to the financial statements include derivative assets and derivative liabilities that are offset in the Bank's statement of financial position or are subject to enforceable master netting arrangements or similar agreement irrespective of whether they are offset in the statement of financial position.

6.9 Credit quality of counterparty per class of financial assets

A detailed breakdown of credit quality of counterparty per class of financial assets can be found in note 4 to the financial statements.

6.10 Counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction in cases where there is a bilateral risk of loss (e.g., derivatives, repo, stock borrow/lending and long settlement transactions).

For further information on counterparty credit risk exposure, see section 9.

6.11 Qualitative information on external credit ratings

SMBC BI uses ratings from external credit assessment institutions (ECAIs) to derive risk weights under the standardised approach for all exposure. The ECAI nominated by SMBC BI for external ratings for banking book exposures including corporates is Standard & Poor's Ratings Services (S&P).

All exposures to credit risk can be found in section 7.

7. Credit risk exposures

7.1 Analysis of non-performing and forborne exposures

The following tables on disclosure of non-performing and forborne exposures are presented in accordance with the PRA's Pillar 3 templates and instructions. Several of the template disclosures are not applicable to SMBC BI:

- CQ2 Quality of forbearance
- CQ5 Credit quality of loans and advances by industry
- CQ6 Collateral valuation – loans and advances
- CQ8 Collateral obtained by taking possession and execution processes – vintage breakdown

Detailed qualitative information on credit risk quality can be found in note 4 to the financial statements.

The tables have been prepared in accordance with financial information reporting (FINREP) regulations and, for ease of reading, the tables only include items applicable to SMBC BI, with 'nil' rows/columns omitted.

Table 7.1: CQ1 – Credit quality of forborne exposures

The following table presents the credit quality of the performing and non-performing forborne exposures by portfolio and exposure class.

31 March 2025

	Gross carrying amount/Nominal amounts of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing forborne		Of which: defaulted	Of which: impaired	On performing forborne exposures	On non-performing forborne exposures		Of which: Collateral and financial guarantees received on non-performing exposures with forbearance measures
Loans and advances	86	23	23	23	(0)	(4)	–	–
Other financial corporations	–						–	
Non-financial corporations	86	23	23	23	(0)	(4)	–	–
Total	86	23	23	23	(0)	(4)	–	–

Table 7.2: CQ3 – Credit quality of performing and non-performing exposures by past due days

31 March 2025

	Gross carrying amount/Nominal amount									
	Performing exposures		Non-performing exposures							
		Not past due or past due ≤ 30 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which: defaulted
Cash balances at central banks and other demand deposits	25,681	25,681	–	–	–	–	–	–	–	–
Loans and advances	39,986	39,986	222	222	–	–	–	–	–	222
Central banks	22	22	–	–	–	–	–	–	–	–
General governments	482	482	–	–	–	–	–	–	–	–
Credit institutions	8,126	8,126	–	–	–	–	–	–	–	–
Other financial corporations	13,134	13,134	54	54	–	–	–	–	–	54
Non-financial corporations	18,222	18,222	168	168	–	–	–	–	–	168
Households	1	1	–	–	–	–	–	–	–	–
Debt securities	741	741	–	–	–	–	–	–	–	–
General governments	509	509	–	–	–	–	–	–	–	–
Other financial corporations	18	18	–	–	–	–	–	–	–	–
Off-balance sheet exposures	20,750	–	83	–	–	–	–	–	–	83
General governments	–	–	–	–	–	–	–	–	–	–
Credit institutions	929	–	–	–	–	–	–	–	–	–
Other financial corporations	1,482	–	–	–	–	–	–	–	–	–
Non-financial corporations	18,339	–	29	–	–	–	–	–	–	29
Total	87,158	66,408	306	222	–	–	–	–	–	306

Table 7.3: CQ4 – Quality of non-performing exposures by geography

31 March 2025

	Gross carrying/Nominal amount						
		Of which: non-performing					
			Of which: defaulted	Of which: subject to impairment	Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
On-balance sheet exposures	**40,949**	**222**	**222**	**40,949**	**(207)**	**–**	**–**
United Kingdom	11,998	106	106	11,998	(28)	–	–
France	4,860	–	–	4,860	(13)	–	–
Saudi Arabia	778	–	–	778	(16)	–	–
Japan	10,289	–	–	10,289	(0)	–	–
Netherlands	906	–	–	906	(1)	–	–
United States	983	–	–	983	(1)	–	–
South Africa	890	–	–	890	(0)	–	–
Switzerland	769	9	9	769	(1)	–	–
Turkey	549	–	–	549	(1)	–	–
Russian Federation	123	–	–	123	(123)	–	–
Other countries	8,804	108	108	8,804	(23)	–	–
Off-balance sheet exposures	**20,833**	**83**	**83**	**–**	**–**	**19**	
France	6,803	–	–	–	–	3	
United Kingdom	8,149	83	83	–	–	9	
Saudi Arabia	6	–	–	–	–	–	
Spain	90	–	–	–	–	–	
South Africa	349	–	–	–	–	–	
Netherlands	584	–	–	–	–	2	
Cayman Islands	492	–	–	–	–	2	
Japan	228	–	–	–	–	–	
Hong Kong	–	–	–	–	–	–	
Jersey	175	–	–	–	–	–	
Other countries	3,959	–	–	–	–	3	
Total	**61,783**	**306**	**306**	**40,949**	**(207)**	**19**	**–**

Table 7.4: CR1 – Performing and non-performing exposures and related provisions

This table presents the credit quality of the performing and non-performing exposures by portfolio and exposure class showing the impairment stage.

31 March 2025

	Gross carrying amount/Nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				
		Of which: Stage 1	Of which: Stage 2		Of which: Stage 2	Of which: Stage 3		Of which: Stage 1	Of which: Stage 2		Of which: Stage 2	Of which: Stage 3	On performing exposures	On non-performing exposures
Cash balances at central banks and other demand deposits	25,681	25,681	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances	39,986	38,648	1,337	222	0	222	(179)	(21)	(158)	(28)	0	(28)	9,110	35
Central banks	22	22	–	–	–	–	–	–	–	–	–	–	–	–
General governments	482	458	24	–	–	–	(0)	(0)	(0)	–	–	–	–	–
Credit institutions	8,126	7,971	155	–	–	–	(126)	(3)	(123)	–	–	–	2,457	–
Other financial corporations	13,134	13,101	34	54	–	54	(1)	(1)	(0)	–	–	–	575	–
Non-financial corporations	18,222	17,097	1,125	168	–	168	(52)	(16)	(35)	(28)	–	(28)	6,078	35
Households	1	1	–	–	–	–	–	–	–	–	–	–	–	–
Debt securities	741	741	–	–	–	–	–	–	–	–	–	–	–	–
General governments	509	509	–	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	156	156	–	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	76	76	–	–	–	–	–	–	–	–	–	–	–	–
Off-balance sheet exposures	20,750	17,337	3,413	83	–	83	18	11	7	1	–	1	–	–
Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Credit institutions	929	705	224	–	–	–	1	1	0	–	–	–	–	–
Other financial corporations	1,482	1,460	22	54	–	54	–	0	0	–	–	–	–	–
Non-financial corporations	18,339	15,172	3,167	29	–	29	16	10	6	1	–	1	–	–
Total	87,158	82,407	4,750	306	–	306	(161)	(10)	(151)	(27)	–	(27)	9,110	35

Table 7.5: CR1-A – Maturity of exposures

This table presents the maturity analysis of SMBC BI's credit quality of the performing and non-performing exposures split by the residual contractual maturity band of the portfolio. Net exposure value represents the gross carry amount less provisions.

31 March 2025

	Net exposure value					
	On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
Loans and advances	–	24,312	10,195	4,108	–	38,615
Debt securities	–	527	214	–	–	7412
Total	–	24,839	10,409	4,108	–	39,356

Table 7.6: CR2 – Changes in the stock of non-performing loans and advances

31 March 2025

	Gross carrying amount
Initial stock of non-performing loans and advances	253
Inflows to non-performing portfolios	132
Outflows from non-performing portfolios	(162)
Outflows due to write-offs	(75)
Outflow due to other situations	(87)
Final stock of non-performing loans and advances	222

Table 7.7: CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries

31 March 2025

	Gross carrying amount	Related net accumulated recoveries
Initial stock of non-performing loans and advances	253	–
Inflows to non-performing portfolios	132	–
Outflows from non-performing portfolios	(163)	–
Outflow to performing portfolio	–	–
Outflow due to loan repayment, partial or total	(35)	
Outflow due to sale of instruments	(16)	–
Outflows due to write-offs	(75)	–
Outflow due to other situations	(37)	–
Final stock of non-performing loans and advances	222	–

Table 7.8: CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

The following table presents information for the calculation of SMBC BI's countercyclical capital buffer.

31 March 2025

Breakdown by country	Exposure value under the standardised approach	Sum of long and short positions of trading book exposures for SA	Total exposure value	Relevant credit risk exposures – Credit risk	Relevant credit exposures – Market risk	Own funds requirement	Risk weighted exposure amounts	Own funds req. weights %	Countercyclical buffer rate (%)
Australia	55	86	141	4	6	10	127	0.5%	1.0%
Austria	0	0	0	0	0	0	0	0.0%	0.0%
Belgium	16	5	21	1	0	1	17	0.1%	1.0%
Bermuda	234	0	234	19	0	19	234	0.8%	0.0%
Cayman Islands	779	52	831	81	2	83	1,041	3.8%	0.0%
Czechia	61	0	61	5	0	5	61	0.2%	1.3%
Denmark	0	13	13	0	1	1	13	0.0%	2.5%
Finland	42	0	42	3	0	3	43	0.2%	0.0%
France	5,254	32	5,285	397	2	399	4,992	18.0%	1.0%
Germany	41	28	69	3	2	6	71	0.3%	0.8%
Greece	8	0	8	1	0	1	8	0.0%	0.0%
Guernsey	71	0	71	6	0	6	71	0.3%	0.0%
Hong Kong	0	20	21	0	1	1	9	0.0%	1.0%
Hungary	32	0	32	3	0	3	32	0.1%	0.5%
Ireland	338	172	510	27	20	47	586	2.1%	1.5%
Italy	0	109	109	0	4	4	49	0.2%	0.0%
Japan	403	12	416	28	1	29	365	1.3%	0.0%
Jersey	980	9	989	83	0	84	1,045	3.8%	0.0%
Luxembourg	989	51	1,041	79	2	81	1,018	3.7%	0.5%
Morocco	109	0	109	7	0	7	91	0.3%	0.0%
Netherlands	1,200	67	1,267	95	4	99	1,234	4.4%	2.0%
Nigeria	531	0	531	42	0	42	527	1.9%	0.0%
Norway	26	0	26	2	0	2	26	0.1%	2.5%
Oman	41	0	41	3	0	3	41	0.1%	0.0%
Portugal	0	1	1	0	0	0	1	0.0%	0.0%
Qatar	46	0	46	2	0	2	23	0.1%	0.0%
Russian Federation	6	0	6	1	0	1	9	0.0%	0.0%
Saudi Arabia	719	0	719	47	0	47	591	2.1%	0.0%
Singapore	731	28	759	57	2	59	737	2.7%	0.0%
Slovakia	3	0	3	0	0	0	3	0.0%	1.5%
South Africa	971	0	971	78	0	78	971	3.5%	0.0%
Spain	59	8	67	5	1	5	66	0.2%	0.0%
Sweden	12	37	48	1	1	2	23	0.1%	2.0%
Switzerland	615	0	615	49	0	49	616	2.2%	0.0%

Breakdown by country	Exposure value under the standardised approach	Sum of long and short positions of trading book exposures for SA	Total exposure value	Relevant credit risk exposures – Credit risk	Relevant credit exposures – Market risk	Own funds requirement	Risk weighted exposure amounts	Own funds req. weights %	Countercyclical buffer rate (%)
United Arab Emirates	80	23	104	6	1	7	86	0.3%	0.0%
United Kingdom	10,499	111	10,609	835	22	857	10,715	38.6%	2.0%
United States	824	68	892	53	5	58	726	2.6%	0.0%
Other countries	1,683	35	1,718	116	2	119	1,484	5.34%	0.0%
Total	**27,462**	**968**	**28,430**	**2,142**	**79**	**2,220**	**27,753**	**100%**	

Table 7.9: CCyB2 – Amount of institution-specific countercyclical capital buffer

31 March 2025	Total
Total risk weighted assets	33,891
Institution-specific countercyclical capital buffer rate	1.11%
Institution-specific countercyclical capital buffer requirement	375

8. Standardised approach

Credit risk is the risk of any losses the Bank may incur due to reduction or loss of the value of assets (including off-balance sheet assets) arising from any credit events, such as the deterioration of a borrower's financial standing. Credit risks are calculated based on the borrower's overall ability to repay.

For these purposes, the Bank has adopted the standardised approach, with the PRA's Article 149 waiver approval. The tables below identify the Bank's credit risk exposures by approach and exposure class.

Table 8.1: CR4 – Credit risk exposure and CRM effects

The following table presents the credit risk standardised exposures by exposure classes on two different bases before and after credit conversion factor (CCF) and CRM.

31 March 2025

		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	Exposure classes	On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWAs	RWAs density (%)
1	Central governments or central banks	26,255	0	26,655	39	403	1.5%
3	Public sector entities	0	0	72	0	14	20.0%
4	Multilateral development banks	663	0	503	38	492	91.0%
6	Institutions	3,114	407	1,452	894	1,227	52.3%
7	Corporates	18,599	20,260	16,037	8,722	23,716	95.8%
8	Retail	0	0	0	0	0	75.0%
9	Secured by mortgages on immovable property	994	29	994	14	1,008	100.0%
10	Exposures in default	137	57	103	28	188	143.5%
11	Exposures associated with particularly high risk	221	2	167	1	253	150.0%
14	Collective investment undertakings	22	3	22	3	313	1250.0%
16	Other items	274	0	274	0	274	100.0%
17	Total	50,279	20,757	46,279	9,740	27,889	49.8%

31 March 2024

		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	Exposure classes	On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWAs	RWAs density (%)
1	Central governments or central banks	23,834	0	24,750	49	287	1.2%
3	Public sector entities	25	0	97	0	19	20.0%
4	Multilateral development banks	669	76	567	16	528	90.7%
6	Institutions	2,466	387	1,208	484	683	40.4%
7	Corporates	17,384	16,811	14,399	7,363	20,540	94.4%
8	Retail	0	0	0	0	0	75.0%
9	Secured by mortgages on immovable property	1,049	0	1,049	0	1,049	100.0%
10	Exposures in default	146	8	63	4	92	135.9%
11	Exposures associated with particularly high risk	311	29	225	5	345	150.0%
14	Collective investment undertakings	20	6	20	6	322	1250.0%
16	Other items	288	0	288	0	288	100.0%
17	Total	46,191	17,317	42,665	7,927	24,153	47.7%

Table 8.2: CR5 – Standardised approach

The following tables outline the credit risk standardised exposure classes by the prescribed risk weight.

	Risk weight									
Exposure classes	0%	20%	50%	75%	100%	150%	250%	1250%	Total	Of which: unrated
Central governments or central banks	26,351	–	–	–	304	–	39	–	26,694	305
Regional government or local authorities										
Public sector entities	–	72	–	–	–	–	–	–	72	–
Multilateral development banks	30	–	37	–	473	–	–	–	541	511
International organisations										
Institutions	–	913	776	–	657	–	–	–	2,346	1,008
Corporates	–	776	1,062	–	22,582	339	–	–	24,760	20,851
Retail	–	–	–	0	–	–	–	–	0	0
Exposures secured by mortgages on immovable property	–	–	–	–	1,008	–	–	–	1,008	1,008
Exposures in default	–	–	–	–	17	114	–	–	131	104
Exposures associated with particularly high risk	–	–	–	–	–	169	–	–	169	169
Units or shares in collective investment undertakings	–	–	–	–	–	–	–	25	25	25
Equity	–	–	–	–	0	–	–	–	0	0
Other items	–	–	–	–	274	–	–	–	274	274
As at 31 March 2025	**26,381**	**1,761**	**1,876**	**0**	**25,315**	**622**	**39**	**25**	**56,019**	**24,253**

Exposure classes	Risk weight 0%	20%	50%	75%	100%	150%	250%	1250%	Total	Of which: unrated
Central governments or central banks	24,521	67	15	–	150	–	47	–	24,799	150
Regional government or local authorities										
Public sector entities	–	97	–	–	–	–	–	–	97	25
Multilateral development banks	54	–	–	–	528	–	–	–	582	528
International organisations										
Institutions	–	951	496	–	244	–	–	–	1,692	593
Corporates	–	458	1,878	–	18,770	656	–	–	21,762	16,677
Retail	–	–	–	0	–	–	–	–	0	0
Exposures secured by mortgages on immovable property	–	–	–	–	1,049	–	–	–	1,049	1,049
Exposures in default	–	–	–	–	19	48	–	–	67	55
Exposures associated with particularly high risk	–	–	–	–	–	230	–	–	230	230
Units or shares in collective investment undertakings	–	–	–	–	–	–	–	26	26	26
Equity	–	–	–	–	0	–	–	–	0	0
Other items	–	–	–	–	288	–	–	–	288	288
As at 31 March 2024	24,575	1,574	2,389	0	21,048	934	47	26	50,592	19,621

Table 8.3: CR3 – CRM techniques overview: use of CRM techniques

	Unsecured carrying amount	Secured carrying amount			
	a	b	Of which: secured by collateral c	Of which: secured by financial guarantees d	Of which: secured by credit derivatives e
Loans and advances	56,744	9,145	6,959	2,186	
Debt securities	741	–	–	–	
Total	57,485	9,145	6,959	2,186	
of which: non-performing exposures	187	35	–	35	

9. Exposures to counterparty credit risk

Counterparty credit risk is the risk of a counterparty to a contract (recorded in either the trading book or non-trading book) defaulting before the final settlement of cash flow obligations. The size of the potential loss could be reduced by the application of netting or collateral agreements with the counterparty. As at 31 March 2025, SMBC BI did not have any counterparty credit risk exposures to credit derivatives or central counterparties.

The SA-CCR method for calculating exposure amounts for credit RWAs on derivative contracts came into effect on 1 January 2022. SA-CCR replaced the current exposure method (CEM) for calculating these exposure amounts for the Company's risk-based capital ratios. The calculation of exposure value under the SA-CCR regime is equal to the sum of potential future exposure and replacement cost multiplied by the alpha factor (1.4). The risk mitigation benefits of collateral arrangements (e.g., the Credit Support Annex) and qualifying netting agreements (e.g., the ISDA Master Agreement) are reflected in the exposure value where appropriate.

Table 9.1: CCR1 – Analysis of CCR exposure by approach

The following table presents the SA-CCR method used to calculate counterparty credit risk exposure.

31 March 2025

	Replacement cost	Potential future exposure	Alpha used for computing regulatory exposure value	Exposure value pre CRM	Exposure value post CRM	Exposure value	RWEA
Original Exposure Method (for derivatives)	18	1	1.4	26	26	26	10
SA-CCR (for derivatives)	544	921	1.4	1,986	1,766	1,766	1,395
Financial collateral comprehensive method							
(for securities financing transactions)				32,829	538	538	213
Total				**34,842**	**2,330**	**2,330**	**1,618**

31 March 2024

	Replacement cost	Potential future exposure	Alpha used for computing regulatory exposure value	Exposure value pre CRM	Exposure value post CRM	Exposure value	RWEA
SA-CCR (for derivatives)	414	985	1.4	1,955	1,955	1,955	1,492
Financial collateral comprehensive method							
(for securities financing transactions)				1,710	36	36	7
Total				3,666	1,992	1,992	1,500

Table 9.2: CCR2 – Transactions subject to own funds requirements for CVA risk

31 March 2025

	Exposure value	RWEA
Transactions subject to the standardised method	590	222
Total transactions subject to own funds requirements for CVA risk	590	222

31 March 2024

	Exposure value	RWEA
Transactions subject to the standardised method	746	259
Total transactions subject to own funds requirements for CVA risk	746	259

Table 9.3: CCR3 – Standardised approach: CCR exposures by regulatory exposure class and risk weights

This table presents the counterparty credit risk position subject to the standardised risk weight method by exposure classes and prescribed risk weight.

31 March 2025

	Risk weight											
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
Central governments or central banks						0			0			0
Institutions		67			406	604						1,077
Corporates					14	19			1,220	1		1,253
Total exposure value		67			419	622			1,220	1		2,330

31 March 2024

	Risk weight											
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
Institutions					124	749						873
Corporates					0	37			1,082			1,119
Total exposure value					124	786			1,082			1,992

Table 9.4: CCR5 – Standardised approach: composition of collateral for CCR exposures

The table presents a breakdown of the types of collateral posted or received relating to derivative transactions or securities financing transactions (SFTs).

31 March 2025

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of collateral posted			
Collateral type	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of collateral posted
Cash		308		461	41	90
Debt					16,026	12,934
Other					2,048	1,557
Total		**308**		**461**	**18,115**	**14,582**

31 March 2024

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of collateral posted			
Collateral type	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of collateral posted
Cash		473		201		
Debt					1,716	
Total		**473**		**201**	**1,716**	

Table 9.5: CCR6 – credit derivatives exposures

		a	b
		Protection bought	Protection sold
	Notionals		
1	Single-name credit default swaps	-	-
2	Index credit default swaps	43	-
3	Total return swaps	-	-
4	Credit options	-	-
5	Other credit derivatives	-	-
6	**Total notionals**	**43**	**-**
	Fair values		
7	Positive fair value (asset)	-	-
8	Negative fair value (liability)	(2)	-

Table 9.6: CCR8 – Exposures to central counterparties (CCPs)

31 March 2025

	Exposure value	RWEA
Exposures to QCCPs (total)		2.5
Exposures for trades at QCCPs (excluding initial margin and default fund contributions), of which:	15.3	0.3
(iii) SFTs	15.3	0.3
Non-segregated initial margin	43.8	0.9
Prefunded default fund contributions	8.3	1.4

31 March 2024

	Exposure value	RWEA
Exposures to QCCPs (total)		0.2
Prefunded default fund contributions	2.5	0.2

10. Market risk management

Market risk is the risk that movements in interest rates, foreign exchange rates or stock prices will change the market value of financial products, leading to a loss.

The identification and assessment of market risk is undertaken through the following processes and tools:

- Value at Risk (VaR) is a measure of the maximum expected loss in a portfolio to a given degree of confidence over a specified period. An ongoing programme of back-testing and analysis for the VaR model is in place.
- Interest rate risk in the banking book refers to the current or prospective risk to capital and earnings arising from adverse movements in interest rates that affect banking book positions. This is assessed using:
  - the scenarios as prescribed by the Basel Committee on Banking Supervision (BCBS) (parallel/non-parallel) that is assessed monthly and then daily in the event pre amber limits are breached;
  - historical stress scenarios;
  - daily market risk reporting of net basis point value (BPV) limits for the overall portfolio and by major currency (GBP, USD, EUR and JPY) respective maturity ladder;
  - monitoring and assessing the daily profit and loss to ensure it is in line with the Bank's expectation; and
  - early warning indicators.

Fair value of derivative assets and liabilities

The tables in note 13 to the financial statements show the Bank's fair value disclosures on 31 March 2025.

Table 10.1: MR1 – Market risk under the standardised approach

31 March 2025

		RWEAs	
		31 March 2025	31 March 2024
	Outright products		
1	Interest rate risk (general and specific)	**1,071**	32
2	Equity risk (general and specific)		
3	Foreign exchange risk	**221**	155
4	Commodity risk		
	Options		
5	Simplified approach		
6	Delta-plus method	**6**	7
7	Scenario approach		
8	Securitisation (specific risk)	**521**	
9	**Total**	**1,818**	195

11. Securitisation

SMBC BI invests in highly rated securitisations where external credit rating assessments are provided by S&P, Moody's and Fitch (where available). SMBC BI does not act as a sponsor or originator in any securitisations.

The activities include trading of cash securitisation products, including simple, transparent and standardised (STS) eligible transactions. There are no synthetics. The purpose of the activities is to support the primary securitisation business, make markets and to provide liquidity to the institutional client base.

The trading book's risk is managed according to a granular framework which monitors and limits notional exposure to specific rating categories, asset classes and jurisdictions, alongside other metrics such as credit spread (CS01) and VaR.

Exposure is to various securitisation asset classes across asset backed securities (ABS), mortgage backed securities (MBS) (residential only, no commercial) and collateralised loan obligations (CLOs). This includes STS and non-STS transactions. By seniority, SMBC BI has exposure to senior positions and junior positions rated down to B3/B- as a minimum. All risk is incurred in relation to transactions originated by third parties.

Table 11.1: SEC2 – Securitisation exposures in the trading book

This table shows the trading book securitisation exposure split by exposure type and associated regulatory capital requirements.

		Institution acts as investor			
		Traditional			
		STS	Non-STS	Synthetic	Sub-total
1	Total exposures	71	223	–	294
2	Retail (total)	71	81	–	152
3	Residential mortgage	27	52	–	80
4	Credit card	44	–	–	44
5	Other retail exposures	–	29	–	29
7	Wholesale (total)	–	141	–	141
8	Loans to corporates	–	141	–	141

12. Interest rate risk in the banking book

12.1 IRRBB risk management objectives and policies

Interest rate risk in the banking book (IRRBB) is the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions. Changes in interest rates affect:

- the Bank's Economic Value Equity (EVE) due to changes in the underlying value of the Bank's assets, liabilities and off-balance sheet items; and
- the Bank's Net Interest Income (NII) due to changes in its interest rate-sensitive income and expenses.

Under regulatory guidance, banks are required to use market value-based metrics such as EVE, as well as earnings-based metrics such as NII, to assess and manage risk exposures. SMBC BI Market Risk team performs monthly stress tests using both metrics, as reported in the below Table 12.1.

12.1.1 Risk management and risk assessment purposes

SMBC BI formally defines, measures, mitigates and controls its IRRBB risk through the following measures:

- A Risk Appetite Framework (RAF) for monitoring IRRBB EVE within both the regulatory limits and internal risk appetite.
- Establishment of roles and responsibilities for IRRBB management, including governance and oversight.
- Regular management information to monitor and ensure that the Bank is operating within risk appetite.

12.1.2 Risk management and risk assessment strategies

On a daily basis, the Bank monitors its IRRBB risk based on the BPV measures. BPV positions represent the change in market value due to one basis point (e.g., 0.01%) parallel movement in yield curve, for each currency based on their future cash flows in each maturity bucket.

RMD compiles a daily Risk Report on BPV positions and monitors them against internal limits. In the event a position exceeds the internal limit, actions are taken to remediate with immediate effect. The daily Risk Report is distributed to senior management among the RMD, Finance and Control, and Treasury.

12.1.3 Risk management frequency and key indicators

To manage IRRBB, the Bank measures and monitors its exposure in EVE through stress testing on a monthly basis. The results for EVE are monitored against the RAF and regulatory limits. For NII, the Bank has developed two stress tests under the guidance of both European Banking Authority (EBA) (regulatory) and PRA (for internal management purpose), and started to produce and monitor the results against the threshold of 5%, as introduced by EBA, although this is not a regulatory limit applicable to SMBC BI following Brexit, as the entity resides in the UK.

For EVE stress testing, the maximum loss scenario (of the -six scenarios listed in section 13.1.4 below) as a ratio to the Bank's Tier 1 capital features in the Bank's RAF under one KRI.

- Six Standardised Scenarios, with amber (4.5%) and red (6%) thresholds

These have been calibrated for KRI based on the Risk Report limits – linking the frameworks to make the thresholds. Note the above internal thresholds are well below the regulatory threshold of 15% as a conservative measure, to reflect the Bank's business model and risk appetite in IRRBB.

On a monthly basis, the outcome of the six scenarios is presented to the Bank's Asset and Liability Management Committee (ALMCo) for review and challenge.

12.1.4 Interest rate shocks and stress scenarios

The Bank performs IRRBB EVE stress testing comprised of six scenarios (listed below) for positions in the major currencies, each of which has its own prescribed shifts by Basel Committee based on historical time series ranging from 2000 to 2022. This period captures multiple crises, including the Financial Crisis of 2007–09, which would have been a severe shock.

The six scenarios are:

i) parallel shock up;
ii) parallel shock down;
iii) steepener shock (short rates down and long rates up);
iv) flattener shock (short rates up and long rates down);
v) short rates shock up; and
vi) short rates shock down.

To complement the PRA-prescribed scenarios, Market Risk also performs five historical stress tests monthly based on real-life crises, including the Lehman crisis, Black Monday and the recent COVID-19 pandemic. Loss in the two metrics are measured as:

vii) the maximum loss in a single day over a three-month stressed period; and
viii) the accumulated maximum loss over a three-month stress period.

12.1.5 Model assumptions deviations

With respect to IRRBB EVE stress tests, the Bank has applied scenarios prescribed by the PRA Supervisory Review Evaluation Process SS31/15. The Bank has not applied any significant assumptions or overlays, as these scenarios are deemed comprehensive/appropriate considering the Bank's limited appetite for IRRBB.

The model used for the IRRBB EVE stress test had been independently validated by the Model Validation Group of SMFG.

As part of this validation, sensitivity analysis had been performed to get a bearing on the potential loss in the event the shifts were greater than those prescribed.

This additional analysis has two advantages: i) it provides insight into the stability of the model; and ii) it provides insight into the potential loss amount outside of these prescribed scenarios.

12.1.6 New NII stress testing

To strengthen risk management, Market Risk has built two new NII stress tests over the last financial year, effective from July 2024. One is based on prescribed methodology and scenario set by EBA, with the other one internally developed by the Market Risk team under PRA guidance.

Key assumptions/calculation rationale:

- Constant balance sheet for the next 12 months period.
- Once shocks are applied, rates remain the same over the repricing period.
- Floating rate trades are repriced at next reset date, while fixed rate trades are repriced on maturity date.
- Trades are excluded if next reprice date is greater than one year.
- Profit and Loss (P&L) at currency level are aggregated based on conservative approach under EBA guidance.

EBA stress testing

The stress loss in NII reported in the below Table 12.1 is based under EBA methodology and requirements stipulated in EBA papers on Supervisory Outlier Tests (EBA-RTS-2022-09) and Regulatory Technical Standards (EBA/RTS/2022/10).

As SMBC BI's regulator is PRA post Brexit, Market Risk opts to produce the NII stress testing under EBA guidance.

The shock scenario applies a single instantaneous parallel shock differentiated between currencies to spot interest rates yield curves, with resultant shocks in forward rates recalculated based on EBA formulae.

Internal stress testing

The shock scenarios and bespoke methodologies are both developed in-house by Market Risk, with the following features:

- Calibration of shocks are based on historic time series going back to 2008, designated to simulate real-life stress conditions in financial markets.
- The shocks feature quarterly cumulative and non-parallel shifts, differentiated between currency, repricing tenor and maturity.
- The largest quarterly shocks (per currency) are selected to be applied to the first quarter of the 12-month repricing period, aiming at producing more severe loss.
- The shocks are refreshed each month. This ensures the stress test captures the latest interest rate movements in the markets, and that the shock scenario is dynamic.

12.1.7 Hedge strategies and accounting treatment

The Bank's policy is to have minimal interest rate risk in the banking book, and this is managed by using both internal and external hedge transactions.

The Bank applies fair value and cash flow hedge accounting on derivative instruments used for hedging purposes. Further related details are in note 13 to the annual financial statements.

12.1.8 Other information

The maximum loss of the worst scenarios over the past period has been consistent and well below the KRI pre amber thresholds.

Table 12.1 : IRRBB1 – Quantitative information on IRRBB

		a	b	c	d	e	f
	In reporting currency	ΔEVE*		ΔNII**		Tier 1 capital	
	Period	**31 March 2025**	31 March 2024	**31 March 2025**	31 March 2024	**31 March 2025**	31 March 2024
010	Parallel shock up	**10.3**	(2.1)	**72.3**	211.0		
020	Parallel shock down	**(30.9)**	(27.2)	**(168.1)**	(211.0)		
030	Steepener shock	**(26.3)**	(18.5)				
040	Flattener shock	**6.8**	(10.2)				
050	Short rates shock up	**11.0**	(11.7)				
060	Short rates shock down	**(43.4)**	(27.9)				
070	**Maximum**	**(43.4)**	(27.9)	**(168.1)**	(211.0)		
080	**Tier 1 capital**					**5,786**	5,477

* Change in economic value of equity.
** Change in net interest income.

13. Operational and other risks

13.1 Operational risk

The identification and assessment of operational risk is undertaken through the following processes and tools:

- **Risk and Control Taxonomy & Inventory** The Risk and Control Taxonomies are standardised across EMEA and are consistent with those used in the SMBC Americas Division. These are a comprehensive list/ library of the risks the business is exposed to and the controls that are/should be in place to mitigate them. This enables consistency in risk identification as well as comparative analysis across different regions and departments. From this library, the relevant risks and controls can be selected, i.e., when creating the Risk and Control Inventories. These Risk and Control Inventories are used when undertaking an assessment (e.g., Risk and Control Self-Assessments, as well as any Compliance-related assessments at department/entity/branch levels), and are used when mapping Operational Risk Events, Risk Issues, Control Testing results and Key Risk Indicator results, etc. Governance of Non-Financial Risk Management is therefore based on the risks and controls relevant to a particular department/entity/branch.
- **Risk and Control Self-Assessment** The Risk and Control Self-Assessment (RCSA) is the mechanism to (i) identify relevant risks and controls for an assessment area and determine (ii) the Inherent Risk ratings of applicable risks, (iii) the control ratings of applicable controls and (iv) the Residual Risk ratings. The results are compared with Risk Appetite to help ascertain the
- need for an appropriate risk response (e.g., Risk Issues and/or Risk Acceptances).
- **Operational Risk Events** The Bank defines an Operational Risk Event as an occurrence that results in a negative impact for the Bank, either financial (i.e., realised Dollar losses/gains) or non-financial (e.g., customer, legal, regulatory, reputational, internal business operations). The cause of an Operational Risk Event can originate internally (e.g., from failures in the Bank's own processes, staff functions and systems), or externally (e.g., from the operations of external providers). In instances whereby a negative impact did not manifest for fortuitous reasons, this is referred to as a Near Miss. The aim of reporting Operational Risk Events is to capture and remediate the adverse impact suffered by the Bank from anomalous or unexpected occurrences.
- **External Events and Emerging Risks** The External Events and Emerging Risks process is a methodology which draws on industry and regulatory developments, external risk events, trends, themes and threats (together with internal datapoints), to help identify future operational risk exposures and themes. External Events are Operational Risk Events experienced by other institutions external to SMBC Group entities. External Event information can be used to trigger proactive risk assessments of relevant areas of the Bank in order to discover possible similar weaknesses in the internal control environment or consider previously unidentified risk exposures.
- **Key Risk Indicators** KRIs are metrics that indicate the amount of exposure to a given risk and are used as a tool to monitor risks and controls. Itis important to establish KRIs for each of the Bank's non-financial risks, to help inform related risk assessments and to monitor this going forward.
- **Operational Risk Scenario Analysis** Operational Risk Scenario Analysis aims to identify the high impact, low likelihood but plausible events that could impact the Bank and to estimate the respective severities and probabilities for each. This provides a picture of potential loss amounts/risk exposures if the most significant risks were to materialise and offers a proactive and forward-looking approach to risk management. The discussions that take place around potential events and control failings could help to inform risk management decisions. They are also a reference point for Operational Resilience Scenario Testing.
- **Operational Risk Capital** The purpose of Operational Risk Capital assessment/calculation is to ensure the Bank has adequate capital to support the operational risk it generates and to encourage the Bank to develop and use better risk management techniques in monitoring and managing its risk. An Operational Risk Capital Model is used to calculate Pillar 2 capital, which uses feeds from (i) internal losses, (ii) Group losses, (iii) external losses and (iv) Operational Risk Scenario Analysis loss data.
- **Post Implementation Project Impact Assessment** The Post Implementation Project Impact Assessment process involves appropriately identifying and capturing any post implementation impacts, relating to projects, that concerns the BAU environment. These may change the Bank's NFR profile. These risks are considered and reflected through relevant assessment processes (e.g., RCSA).

- **Risk Appetite Framework** The purpose of Risk Appetite is to define the broad-based level of risk that the Bank is willing to accept in pursuit of its strategic objectives. The Risk Appetite and risk strategy are complementary, aligning with and supportive of the corporate strategy. The Risk Appetite ensures formal identification and consensus about the strategic-level risks which the Bank is facing. The Risk Appetite Framework comprises strategic statements as well as measures at different levels.
- **Risk Issues** A Risk Issue is a problem, observation or a state that potentially exposes the Bank to risk/future 'losses' or otherwise could worsen the Bank's existing exposure. These losses may crystalise as direct monetary impacts or, alternatively, as non-monetary crystallisations that manifest as client, reputational, regulatory, legal or operational continuity impacts at some point in the future. Risk Issues are observations which require actionable steps by defined owner(s) within a finite period.
- **Risk Acceptances** A Risk Acceptance is a formal acknowledgment that the Bank is unable or unwilling (from a risk-reward perspective and not in breach of Risk Appetite) to mitigate an identified risk exposure to an appropriate residual level. The Risk Acceptance process enables this conclusion to be formally understood and agreed, as well as monitored to the point of renewal or closure.
- **Third Party Risk Management/Outsourcing (TPRM)** RMD provides second line key advice/inputs and challenge in relation to the first line's execution of the Outsourcing/TPRM Framework requirements – e.g., RMD advises on criticality assessments of the service and performs a risk assessment of the third party. In addition, RMD challenges metrics in relation to the ongoing monitoring of the performance of the third party, as well as cyclical reviews of the relationship and risk.
- **IT & Cyber Risk Oversight** RMD has a dedicated team to provide advice, guidance, and challenge to the first line on their management of IT & Cyber Risk. This team follows the general operational risk management framework as mentioned above.

13.2 Operational resilience

Operational Resilience (OpRes) is the ability of firms, financial market infrastructure and the financial market as a whole to prevent, adapt, respond to, recover and learn from operational disruption.

SMBC's Operational Resilience strategy is aligned with the business strategy and facilitated by the implementation of the Operational Resilience Framework.

The following are the key components of the existing Operational Resilience Framework:

- **Important Business Services (IBS) –** An IBS is a service provided by SMBC, or by another person on behalf of SMBC, to one or more clients of SMBC which, if disrupted, could (i) cause intolerable levels of harm to any one or more of the SMBC's clients; (ii) pose a risk to SMBC's safety and soundness, or (iii) pose a risk to the soundness, stability or resilience of the financial system or the orderly operation of the financial markets.
- **Impact tolerance** – An impact tolerance is the point at which any further disruption to the IBS could (i) cause intolerable levels of harm to any one or more of the SMBC's clients; (ii) pose a risk to SMBC's safety and soundness, or (iii) pose a risk to the soundness, stability or resilience of the financial system or the orderly operation of the financial markets.
- **Mapping** – Mapping is the process to identify the critical resources that underpin the delivery of an IBS.
- **Scenario testing** – Scenario testing is to assess the ability for an IBS to remain within its Maximum Tolerable Level of Disruption, under different levels of stress.
- **Self-assessments** – Self-assessments are to capture all relevant information about the Operational Resilience approach within a region.

13.3 Important Business Services

IBS are services provided by a firm, or by another person on behalf of the firm, to one or more clients of the firm, which, if disrupted, could:

- cause intolerable levels of harm to any one or more of the firm's clients; or
- pose a risk to the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets.

The Bank has nine IBS.

13.4 Impact tolerances

There are currently two time-based impact tolerances for each IBS (aligned to both FCA and PRA expectations).

13.5 Mapping

Mapping is operational and captures the business process from the point at which the Bank's commitment to our customer is unequivocal, until our obligation is discharged. At each step, the Bank verifies the capabilities consumed by that step, e.g., the Premises, the Technology, the People, the Third Parties and the Data. The mapping is conducted and maintained with each IBS.

13.6 Scenario testing

Scenario testing aims to ensure our firm can remain within its impact tolerance by the generation and testing of plausible but severe scenarios. A library of scenarios has been developed with a range of tests executed across our IBS to identify Lessons Learned. This will continue to be further developed through the transition period.

13.7 Self-assessments

The Bank has produced a second iteration of its self-assessment to demonstrate its approach and current state of Operational Resilience. It also outlines the programme of work ongoing during the transition period to mature its capabilities for compliance with March 2025 expectations.

13.8 Board and governance

An interim governance structure has been introduced with an Operational Resilience Council (ORC) chaired by the SMF 24 (or equivalent). The council includes IBS Owners and Capability Leads who together can review the status of each IBS.

The Operational Resilience Programme, which is developing maturity of a number of core capabilities during the transition period, is governed by a dedicated Steering Committee chaired by SMF 24 (or equivalent).

As the Operational Resilience Framework evolves and matures, the second line will continue to challenge the first line, where relevant, to support appropriate outcomes.

Table 13.1: OR1 – Operational risk own funds requirements and risk weighted exposure amounts

31 March 2025

	Relevant indicator				
Banking activities	Year 3	Year 2	Last year	Own funds requirements	Risk exposure amount
Banking activities subject to standardised (TSA)/alternative standardised (ASA) approaches	1,014	1,274	1,381	187	2,343
Subject to TSA:	1,014	1,274	1,381		

31 March 2024

	Relevant indicator				
Banking activities	Year 3	Year 2	Last year	Own funds requirements	Risk exposure amount
Banking activities subject to standardised (TSA)/alternative standardised (ASA) approaches	871	1,014	1,275	161	2,016
Subject to TSA:	871	1,014	1,275		

14. Conduct risk management

Conduct risk is the risk of the SMBC EMEA's actions, inactions or behaviours resulting in poor outcomes for customers and/or stakeholders, damaging the integrity of the financial markets or undermining effective competition.

The Conduct Rules form the basis of the Bank's approach to conduct risk management. The Bank has a policy framework to help all colleagues in understanding good conduct, positive behaviours and raising and addressing concerns. These policies set out the Bank's approach to the identification, understanding and management of conduct risk at individual, departmental and organisational levels. The policies also explain that conduct applies to both financial and non-financial behaviours and that conduct is recognised as being linked to the Bank's values, culture and an environment of psychological safety.

To support the policy framework, the Bank provides training, communications, advice and guidance to help colleagues in meeting the regulatory and legal requirements and the rules and standards of conduct to which all staff must adhere. This is supported by monitoring, surveillance, reporting and oversight of adherence to the policy and procedure framework and regulatory expectations.

Conduct key risk indicators, which seek to provide effective risk identification, are regularly reviewed, including by the Executive and Risk Committees, to ensure proportionality and relevance to encourage organisational learning, constructive challenge, and inclusion, as well as improved engagement and accountability. Conduct KRIs are provided to each department on a monthly basis to provide them with the information needed to address conduct risks at departmental level. The Bank has a performance and remuneration structure that ensures an individual's remuneration is at risk if expected levels of conduct are not met.

15. Sustainability risk management

SMBC EMEA defines sustainability risk as "a cross-cutting risk that can manifest across all risk types, resulting from environmental, social or governance (ESG) issues, events or conditions that have the potential to substantially impact (financially, reputationally or physically) SMBC, our clients, the environment or society".

The following are the key components of the existing sustainability risk management framework which is still being developed, enhanced and implemented:

- **EMEA Sustainability Risk Framework** This framework articulates how SMBC EMEA defines, governs and manages sustainability risk, and how the framework is embedded across the region. The document reflects the current sustainability risk governance, management processes and will continue to develop as the tools, data, policies, and processes mature.
- **CCRA (Climate Change Ratings Assessment)** CCRA is an internally developed tool that allows the Bank to allocate a climate risk score to risk parent obligors. This tool helps the Bank understand the distribution of climate-related risks (Transition and Physical) in the portfolio, informs stress testing and scenario analysis, and the outputs enable the embedding of climate risk considerations into business and strategy decisions. The combination of the CCRA and broader consideration of sustainability risks in transactions enable SMBC EMEA to understand its clients' sustainability risk and energy transition plans.
- **Principal and Emerging Risks** Climate change risk features prominently in the Principal and Emerging Risks Framework. This is considered monthly by the Executive Committee and quarterly by the Risk Committee.
- **Stress testing:** Stress testing and scenario analysis are used to determine the climate change impact on the credit portfolio over a 25–30-year period.
- **Risk Register** This is the Bank's internal taxonomy of key risks and controls and is used to inform the ongoing identification of risks. The Bank recognises sustainability risk, including climate change risk, is a cross-cutting risk.
- **Risk Appetite:** A Sustainability risk appetite statement and ESG Dashboard have been developed. The dashboard is a suite of sustainability metrics, reported monthly at ExCo. ESG RAF will continue to evolve and develop in line with SMBC Group aspirations, market best practices and regulatory requirements

16. Leverage ratio

The Bank's leverage ratio is calculated as its Tier 1 capital divided by its total exposure measure. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not deducted when determining the Tier 1 capital.

The tables below presents SMBC BI's leverage ratio calculation and provides a breakdown of the on- and off-balance sheet exposures that are used. Further analysis of qualitative items includes descriptions of the processes used to manage the risk of excessive leverage and the factors that had an impact on the leverage ratio.

Table 16.1: LR1 – LRSum: summary reconciliation of accounting assets and leverage ratio exposures

31 March 2025

	Applicable amount
Total assets as per published financial statements	71.289
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	0
Adjustment for exemption of exposures to central banks	(25.295)
Adjustment for derivative financial instruments	584
Adjustment for securities financing transactions (SFTs)	186
Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	10.818
Other adjustments	(314)
Total exposure measure	57,267

Table 16.2: LR2 – LRCom: leverage ratio common disclosure

		Leverage ratio exposures	
		31 March 2025	31 March 2024
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives and SFTs but including collateral)	**52,142**	46,489
6	Asset amounts deducted in determining Tier 1 capital (leverage)	**(134)**	(94)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**52,008**	46,395
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e., net of eligible cash variation margin)	**897**	1,026
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**1,445**	1,546
UK 9b	Exposure determined under the original exposure method	**26**	
13	**Total derivatives exposures**	**2,368**	2,572
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**17,084**	1,710
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(232)**	
16	Counterparty credit risk exposure for SFT assets	**186**	3
18	**Total SFT exposures**	**17,037**	1,713
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	**20,810**	17,365
20	Adjustments for conversion to credit equivalent amounts	**(9,992)**	(8,606)
21	General provisions deducted in determining Tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures	**–**	–
22	**Off-balance sheet exposures**	**10,818**	8,759
Capital and total exposure measure			
23	Tier 1 capital (leverage)	**5,786**	5,477
24	Total exposure measure including claims on central banks	**82,562**	59,440
UK 24a	Claims on central banks excluded	**(25,295)**	(22,367)
UK 24b	**Total exposure measure excluding claims on central banks**	**57,267**	37,072
Leverage ratio			
25	Leverage ratio excluding claims on central banks (%)	**10.1%**	14.8%
UK 25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**10.1%**	14.8%
UK 25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	**10.1%**	14.8%
UK 25c	Leverage ratio including claims on central banks (%)	**7.0%**	9.2%
26	Regulatory minimum leverage ratio requirement (%)	**3.25%**	3.25%
Additional leverage ratio disclosure requirements – leverage ratio buffers			
27	Leverage ratio buffer (%)	**0.4%**	0.4%
UK-27b	of which: countercyclical leverage ratio buffer (%)	**0.4%**	0.4%
Additional leverage ratio disclosure requirements – disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	**16,613**	1,684
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**17,084**	1,710
UK 31	Average total exposure measure including claims on central banks	**81,800**	60,937
UK 32	Average total exposure measure excluding claims on central banks	**58,307**	39,167
UK 33	Average leverage ratio including claims on central banks (%)	**7.1%**	9.0%
UK 34	Average leverage ratio excluding claims on central banks (%)	**9.9%**	14.0%

Table 16.3: LR3 – LRSpl: split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

31 March 2025

	Leverage ratio exposures	
	31 March 2025	31 March 2024
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**52,473**	46,489
Trading book exposures	**1,668**	–
Banking book exposures, of which:	**50,805**	46,489
Covered bonds	**0**	–
Exposures treated as sovereigns	**26,685**	24,804
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**545**	610
Institutions	**5,832**	4,928
Secured by mortgages of immovable properties	**994**	1,049
Retail exposures	**0**	0
Corporates	**16,030**	14,386
Exposures in default	**103**	63
Other exposures (e.g., equity, securitisations and other non-credit obligation assets)	**617**	649

LRA – Disclosure of LR qualitative information

Description of the processes used to manage the risk of excessive leverage

The risk of excess leverage is actively managed through the relevant Board-approved Risk Appetite Framework. The framework monitors the leverage ratio on a monthly basis, and the results are presented to senior management .

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

The leverage ratio has decreased from 14.8% to 10.1% driven by an increase in reverse repo transactions due to the transfer of securities trading business from another Group entity in October 2024.

17. Liquidity risk management

17.1 Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its liabilities, unwind or settle its positions as they become due. The Bank ensures that the level of liquidity risk is in line with its risk appetite and business model through the following main measures:

- The identification and assessment of liquidity risk is undertaken through the following processes and tools:
- Establishment of liquidity risk appetite framework, and its underpinning quantitative risk metrics, early warning indicators and key risk indicators.
- Defining clear roles and responsibilities for the management of liquidity under normal and stressed circumstances.
- The implementation of a robust committee framework to manage liquidity risk issues, with clear terms of reference and standard agendas.
- Regular management information to demonstrate that the Bank is operating within risk appetite, along with other select metrics.

The liquidity risk appetite is monitored against both internal and external regulatory liquidity metrics. The external regulatory liquidity ratios, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), are monitored against the internal risk appetite and regulatory requirement. LCR measures the ability of a bank's liquid asset resources to absorb net outflows over a 30-day stress period. NSFR measures the amount of available stable funding required to fund the Bank's activities.

17.2 Analysis of liquidity risk

The tables in note 4 to the financial statements show the contractual maturity analysis of interest and principal balances for liabilities, issued financial guarantee contracts and unrecognised loan commitments.

Contractual maturity of financial assets and liabilities forms an important source of information used by management for the management of liquidity risk. Impairment provisions on loans and advances to banks and customers are included in the 'Up to 3 months' column. The Bank has chosen not to net derivative assets and liabilities in the financial statements.

Table 17.1: LIQ1 – Quantitative information of LCR

		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YYYY)	**31 March 2025**	31 Dec 2024	30 Sep 2024	30 June 2024	31 March 2025	31 Dec 2024	30 Sep 2024	30 June 2024
UK 1b	Number of data points used in the calculation of averages	**12**	12	12	12	12	12	12	12
High quality liquid assets									
1	Total high quality liquid assets (HQLA)					25,359	24,939	25,369	25,342
Cash outflows									
5	Unsecured wholesale funding	**20,773**	20,347	20,853	21,186	14,868	14,371	14,639	14,965
7	(All counterparties)	**20,407**	20,015	20,506	20,842	14,502	14,040	14,293	14,620
8	Unsecured debt	**367**	332	347	345	367	332	347	345
9	Secured wholesale funding	**–**	–	–	–	1,140	596	0	0
10	Additional requirements	**854**	952	1,011	1,034	854	952	1,011	1,034
11	Outflows related to derivative exposures and other collateral requirements	**854**	952	1,011	1,034	854	952	1,011	1,034
13	Credit and liquidity facilities	**14,364**	14,197	14,106	13,743	2,978	2,933	2,919	2,828
14	Other contractual funding obligations	**657**	377	160	239	440	236	109	114
15	Other contingent funding obligations	**25,414**	24,766	24,420	24,335	301	269	254	243
16	Total cash outflows	**–**	–	–	–	20,582	19,357	18,932	19,184
Cash inflows									
17	Secured lending (e.g., reverse repos)	**5,655**	3,652	1,696	1,598	712	363	0	0
18	Inflows from fully performing exposures	**4,117**	3,990	3,847	3,610	3,172	3,101	2,973	2,786
19	Other cash inflows	**939**	591	323	560	863	508	308	543
20	Total cash inflows	**10,711**	8,233	5,865	5,768	4,747	3,973	3,281	3,329
UK 20c	Inflows subject to 75% cap	**10,711**	8,233	5,865	5,768	4,747	3,973	3,281	3,329
Total adjusted value									
UK 21	Liquidity buffer					25,359	24,939	25,369	25,342
22	Total net cash outflows					15,835	15,384	15,651	15,855
23	Liquidity coverage ratio					160.1%	162.1%	162.1%	159.8%

Table 17.2: LIQB on qualitative information on LCR, which complements template UK LIQ1

17.3 Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time

The LCR aims to ensure that the Bank holds a sufficient reserve of HQLA to survive a period of liquidity stress lasting 30 calendar days.

All LCR figures shown are average figures for each quarter.

17.4 Explanations on the changes in the LCR over time

The LCR has remained fairly constant over time, with HQLA being managed to maintain an LCR ratio well above the regulatory minimum.

17.5 Explanations on the actual concentration of funding sources

Wholesale unsecured/secured funding is obtained from financial and non-financial customer deposits, repurchase transactions and funding from the parent entity.

17.6 High level description of the composition of the institution's liquidity buffer

HQLA is primarily level 1 central bank reserves and a small amount of level 1/2A/2B high quality securities.

17.7 Derivative exposures and potential collateral calls

The Bank actively manages its derivative exposures, and potential collateral calls under stress are captured within the historical look-back approach, which considers the impact of an adverse market scenario on derivatives.

Potential collateral calls under a three-notch downgrade of the Bank's credit ratings are also captured.

17.8 Currency mismatch in the LCR

The LCR is calculated for both consolidated currencies and material currencies, USD, GBP, EUR and JPY (having liabilities >5% of total liabilities). The Bank manages currency mismatch for significant currencies according to its internal liquidity adequacy assessment framework.

17.9 Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile

The commentaries under 17.3 and 17.8 have captured the material items in the LCR that are relevant for the Bank's liquidity profile.

Table 17.3: LIQ2 – Net stable funding ratio

The NSFR requires SMBC BI to have sufficient available stable funding to meet its required stable funding over a one-year horizon. Based on current regulatory requirements, the minimum level is 100%. SMBC BI's NSFR as at 31 March 2025 is 127.2%.

31 March 2025

		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
Available stable funding Items						
1	Capital items and instruments	5,666	–	–	–	5,666
2	*Own funds*	5,666	–	–	–	5,666
7	Wholesale funding:	–	40,689	1,354	9,056	16,912
9	*Other wholesale funding*	–	40,689	1,354	9,056	16,912
11	Other liabilities:	47	2,148	0	94	94
12	*NSFR derivative liabilities*	47	–	0	–	–
13	*All other liabilities and capital instruments not included in the above categories*	–	2,148	0	94	94
14	Total available stable funding					22,673
Required stable funding Items						
15	Total HQLA		–	–	–	84
UK-15a	Assets encumbered for more than 12 months in cover pool		–	–	–	–
16	Deposits held at other financial institutions for operational purposes		–	–	–	–
17	Performing loans and securities:		16,131	2,078	14,697	16,123
18	*Performing securities financing transactions with financial customers collateralised by level 1 HQLA subject to 0% haircut*		6,715	2	45	46
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		5,911	587	2,607	3,338
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and public sector entities, of which:*		3,458	1,476	11,456	12,205
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		48	11	589	533
26	Other assets:		3,013	12	399	798
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		4	–	1	5
29	*NSFR derivative assets*		7	–	–	7
30	*NSFR derivative liabilities before deduction of variation margin posted*		674	–	–	34
31	*All other assets not included in the above categories*		2,328	12	398	753
32	*Off-balance sheet items*		17,990	–	–	823
33	**Total required stable funding**		–	–	–	17,827
34	**Net stable funding ratio (%)**					127.2%

The Bank's Available Stable Funding (ASF) mainly consists of its own funds, deposits from customers (both financial and non-financial) and central banks. Following the integration of the securities business, the Bank now holds substantial balances of secured liabilities from financial customers (repo transactions), however due to short maturity no ASF benefit is recognised.

The Bank's Required Stable Funding (RSF) mainly consists of loans to both financial and non-financial customers, and undrawn committed credit facilities. The Bank holds certain amount of central bank reserves and level 1 assets eligible for 0% LCR haircut, but 0% RSF is applied to these assets. Following the integration of the securities business, non HQLA securities held and securities financing transactions (reverse repos) also contribute to RSF impacting NSFR ratio.

18. Asset encumbrance

Asset encumbrance affects the transferability of assets and can restrict its free use. An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The Bank assesses asset encumbrance in the following disclosure of on-balance sheet encumbered and unencumbered assets, off-balance sheet collateral and matching liabilities. Please note that the values reported in the following templates are based on the median values across the four quarters through the financial year.

Table 18.1: AE1 – Encumbered and unencumbered assets

31 March 2025

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which: notionally eligible EHQLA* and HQLA		of which: notionally eligible EHQLA and HQLA		of which: EHQLA and HQLA		of which: EHQLA and HQLA
Assets of the reporting institution	767	60			58,959	22,482		
Equity instruments	–	–	–	–	23	–	23	–
Debt securities	164	60	164	60	1,272	706	1,272	706
of which: issued by general governments	8	7	8	7	666	666	666	666
of which: issued by financial corporations	88	–	88	–	244	–	244	–
of which: issued by non-financial corporations	61	50	61	50	287	90	287	90
Other assets	603	–			57,664	21,775		

* Extremely high quality liquid assets.

31 March 2024

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which: notionally eligible EHQLA* and HQLA		of which: notionally eligible EHQLA and HQLA		of which: EHQLA and HQLA		of which: EHQLA and HQLA
Assets of the reporting institution	474	–			50,794	24,084		
Equity instruments	–	–	–	–	20	–	17	–
Debt securities	–	–	–	–	1,029	996	599	555
of which: issued by general governments	–	–	–	–	996	996	555	555
of which: issued by financial corporations	–	–	–	–	20	–	44	–
Other assets	474	–			49,745	23,088		

Table 18.2: AE2 – Collateral received and own debt securities issued

31 March 2025

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
		of which: notionally eligible EHQLA and HQLA		of which: EHQLA and HQLA
Collateral received by the reporting institution	6,581	5,824	10,019	2,524
Loans on demand	–	–	–	–
Debt securities	6,581	5,824	2,972	2,524
of which: issued by general governments	5,422	5,352	2,295	2,263
of which: issued by financial corporations	701	266	169	33
of which: issued by non-financial corporations	459	206	209	32
Loans and advances other than loans on demand	–	–	7,047	–
Total assets, collateral received and own debt securities issued	**7,403**	**5,917**		

31 March 2024

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
		of which: notionally eligible EHQLA and HQLA		of which: EHQLA and HQLA
Collateral received by the reporting institution	282	274	6,220	1,590
Loans on demand	7	–	–	–
Debt securities	–	–	–	–
of which: issued by general governments	274	274	274	274
of which: issued by non-financial corporations	274	274	274	274
Loans and advances other than loans on demand	–	–	4,631	–
Total assets, collateral received and own debt securities issued	772	274		

Table 18.3: AE3 – Sources of encumbrance

31 March 2025

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs* encumbered
Carrying amount of selected financial liabilities	**6,751**	**6,990**

31 March 2024

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs* encumbered
Carrying amount of selected financial liabilities	281	462

* Asset-backed securities.

Table 18.4: AE4 – Accompanying narrative information

The main sources that contribute to the Bank's level of encumbrance include collateral received as part of reverse repo and subsequently lent out in repo transactions, margin placed with derivative and repo counterparties, securities borrowed and subsequently lent out, placement of cash ratio deposits with the central banks and CCP default fund contribution.

Following the transfer of the securities business from another Group entity, the Bank has a material amount of repurchase transactions, where amounts of repo and reverse repo are largely offset with each other, however this increases the level of encumbrance for the Bank.

The main driver of encumbrance is USD-denominated with less significant contribution from other currencies.

19. Remuneration

19.1 Governance

SMBC BI has a Remuneration Committee (RemCo) comprising at the year-end two independent Non-Executive Directors (one of whom is Chair) and one Shareholder Non-Executive Director. Non-Executive Directors do not receive any form of variable pay.

The RemCo has had six meetings during this performance year.

The Bank consults with PwC LLP for remuneration advice and several external law firms for legal advice in respect of the development of remuneration practices.

Under proportionality principles and regulations as set out by the PRA and FCA, the Bank is a Level 2 institution.

The RemCo will oversee the development and implementation of the Bank's remuneration policies and practices and, in particular, it has the responsibility to:

- set, and recommend to the Board for approval, the Remuneration Policy;
- ensure the Policy, amongst other things, assesses the impact of pay arrangements on culture and all elements of risk management;
- ensure the Policy provides for equality of opportunity and supports an inclusive and diverse culture; and
- ensure the Policy adheres to the Remuneration Code and any other applicable remuneration regulations.

In addition, the RemCo is responsible for specific matters and remuneration arrangements, including the following:

- Reviewing and/or approving any compensation offers or changes to SMF role holders and Material Risk Takers;
- Reviewing and approving current remuneration, including performance adjustments, malus and clawback for identified Material Risk Takers (MRTs);
- Reviewing and approving the bonus fund cap calculation, including ex-ante and ex-post risk adjustments; and
- Reviewing and approving bonus pool funding each year prior to the delivery of awards.

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

19.2 Remuneration Policy

The SMBC EMEA Remuneration Policy applies to all locally hired employees of SMBC BI. Except for certain aspects of variable pay for MRTs and other employees as defined below, it does not apply to employees of Sumitomo Mitsui Banking Corporation (SMBC) seconded from SMBC, whose remuneration is governed by rules established by SMBC in Japan.

This Policy is reviewed annually, or more frequently if required, by Human Resources (HR). The RemCo will approve significant revisions to the Policy. During the FY24 review, the Policy was simplified and updated to cover more than one SMBC entity in the EMEA region.

Whilst HR owns the Remuneration Policy, the Risk Management department is involved in the formulation of Remuneration Policy, and the review of individual and business compensation arrangements and levels (including adjustments due to performance or other issues). Risk and Compliance also provide important feedback and debate in both regular management meetings on remuneration matters, and in RemCo meetings where appropriate.

19.3 Remuneration Policy objectives

SMBC EMEA's Remuneration Policy is an expression of the Bank's overall philosophy, aims and objectives with regards to how it pays employees.

It is the Bank's intention that:

1) the Policy will support the Bank's long-term aims. It will seek to encourage and support long-term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness;
2) the Remuneration Policy promotes sound and effective risk management and is consistent with the Bank's risk management strategy and objectives;
3) the Policy should support a fair and inclusive workplace, with all employees being paid equally for equal work or work of equal value. Through the annual salary review, SMBC has established processes and controls to ensure any inequities are reviewed and addressed in a timely way;

4) decisions about the Remuneration Policy will be reviewed, considered, and approved by the Remuneration Committee;
5) employees are remunerated by means of the following elements – basic salary, allowances, benefits and variable pay – that may be relevant to their location and function;
6) the amount of fixed remuneration, including where appropriate salary, allowances or benefits, should be sufficient for an acceptable standard of living in any given location without a dependency on variable pay; and
7) employees have the opportunity to share in the success of the Bank in years of good performance, and also accept diminished levels of variable pay in times of poor performance or losses.

19.4 Material Risk Takers

The Bank identifies MRTs in line with the requirements under Rule 3 of the Remuneration part of the PRA rulebook. The identification requirements consist of qualitative and quantitative criteria which typically focus on an employee's role, seniority, remuneration levels, authority to expose the institution to material risk including credit and market exposures, as well as other identified risks. The Bank does not apply any shareholding requirements upon any of its employees, including its MRTs.

Management is satisfied that it has identified all employees who have significant risk-taking or approval authority or who can place the Bank at risk due to their professional responsibilities. Employees identified as MRTs are subject to all relevant regulations including deferral of variable compensation, delivery of variable compensation in instruments, malus and clawback.

19.5 Control function employees

The management of employees engaged in Risk, Credit, Audit and Compliance functions is independent of the business units they oversee. Their remuneration, both fixed and variable, is determined centrally, with no involvement from front-line business units in the process. The Remuneration Committee reviews and approves Risk, Audit and Compliance function pay for MRTs. Control function pay is predominantly made up of fixed pay.

19.6 Discretionary Bonus Scheme (variable compensation)

All employees are eligible to be considered for a discretionary bonus award if they began their employment with the Bank on or before the last day of February of the appropriate performance year. Awards for new joiners are normally pro rated based on their start date. This is the only variable remuneration offered by the Bank.

Overall bonus pool funding is calculated with reference to a risk-adjusted bonus pool cap calculation. The outcome of this calculation is reviewed annually with the Strategic Planning and Finance Departments, and reported annually to the RemCo. The Risk Management Department also performs risk-adjusted calculations to contribute to the review of bonus pool funding.

The bonus pool established through these calculations is reviewed by the RemCo, with reference to such factors as internal and market levels of remuneration, and other factors such as attrition, inflation and alignment to business strategy and stability. The RemCo has the discretion to adjust the bonus pool from this calculated outcome, and provide final approval on the bonus pool number.

The total funding is subsequently allocated amongst businesses and functions based on department performance, which is assessed on financial, non-financial and management and compliance metrics, as well as by reference to such factors as internal and market levels of remuneration, and other factors such as attrition, inflation and alignment to business strategy and stability.

Employee performance is also assessed, with a year-end performance rating assigned to each employee that measures performance based on the following evaluations, both of which are equally weighted:

1) An evaluation of outcomes (the 'what') – an employee's performance against objectives and quality of work.
2) An evaluation of personal behaviours (the 'how') – an employee's performance against expected compliance, risk management and workplace behaviours.

19.7 Pay mix

The Bank believes that fixed pay should be sufficient for its employees to maintain an acceptable standard of living, without reliance on variable pay. Variable pay should continue to be a relatively modest component of total remuneration. The Bank seeks an appropriate balance of fixed and variable remuneration.

SMBC BI operates a cap on the maximum variable pay award of 300% of fixed pay following the approval of the RemCo and from SMBC, the sole shareholder of SMBC BI, in 2024.

19.8 Deferral policy

The Bank's philosophy and commitment to a conservative risk appetite extends from its business risk approach to how it remunerates MRTs. The ratio of variable to fixed pay is relatively low. Deferring variable pay of the MRTs and higher earning employees provides incentives for both good conduct and prudent risk decisions in the longer term. MRT deferred awards are subject to malus and clawback, strengthening the link between conduct and reward.

For employees who are not MRTs, there is a deferral plan for employees at the corporate title of Director and above whose bonus exceeds £100,000. A percentage of the bonus over £100,000 is deferred for three years. This deferral plan is active in the UK, France, Belgium and the Middle East, and is continuing to be rolled out across further European countries for the 2025/26 financial year and onwards.

Employees who are MRTs and have bonus awards above the 'de minimis' level set by the regulator, will have their bonus awards subject to deferral in line with the deferral percentage, deferral period and holding period defined by the relevant regulators.

19.9 Performance adjustment – malus and clawback

The Bank's Cash and Phantom Share Scheme (CPSS) policy provides that any deferred bonus is subject to performance adjustment. Performance adjustment events may occur because of a deliberate or malicious act, error, accident or negligence. Incidents can be internal or external to the EMEA Division. There may also be grounds for a performance adjustment due to a responsible person's failure to act either to prevent a risk event or where timely action would have mitigated the effects of a risk event. Performance adjustment seeks to take account of matters that were not apparent at the time of the original variable award and may result in the loss of bonus. Decisions on performance adjustment are considered and decided by management, the RemCo and the Board, as necessary.

The RemCo and the Board have the authority to withhold (or delay) payment of any bonus in the event of significant organisational stress or incident. as referenced in the Bank's CPSS.

The RemCo and the Board have the authority to clawback payments of any vested bonus awards for MRTs, during a period which may be up to 10 years, depending on the MRT type, after the award date if the participant is involved in or responsible for any of the circumstances detailed above.

19.10 Guaranteed variable remuneration

Guaranteed variable remuneration will only be made in exceptional circumstances to new joiners. In all circumstances, guarantees will not be made for a period longer than 12 months from the date of joining.

19.11 Severance payment policy

The Bank follows all local statutory severance requirements. Severance payments made will not be disproportionate but will appropriately compensate the employee in cases of early termination of the contract. Severance payments do not reward failure and will not be awarded where there is a failure in risk management or misconduct.

For remuneration tables – UK REM1, 2 and 3 – the MRT categories are defined as follows:

- Management Body (MB) Supervisory Function: SMBC BI Group and Independent Non-Executive Directors
- MB Management Function: SMBC BI Executive Directors
- Other Senior Management: SMBC BI Executive Committee Members
- Other Identified Staff: All other SMBC BI MRTs

Table 19.1: REM1 – Remuneration awarded for the financial year

			MB supervisory function	MB management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	8	6	14	85
2		Total fixed remuneration	1.3	2.9	6.2	24.6
3		of which: cash-based	1.3	2.9	6.2	24.6
9	Variable remuneration	Number of identified staff	0	4	14	83
10		Total variable remuneration	0	2.2	5.2	18.1
11		of which: cash-based	0	1.1	3.4	12.0
12		of which: deferred	0	0.6	0.8	2.7
UK-13b		of which: shares-linked instruments or equivalent non-cash instruments	0	1.1	1.8	6.1
UK-14b		of which: deferred	0	0.6	0.8	2.7
17	Total remuneration (2 + 10)		1.3	5.1	11.4	42.7

Table 19.2: REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		Other senior management	Other identified staff
Severance payments awarded during the financial year			
6	Severance payments awarded during the financial year – Number of identified staff	1	7
7	Severance payments awarded during the financial year – Total amount	1.5	3.8
8	of which: paid during the financial year	1.5	3.8
10	of which: severance payments paid during the financial year, that are not taken into account in the bonus cap	1.5	3.8
11	of which: highest payment that has been awarded to a single person	1.5	0.8

Table 19.3: REM3 – Deferred remuneration

		Total amount of deferred remuneration awarded for previous performance periods	Of which: due to vest in the financial year	Of which: vesting in subsequent financial years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e., changes of value of deferred remuneration due to the changes of prices of instruments)	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
7	**MB Management function**	**4.1**	**1.0**	**3.0**	**0.6**		**1.3**	**0.6**
8	Cash-based	1.8	0.3	1.5	0.0		0.3	0.0
10	Share-linked instruments or equivalent non-cash instruments	2.2	0.7	1.5	0.6		1.0	0.6
13	**Other senior management**	**4.9**	**1.2**	**3.7**	**0.7**		**1.6**	**0.3**
14	Cash-based	2.3	0.5	1.9	0.0		0.5	0.0
16	Share-linked instruments or equivalent non-cash instruments	2.6	0.7	1.9	0.7		1.2	0.3
19	**Other identified staff**	**12.6**	**3.0**	**9.6**	**1.4**	**0.05**	**3.7**	**0.9**
20	Cash-based	6.3	1.4	4.9	0.0	0.02	1.4	0.0
22	Share-linked instruments or equivalent non-cash instruments	6.3	1.6	4.7	1.4	0.02	2.3	0.9
25	**Total amount**	**21.6**	**5.2**	**16.4***	**2.7**	**0.05**	**6.6**	**1.8**

* The 31 March 2024 figure for total deferred awards due to vest in subsequent financial years (USD 4.4 million) was understated due to an operational error. The correct figure for total deferred awards due to vest in subsequent financial years on 31 March 2024 was USD 12.4 million. The 31 March 2025 figure of USD 16.4 million is correctly reflected in the table above.

Table 19.4: REM4 – Remuneration of 1 million EUR or more per year

		Identified staff that are high earners as set out in Article 450(i) CRR
1	1,000,000 to below 1,500,000	3
2	1,500,000 to below 2,000,000	5
3	2,000,000 to below 2,500,000	1

Table 19.5: REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		Management body remuneration			Business areas			
		MB Supervisory function	MB Management function	Total MB	Investment banking	Corporate functions	Independent internal control functions	Total
1	Total number of identified staff							113
2	of which: members of the MB	8	6	14				
3	of which: other senior management				4	7	3	
4	of which: other identified staff				51	18	16	
5	Total remuneration of identified staff	1.3	5.1	6.4	33.6	11.1	9.5	
6	of which: variable remuneration	0	2.2	2.2	15.1	3.9	4.3	
7	of which: fixed remuneration	1.3	2.9	4.2	18.4	7.2	5.2	

All SMBC BI front office employees are categorised as 'Investment banking' for the purposes of this reporting. 'Corporate functions' comprises Support functions and Operations. 'Independent internal control functions' are Compliance, Risk Management and Internal Audit.

SMBC